



24 January 2013

Dear Shareholder,

WAM Capital and Premium Investors merger tax considerations

Over the last month we have received a number of tax related enquiries as a result of the merger between WAM Capital Limited (WAM) and Premium Investors Limited (PRV). In this letter, we address the calculation of the potential capital gain or capital loss that may arise from the disposal of your PRV shares and the cost base of your new WAM shares and options.

The information in this letter is being provided as a guide only and we strongly advise you to seek professional taxation advice. It assumes you are an Australian resident shareholder who holds your shares on capital account. Please also read section 9 of the Premium Investors Scheme Booklet - Tax Considerations. A copy is available on the WAM merger page on our website at www.wamfunds.com.au or the ASX announcement platform.

As we are not tax experts, this information should not be considered tax advice.

Capital event for PRV shareholders

A capital gains tax (CGT) event occurred on the implementation date, 31 December 2012. The event occurred upon the disposal of your PRV shares to WAM under the scheme.

The capital proceeds received on the disposal of your PRV shares should be:

- The amount of cash consideration received (if any) and;
- The market value of the WAM shares (ASX: WAM \$1.67) and WAM options (ASX: WAMO \$0.055882) issued on 31 December 2012. We have used the VWAP (volume weighted average price) of WAM and WAMO on the date of implementation, 31 December 2012.

PRV shareholders that elected cash

A PRV shareholder that elected to receive the cash alternative received 84.0955 cents for each PRV share held and this amount was either paid to a nominated bank account or by cheque on 31 December 2012.

PRV shareholders that elected WAM scrip

The number of new WAM shares and new WAM options that were issued to PRV shareholders who either elected to receive the scrip consideration or who received scrip via default was calculated using the following exchange ratio:

| | |
|------------------------|---------------------------------|
| PRV NTA: | 84.0955 cents per share |
| WAM NTA: | 167.3446 cents per share |
| Exchange Ratio: | 0.5025 |

Under the exchange ratio, a PRV shareholder with 1,000 PRV shares received 502 new WAM shares and 502 new WAM options on the implementation date 31 December 2012.

Capital gain position

If the cost base of your PRV shares (the amount paid to acquire the shares) is less than the market value of the new WAM shares and new WAM options issued to you on 31 December 2012, you will have made a capital gain.

(a) Calculating your capital gain

| | | | | |
|--|---|---|---|----------------------------|
| Market value of new WAM shares (\$1.67 per share) and new WAM options (\$0.055882 per share) | - | Cost base of PRV shares (amount paid to acquire shares) | = | Capital gain (if positive) |
|--|---|---|---|----------------------------|

Scrip for scrip roll-over relief

You may choose to obtain scrip for scrip roll-over relief for your WAM shares only. This effectively means you disregard the capital gain on the WAM shares. The scrip for scrip roll-over relief provision does not apply to the WAM options or for cash consideration.

(b) Calculating the cost base of your new WAM shares (capital gain position)

The cost base of new WAM shares, assuming shareholders obtain scrip for scrip roll-over relief, is calculated as follows:

| | | | | |
|---|---|--|---|---|
| Cost base of PRV shares (amount paid to acquire shares) | x | $\frac{\text{Market value of new WAM shares } (\$1.67 \text{ per share})}{\text{Total capital proceeds } [\$1.67 + \$0.055882 \text{ per share}]}$ | = | Cost base of new WAM shares (if in a capital gain position) |
|---|---|--|---|---|

(c) Calculating the capital gain on your new WAM options

As no scrip for scrip roll-over relief is available in relation to the receipt of WAM options, a capital gain will still arise and is calculated as follows:

| | | | | |
|---|---|---|---|---|
| Market value of new WAM options (\$0.055882 per share) | - | Cost base as shown in Table 1 | = | Capital gain on new WAM options |
| Table 1 | | | | |
| Cost base of PRV shares (amount paid to acquire shares) | x | $\frac{\text{Market value of new WAM options } [\$0.055882 \text{ per share}]}{\text{Total capital proceeds } [\$1.67 + \$0.055882 \text{ per share}]}$ | = | The cost base for calculating the capital gain on new WAM options |

(d) Calculating the cost base of your new WAM options (capital gain position)

The cost base for the new WAM options going forward is calculated as follows:

| | | | | |
|---|---|--|---|--|
| Value of PRV shares (we have assumed the last share price PRV \$0.85) | x | $\frac{\text{Market value of new WAM options } [\$0.055882 \text{ per share}]}{\text{Value of total consideration (scrip and options only) } [\$1.67 + \$0.055882 \text{ per share}]}$ | = | Cost base of new WAM options (if in a capital gain position) |
|---|---|--|---|--|

Shareholders who do not exercise or sell the new WAM options by 31 July 2013 can recognise a capital loss upon the expiry of the options equal to the amount of the cost base on the new WAM options as shown above. If shareholders exercise the new WAM options at \$1.60 by 31 July 2013, the WAM shares allotted will have a cost price equal to the exercise price \$1.60 plus the existing cost base of the options as shown above.

Capital loss position

If the cost base of your PRV shares (the amount paid to acquire the shares) is greater than the market value of the new WAM shares and new WAM options issued to you on 31 December 2012, you will have made a capital loss.

(a) Calculating your capital loss

| | | | | |
|---|---|--|---|----------------------------|
| Cost base of PRV shares (amount paid to acquire shares) | - | Market value of WAM shares (\$1.67 per share) and WAM options (\$0.055882 per share) | = | Capital loss (if positive) |
|---|---|--|---|----------------------------|

There is no scrip for scrip roll-over relief available where the disposal of PRV shares results in a capital loss.

(b) Calculating the cost base of your new WAM shares and options (capital loss position)

If you have a capital loss on the disposal of your PRV shares, the cost base for your new WAM shares and options is calculated as follows:

| | |
|-------------------------------------|--|
| Cost base of new WAM shares (WAM) | = Market value of WAM shares (\$1.67 per share) |
| Cost base of new WAM options (WAMO) | = Market value of WAM options (\$0.055882 per share) |

The calculations outlined in this letter assume shareholders have received 100% scrip. For shareholders who elected a combination of cash and scrip, please refer to section 9 of the Scheme Booklet for further guidance.

If you have any further general questions, please contact Kate Thorley on (02) 9247 6755. We strongly advise you to seek professional taxation advice on this matter.

Yours sincerely,



Geoff Wilson
Chairman
WAM Capital Limited