



19 November 2012

Dear Fellow Shareholder,

On behalf of WAM Capital, I am writing ahead of our upcoming AGM and investor presentations to keep you informed of some important recent announcements by WAM Capital.

2013 Dividend Guidance

The Board of WAM Capital announced on 5 November 2012 the intention to pay a fully franked interim dividend of 6.0 cents per share for the half year ending 31 December 2012. This will be a 9.1% increase on the previous year's interim dividend and represents an annualised fully franked dividend yield of 7.4%*. The dividend payment will be reliant on profitability and the availability of franking credits. It is anticipated that the record date for the proposed interim dividend will be no earlier than February 2013, which is consistent with previous years. We have enclosed a copy of the ASX announcement for your perusal which contains more information.

Merger with Premium Investors

On 14 September 2012, WAM Capital announced a proposed merger with Premium Investors Limited (Premium) via a scheme of arrangement. The offer involves WAM Capital acquiring 100% of Premium shares on a pre-tax net tangible assets (NTA) for NTA basis.

Importantly, the Board of WAM Capital believes the merger will be beneficial to WAM Capital shareholders as it will provide a reduction in the fixed administration expense ratio, increased liquidity of WAM Capital shares and by increasing the size of the Company, continue to increase the Company's relevance in the market and improve the coverage by research firms, dealer groups and financial advisers. There are also potential benefits from the deferred tax assets and franking credit balances in the Premium accounts.

The scheme meeting for Premium shareholders to approve the merger will be held on 10 December 2012. The indicative implementation date is 31 December 2012.

To assist you in understanding more about the proposed merger, we have attached a list of commonly asked questions and answers.

Of course, you may have other questions so please feel free to either call us on (02) 9247 6755; email us at info@wamfunds.com.au; or attend our AGM and shareholder presentations:

Sydney – 11am on 28 November, Lyceum Theatre, Wesley Centre, 220 Pitt Street

Melbourne – 11.15am on 29 November, Morgans at 401, 401 Collins Street

Adelaide – 11am on 30 November, Adelaide Town Hall, Meeting Hall, 128 King William Street

Canberra – 10am on 3 December, Belconnen Premier Inn, 110 Benjamin Way, Belconnen

Brisbane – 11.15am on 4 December, RBS Morgans, L29, 123 Eagle Street

We look forward to seeing you at the investor presentations.

Yours sincerely,

Geoff Wilson
Chairman

* Based on 16 November 2012 closing price



WAM CAPITAL LIMITED
ABN 34 086 587 395

2013 INTERIM DIVIDEND GUIDANCE

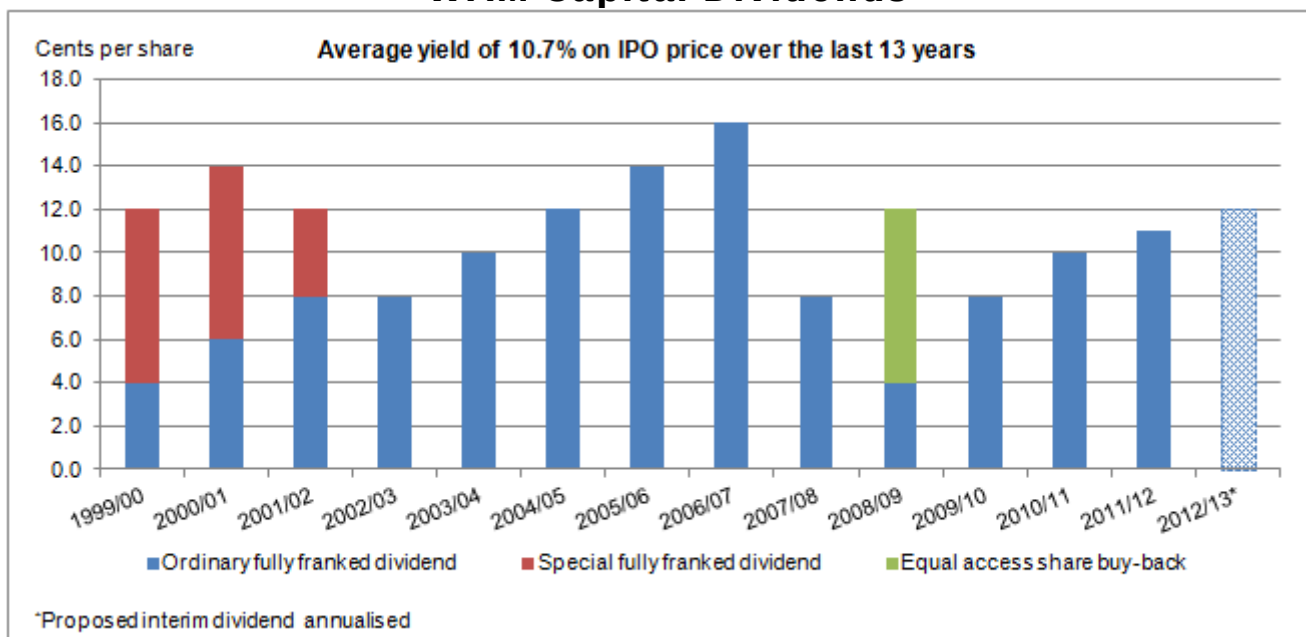
“Proposed 6.0 cents per share fully franked interim dividend”

