



14 September 2012

WAM Capital and Premium Investors announce merger

The Boards of WAM Capital Limited (**WAM Capital**) and Premium Investors Limited (**Premium**) have agreed a recommended offer to combine the two companies through a scheme of arrangement, on terms considered to be value enhancing for shareholders of both WAM Capital and Premium. The offer involves WAM Capital acquiring 100% of Premium shares on a net tangible assets (NTA) for NTA basis.

The combination will create a substantial listed investment company with combined assets of \$300m and over 8,500 shareholders.¹

Transaction highlights

WAM Capital believes that the merged entity has a clear strategic and financial rationale, is value enhancing, and provides benefits for shareholders of the combined group including:

- o a reduction in the fixed expenses as administrative expenses are spread across a larger pool of assets;
- o an increase in the liquidity of shares which will make it easier for shareholders to buy and sell the company's shares; and
- o an increase in size, thereby continuing to increase the Company's relevance in the market and potentially improving the coverage by research firms, dealer groups and financial advisers.

Geoff Wilson, Chairman of WAM Capital said, "*The merger is consistent with our strategy to take select opportunities to grow the company for the benefit of WAM Capital shareholders.*"

Mr Wilson added, "*The increased capital base will expand the range of opportunities available for investment.*"

The pricing of this transaction at NTA is consistent with the recent placement undertaken by WAM Capital which was priced at pre-tax NTA (as at 31 July 2012). WAM Capital shares closed yesterday at \$1.64, which is equivalent to WAM Capital's pre-tax NTA as at 31 August 2012. WAM Capital shares will trade ex-dividend (5.5 cents per share fully franked) on Monday 17 September 2012.

Board of Directors

Following the completion of the transaction, Mr Lindsay Mann, Chairman of Premium will be invited to join the Board. WAM Capital recognises the skills and experience of Mr Mann.

WAM Capital Chairman, Geoff Wilson said, "*Lindsay will be a great addition to the WAM Capital Board.*"

¹ Based on combined pre tax NTA as at 31 August 2012. Assuming 100% scrip acceptance by Premium shareholders.

Transaction details

Under the terms of the agreement, WAM Capital will acquire the entire issued share capital of Premium on an NTA for NTA swap basis. WAM Capital will offer Premium shareholders the option to:

- o exchange up to 100% of their Premium shares for new WAM Capital shares and options;
- o elect to receive 100% cash out for their Premium shares; or
- o elect a combination of both.

Each shareholder who elects to receive scrip consideration will also be issued one WAM Capital option for each new share issued. These options will be traded on the ASX under the code WAMO. The options have a strike price of \$1.60 per share and will be exercisable at any time up to the 31 July 2013. The closing market price of these options at 13 September 2012 was \$0.027 per option.

Based on the most recently reported pre-tax monthly NTA for each company as at 31 August 2012 excluding any deferred tax assets, and taking into account estimated transaction costs, each Premium shareholder would receive approximately one new WAM Capital share and one WAM Capital option for each two Premium shares they hold. If all Premium shareholders were to accept the scrip alternative, they would hold shares equivalent to approximately 28% of the merged entity.

Further transaction details are set out in appendix A.

WAM Capital has retained Sandon Capital and Watson Mangioni to assist with the transaction.

Board recommendation

The independent directors of Premium¹ believe the merger is in the best interests of Premium shareholders and intend to vote their own Premium shares in favour of the proposal. Treasury Group Limited (**Treasury**), also a Premium investor, intends to vote in favour of the scheme. A subsidiary of Treasury is currently the investment manager of Premium. The intentions of both Premium independent directors and Treasury are subject to the usual condition that no superior proposal emerges.

Profile of the combined group

The merged entity will have:

- o combined assets of approximately \$300m²;
- o over 8,500 shareholders²;
- o a stable and clearly articulated investment strategy and a proven investment manager with an outstanding performance record;
- o a share price trading at or near the company's pre-tax NTA per share; and
- o a history of paying fully franked dividends to shareholders.

¹ Given his role as a director of Treasury Group Limited, Mr Reubert Hayes is not considered to be independent.

² Based on combined pre-tax NTA as at 31 August 2012. Assuming 100% scrip acceptance by Premium shareholders.

