



Commentary

Generating Cash is King

Looking at the 2010 bank statement for the Webb Enhanced Income Fund, I am reminded of the Fund's exceptional cash generating characteristics. For 2010, the Fund generated \$1,225,000 in option premium income and \$600,000 in dividend income per \$10,000,000 of Fund assets. The Fund's internal income yield was 18.3% which was comprised of the 12.3% option yield and the 6% dividend yield. To generate that yield, only an average of 28.5% of the Fund was overwritten.

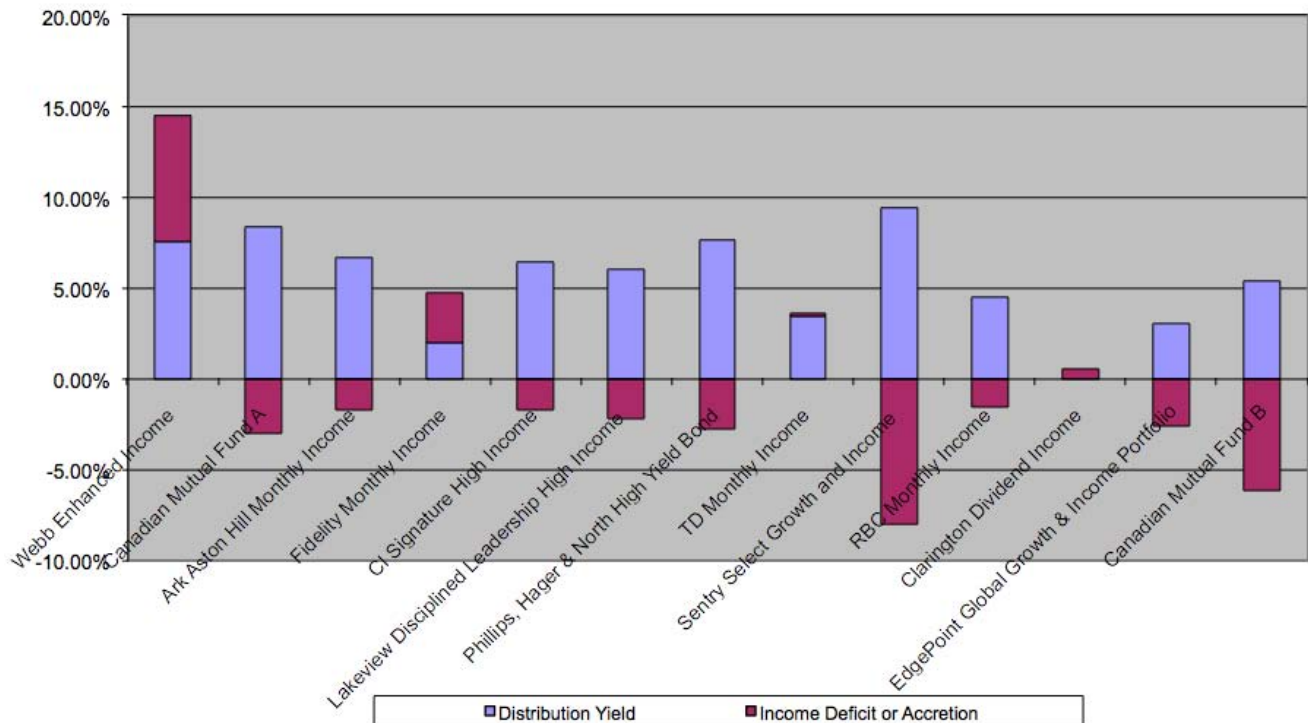
Even more impressive was the consistency of that cash flow. Each month we publish an annualized cash flow statement for the Fund. For 2010, the highest internal income yield was 27.4% in January, and the lowest internal income yield was 15.2% in July.

This cash flow is expected to be sustainable as we can always overwrite a greater percentage of the Fund. When interest rates start rising in earnest (we believe within the next 12 months), we expect to increase the percent of the Fund that is overwritten.

To highlight the superiority of the income strategy employed by the WAM Income Fund, we have compared the Fund with other Canadian Income Funds (see chart below). The lighter bars in the chart (pointing upwards) are the annualized distribution yields of various Funds.

Canadian Income Funds - (Income deficit or accretion after distributions)

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Disclaimer Analysis was compiled using various sources of data. Fund distributions, reinvestment price and MERs were from globefund.com dated December 31, 2010. Net asset values, dividend income, interest income and other income for the funds used for comparison came from their respective interim and annual financial statements. Data used to analyze Webb Enhanced Income Fund came from interim financial statement and trial balance of the underlying portfolio dated December 31, 2010. Income Yield is the total income received over the average net asset value. Where income data was collected from interim financial statement the income yield was annualized. Distribution Yield is the average distributions over reinvestment price for 12 months prior to December 31, 2010. Income Deficit or Accretion is the Income Yield minus MER minus Distribution Yield.



Commentary

Generating Cash is King *Continued...*

The darker bars are the annual reduction/addition to the Fund's net asset value (NAV) after the distributions are paid. This is calculated by taking the internal income yield of the Fund, minus the MER of the Fund, minus the Fund's distribution to unit holders. This bar highlights if the distribution of the Fund is being funded from income generated by the Fund or whether that distribution is partially funded by the liquidation of underlying securities. If the darker bars are pointing downward, the Fund is not generating sufficient income to fund the distribution. A downward bar shows the percent of the Fund's NAV that needed to be liquidated to pay the distribution.

Conversely, if the darker bar is pointing upwards, the Fund is generating excess cash flow after paying the annual distribution. An upward dark bar shows the percent increase in the Fund's NAV after paying that distribution.

For those Funds where the darker bar is pointing downward, the Fund is forced to liquidate some of the securities in the Fund to cover the distribution. This is like investing in an apartment building where the quoted yield of the investment is 7%. However, only 4% of that yield is from the rents of the apartments and 3% is from the liquidation of apartments. The distribution appears stable, but the economic base from which that distribution is generated is eroding. Both your ownership in the building and the ability to generate future rental income are declining. This is a losing strategy.

Notice that the WAM Enhanced Income Fund has both one of the highest distributions and has the highest accretion to NAV. This is exactly what you want from an income fund. This is like investing in another apartment building. However, the rents in this building are much higher so instead of being forced to sell some apartments annually, management is able to acquire more apartments. With this investment you are increasing the number of apartments you own; thus, increasing the ability to generate higher future rental income. This is a winning strategy.

As a testament to our investment strategy, the WAM Enhanced Income Fund is getting ready to increase the monthly distribution to unit holders. The new distribution is expected to be 8%, and funded entirely from internal income. We also expect that there will also be plenty of cash flow left over to continue to grow the NAV.

- Derek Webb

Disclaimer: Commissions, trailing commissions, management fees and expenses all may be associated with the Fund. The investment may not be suitable for all investors. Some conditions apply. Investors should carefully review the Fund's Offering Memorandum, including the risk factors detailed therein under the heading "Risk Factors", prior to investing in the Fund. The indicated rates of return are the historical annualized compounded total returns (periods less than 1 year are un-annualized simple returns) including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. There can be no assurance that the Fund objectives will be met. The Fund is not guaranteed, its value changes frequently and past performance may not be repeated. The opinions expressed in the commentary are those of the author and do not necessarily reflect the views and opinions of the Manager or any distributor of the Manager Funds. The views expressed are of a general nature should not be interpreted as investment advice to you in any way. Please consult a qualified financial advisor before making an investment decision. The portfolio manager/advisor/sub-advisor has a direct interest in the management and performance fees of the Fund, and may, at any given time, have a direct interest in the Fund itself.