The Directors of WAM Capital Limited (WAM Capital) intend to pay a fully franked interim dividend of 6.0 cents per share for the half year ending 31 December 2012. This will be a 9.1% increase on the previous years' interim dividend and represents an annualised fully franked dividend yield of 7.5% based on the last sale price. The dividend payment will be reliant on profitability and the availability of franking credits.

We anticipate the record date will be no earlier than February 2013, which is consistent with previous years. If the Premium Investors Scheme of Arrangement is approved and implemented in accordance with the current timetable, Premium shareholders who elect to receive WAM Capital shares as consideration will receive the interim dividend. This is assuming these shares are held on the dividend record date.

The WAM Capital's Board dividend policy is to pay an increasing stream of fully franked dividends to shareholders provided the Company has sufficient franking credits and it is within prudent business practices. It must also comply with Government legislation and the ATO's interpretation of a company's ability to pay franked dividends. Dividends are paid on a six-monthly basis. Dividend payments will also be made with consideration to cash flow and cash holdings.

WAM Capital Dividends



WAM Capital Limited (ASX: WAM)

Merger with Premium Investors Limited (ASX: PRV)

Frequently Asked Questions

Q. What is the transaction?

A. A merger between WAM Capital Limited (WAM Capital) and Premium Investors Limited (Premium) via a scheme of arrangement.

The main points of the scheme of arrangement are:

- The merger will be on a pre-tax Net Tangible Assets (NTA) for NTA basis
- Premium shareholders who elect to receive scrip will receive one WAM Capital option (WAMO \$1.60 expiry 31 July 2013) for each WAM Capital share issued

Q. Why are the entities merging?

A. WAM Capital identified an opportunity to grow the Company for the benefit of WAM Capital shareholders. This opportunity provided WAM Capital with a number of benefits for its shareholders, we outline these below.

WAM Capital also owns 2,710,746 Premium shares, or 2.7% of the issued capital. The shares have an average cost price of \$0.64 per share, representing a 23.2% discount to the Premium September NTA. With the announcement of WAM Capital's merger proposal, the Premium share price is now trading approximately in line with its NTA. This represents more than \$440,000 of increased value.

Q. What are the benefits of the merger for WAM Capital's shareholders?

A. There are a number of benefits for WAM Capital shareholders. These include:

- lower fixed administrative expenses per shareholder as expenses are spread over a greater pool of assets;
- a greater market presence - we believe that a larger LIC will offer shareholders greater liquidity in WAM Capital shares; and
- a larger capital base that we believe will lead to increased coverage by dealer groups, advisers and research houses.

There are also potential benefits from the \$15m deferred tax assets and \$6m franking credit balance as disclosed in the Premium accounts.

Q. What are the costs of the transaction for WAM Capital's shareholders?

A. The estimated costs to WAM Capital will be approximately \$50,000-\$60,000. The WAM Capital Board has sought legal, accounting and tax advice in completing the transaction.

Q. What are the investments of Premium?

A. Premium is a Listed Investment Company (LIC) managed by Treasury Group. The underlying assets are approximately \$80m invested in various managed funds.

As at 30 June 2012, the largest holdings were: Investors Mutual Australian Share Fund at \$19.1m, RARE Infrastructure Value Fund at \$15.8m and Orion Australian Share Fund at \$10.9m. All investments have 24 hour redemption notice periods.

WAM Capital Limited (ASX: WAM)
Merger with Premium Investors Limited (ASX: PRV)

Frequently Asked Questions

Q. What will happen to the Premium assets after the merger?

A. If the merger is approved on the 10 December 2012 by the Premium shareholders, the WAM Capital Board will complete a full comprehensive review as soon as practicable after the implementation date to decide on the appropriate investment strategy for the assets.

Although the WAM Capital Board expects that all the assets will be managed in a similar way to the assets of WAM Capital prior to the merger, the Board will only be able to make definitive decisions once it has all the necessary information available to it (including the actual number of scrip and cash acceptances).

