



WAM Australian Equity Fund Limited

A.C.N. 080 135 913

MANAGER'S REPORT: SEPTEMBER 1999

INVESTMENT OBJECTIVE

The WAM Australian Equity Fund Limited is an investment company which seeks to provide investors with access to an Australian equities portfolio with above average returns over the medium to longer term (3 –5 years).

Comparative performance

(NAV is after the dividend distribution)

| Quarter to | Sep 99 | Sep 98 |
|---------------------------------|------------------|-----------------|
| Total Net Assets | \$7,351,009 | \$6,342,057 |
| NAV (Before CGT provision) | 106.6c per share | 91.9c per share |
| Change in NAV over the Quarter | -0.1% | -1.3% |
| Change in All Ords over Quarter | -3.2% | -3.1% |
| Change in Bank Bill Index | +1.2% | +1.3% |

Asset Allocation at 30 Sep 1999

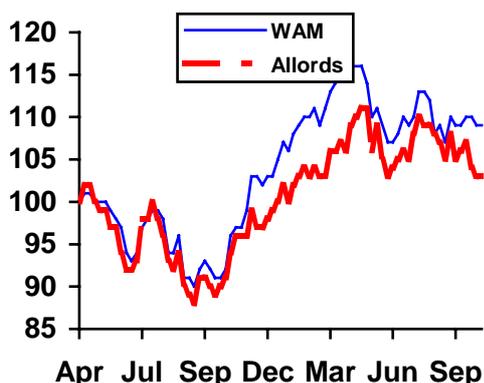
| | |
|---------------------|-------|
| Australian Equities | 96.6% |
| Cash | 3.4% |

Five major investments

| | Sep-99 | Sep-98 |
|----------------|--------|--------|
| Rio Tinto | 9.9% | 8.7% |
| Telstra | 9.7% | 7.2% |
| Flight Centre | 8.0% | 3.0% |
| NAB | 7.1% | 6.4% |
| Macquarie Bank | 6.7% | 5.0% |
| Total | 41.4% | 30.3% |

Performance History

(From the public placing in April 98)



Investment Highlights

- During the September quarter, the official US short-term interest rate increased to 5.25% with equity valuations showing a sympathetic decline. Continued increases in corporate earnings caused the US equity market to move broadly sideways. The US bond market has been in a bear market for almost a year and currently offers better value to the investor than the US equity market.
- Japanese equities surged in the first half of the quarter following the release of stronger than expected economic data. Most other Asian economies are now likely to exceed growth forecasts of 5%. The outlook for Europe is similar, albeit at a slower rate. The only risk appears to be Russia where economic weakness and high inflation continue unabated.
- The Australian market under-performed when compared with the international markets, declining by 3.2% over the September 1999 quarter from a level of 2976.9 to 2881.1. This compares with the MSCI World Index which increased in Australian dollar terms by 0.6%.
- The resource sector continued to improve, out-performing the industrial sector over the quarter. Gold was the star performer following the announcement by the European Central Banks that they would limit their bullion sales to 2000 tonnes over the next five years.
- Within the industrial sector, the Health and Biotechnical sector has been the focus of attention during the quarter, with the Media sector showing the largest relative decline.

Fund performance during the quarter

- During the quarter under review, WAM out-performed the All Ordinaries Index as shown above. Our large exposure to Health, Biotechnical, Tourism and Leisure contributed to this out-performance.
- The major purchases made by WAM during the quarter were Cadbury Schweppes, Cochlear and Futuris. The holdings in Qantas and Star City were sold.