Timetable and conditions

The proposed merger is conditional on, among other things, certain regulatory approvals, certain approvals by Premium shareholders and the sanction of the Federal Court of Australia.

The indicative timetable for the scheme is set out below.

Scheme Implementation Agreement signed	14 September 2012
First Court Hearing	Late October 2012
Scheme Booklet dispatch to Premium shareholders	Late October 2012
Scheme Meeting	Late November 2012
Second Court Hearing, Effective Date and Calculation Date	Early December 2012

If you have any further questions, please contact our office on (02) 9247 6755.

Appendix A

KEY TERMS OF THE SCHEME IMPLEMENTATION AGREEMENT

Transaction structure

- 1 Premium shareholders participating in the Scheme will transfer their shares in Premium (**Scheme Shares**) to WAM.
- 2 As consideration for the Scheme Shares, Premium shareholders can elect to receive.
 - (a) (**Cash Consideration**) cash for up to 100% their shares; or
 - (b) (**Scrip Consideration**) exchange up to 100% of their shares for shares in WAM. The number of new WAM shares to be issued to each shareholder who elects to receive Scrip Consideration will be calculated as set out in the announcement. For each New WAM Share issued, WAM will also issue one option; or
 - (c) a combination of the above.
- 3 Following implementation of the Scheme, Premium's Board will be reconstituted with WAM nominees on the Implementation Date and WAM will appoint Lindsay Mann to its Board on the Implementation Date.
- 4 The SIA can be terminated by either party if the other party is in material breach of the SIA or a Court or Government Agency has taken action to restrain or prohibit the Scheme.

Conditions Precedent

- 5 Implementation of the Scheme is subject to the satisfaction or waiver of a number of conditions precedent including:
 - (a) **Scheme Meeting Approval:** Premium shareholders agree to the Scheme at the Scheme meeting by the requisite majorities under the Corporations Act;
 - (b) **Premium Material Adverse Change:** no Premium Material Adverse Change occurs before the Second Court Date, including any event that would prevent or delay Premium's ability to consummate the Scheme;
 - (c) **WAM Material Adverse Change:** no WAM Material Adverse Change occurs, before the Second Court Date, including any event that would prevent or delay WAM's ability to consummate the Scheme;
 - (d) **Premium Prescribed Occurrence:** no Premium Prescribed Occurrence occurs before the Second Court Date, including changes in the structure of Premium's share capital, Premium acquiring or disposing assets for more than \$200,000 or entering or terminating any contract involving revenue or expenditure of more than \$200,000 (without WAM's consent);
 - (e) **WAM Prescribed Occurrence:** no WAM Prescribed Occurrence occurs before the Second Court Date including WAM ceasing to carry on its business as it is currently conducted;
 - (f) **No breach of Premium Warranty:** WAM is satisfied that none of the Premium Warranties is incorrect before the Second Court Date; and
 - (g) **No breach of WAM Warranty:** Premium is satisfied that none of the WAM Warranties is incorrect before the Second Court Date.

Recommendation of Premium's independent directors

- 6 The independent directors of Premium must unanimously recommend that Premium shareholders vote in favour of the Scheme unless they are required to do otherwise by law or because of their fiduciary duties.
- 7 The independent directors of Premium must give WAM at least three business days notice before announcing any change of recommendation.

Exclusivity

- 8 Under the SIA, Premium has agreed to the following exclusivity arrangements until the earlier of termination of the SIA and the Effective Date:
 - (a) **(No shop restriction)** it will not solicit or invite competing transactions;
 - (b) **(No talk restriction)** it will not participate in any discussions or negotiations with any third party in relation to a competing transaction; and
 - (c) **(No due diligence)** it will not provide any due diligence information for the purposes of enabling a third party to make a competing transaction.
- 9 The 'no talk' and 'no due diligence' restrictions will not apply to a superior competing transaction that is not solicited in breach of the SIA if the fiduciary duties owed by the independent directors of Premium require them to consider the superior proposal, or they are required to consider the superior proposal by law.

Representations and warranties

- 10 Each of WAM and Premium has given representations and warranties which are normal for a transaction of this nature.
- 11 Premium has also given representations and warranties in relation to its obligations under the Investment Management Agreement with Treasury Group Investment Services Limited.