Q. When will the NTA's used in the scheme be calculated?

A. At the time of the second court hearing date. The NTA's will be subject to review by each company's auditor and finalised by the record date.

Q. Will the Premium NTA used in the calculation of scheme consideration include the deferred tax assets?

A. No.

Q. Will there be a change to the WAM Capital Board?

A. Premium Chairman Lindsay Mann will be invited to join the WAM Capital Board.

Q. Will the investment team managing WAM Capital change?

A. No.

Q. Will WAM Capital's investment strategy change?

A. No.

Q. Will WAM Capital's dividend policy change?

A. No. The Board has a clear dividend policy which states it is committed to paying an increasing stream of fully franked dividends to shareholders provided the Company has sufficient franking credits and it is within prudent business practices. It must also comply with government legislation and the ATO's interpretation of a company's ability to pay franked dividends. Dividend payments will also be made with consideration to cash flow, cash holdings and available franking credits.

Q. What is WAM Capital offering to Premium shareholders?

A. Under the terms of the offer, WAM Capital will acquire 100% of the issued share capital of Premium on an NTA for NTA swap basis. WAM Capital will offer Premium shareholders the option to:

- exchange up to 100% of their Premium shares for new WAM Capital shares (scrip);
- elect to receive 100% cash for their Premium shares; or
- elect to receive a combination of both.

WAM Capital Limited (ASX: WAM) Merger with Premium Investors Limited (ASX: PRV)

Frequently Asked Questions

Each Premium shareholder who elects to receive scrip consideration will also be issued one WAM Capital option (WAMO \$1.60 expiry 31 July 2013) for each new share issued.

Based on the NTA for each of WAM Capital and Premium as at 31 August 2012, each Premium shareholder would receive approximately one new WAM Capital share and one WAM Capital option for each two Premium shares they hold*.

** Based on pre-tax NTA as at 31 August 2012 excluding deferred tax assets and including estimated transaction costs*

Q. Why is WAM Capital offering those who elect to receive shares a WAM Capital option?

A. WAM Capital's current capital structure is one ordinary share and one option for each shareholder. The provision of an option reflects the recent bonus option issue made to existing shareholders and the terms of the placement completed in August 2012.

Q. Is the merger recommended by the Board of Premium?

A. The independent Directors of Premium unanimously recommend the merger to Premium shareholders.

Treasury Group, the investment manager of Premium, also supports the merger.

Q. What is the impact on WAM Capital post the merger?

- A.
- i. Assuming 100% scrip conversion by Premium shareholders and based on the reported NTA as at 31 August 2012, WAM Capital will have increased assets of approximately \$300m and 8,300 shareholders. Premium shareholders would represent approximately 28% of WAM Capital shareholders as a whole.
 - ii. Assuming 100% cash election by Premium shareholders, WAM Capital will have assets of approximately \$229m and 5,156 shareholders.
 - iii. Assuming 50% scrip and 50% cash election by Premium shareholders and based on the reported NTA as at 31 August 2012, WAM Capital will have increased assets of approximately \$260m and 6,700 shareholders. Premium shareholders would represent approx 16% of WAM Capital shareholders as a whole.

Q. When will the merger take place?

A. Indicative timetable is as follows:

Scheme meeting	10 December 2012
Second court hearing and calculation date for NTAs	12 December 2012
Record date	20 December 2012
Implementation date	31 December 2012

WAM Capital Limited (ASX: WAM)
Merger with Premium Investors Limited (ASX: PRV)

Frequently Asked Questions

Q. As WAM Capital grows, does the Manager envisage any capital constraints?

A. The Manager does not envisage any capacity constraints arising as a result of either the proposed merger or the option issue.

WAM Capital's investment manager, Wilson Asset Management (International) Pty Ltd believes it can manage up to \$1 billion while maintaining the same investment process used over the last 13 years.

We focus on investing in under-researched and undervalued growth companies. These tend to be in the small to medium industrial sector. This sector is currently valued at \$255 billion and made up of 833 companies.

The Market Driven strategy invests across the entire Australian equities market which currently totals approximately \$1.3 trillion.

Q. Will management fees paid to WAM Capital's investment manager increase as a result of the proposed merger?

A. Wilson Asset Management (International) Pty Limited receives a 1% management fee on gross assets. The value of this fee increases as gross assets increase but it remains fixed at 1%.

Q. Will there be selling pressure on the WAM Capital share price as a result of Premium shareholders preferring exposure to other sectors?

A. The Board don't believe there will be selling pressure on the share price because Premium shareholders are being given the option to elect 100% cash. We expect those who do not want to hold WAM Capital shares to elect the cash option.