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Wilson Asset Management

WAM Capital, WAM Microcap, WAM Research and WAM Active FY2022 Results Q&A Webinar

Oscar Oberg: Good afternoon and thanks to everyone for dialling into this afternoon's call. As Geoff would always say, WAM Capital (ASX: WAM), WAM Microcap (ASX: WMI), WAM Research (ASX: WAX) and WAM Active (ASX: WAA) are your companies so please feel free to ask any questions over the allotted time and if we do run out of time, we will endeavour to get back to you in the next couple of days personally. On today's call you have myself Lead Portfolio Manager Oscar Oberg. You have Tobias Yao, Portfolio Manager, we also have Senior Equity Analyst Shaun Weick and Sam Koch and Equity Analyst and Dealer Will Thompson. In terms of how today will go, I will spend some time on the first slide talking about the dividends across all the four funds. I will then talk about what has happened since we last spoke to you in March over the last 6 months. I will pass it onto Tobias who will talk about the reporting season and the outlook that we see for the small-cap companies. We will talk about some interesting stock ideas and then we will launch into questions and answers.

Turning onto slide 3, I do want to spend some time here to explain the profits that we have available to continue to fund dividends across the four funds that we manage being WAM Capital, WAM Research, WAM Active and WAM Microcap. It is important that we are going to focus on WAM Capital and it is worth noting here that what I say on WAM Capital for the next few minutes does apply to WAM Active as well. WAM Capital specifically, we have consistently paid a half yearly dividend of around 7.75 cents a share over the last 5 years. If you times that by 2 and annualise it, that is 15.5 cents a share and this compares to the 15 cents a share that we have banked up in the profits reserve that you can see on the slide. What this means is that we can fund the October 2023 dividend of 7.75 cents, the next dividend in April 2023, but only a small proportion caught 0.5 of a cent in April 2023. To continue to pay dividends, we need to keep building up and generating profits in what is called the profits reserve. Now the profits reserve is a fancy accounting term. All you need really to know about it is it is simply the profit that the fund generates or WAM Capital generates over the financial year. So in the situation when the market goes up, our portfolio goes up, we generate profit that can be banked and then on the Board's discretion we can pay out a dividend that we send back to shareholders. Now in the situation where the market goes down, our portfolio goes down, we generate unrealised losses. Now in that situation we don't bank any profit which is tough for us to continue to generate profits to pay future dividends. What we saw last year, last

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financial year it was from around October 2021 over that 9 month period to 30th of June 2022, the market fell and as I will talk about later, we actually underperformed the market. So in that 9 month period, we weren't able to effectively generate profits that we could pass on down to you as dividends. Pleasingly since the new financial year has started, our performance has been good, the market has been up and our portfolio in WAM Capital is up over 10%, so we have been able to bank some more profit that we can pass on as dividends. But as you can see in that slide 3, we are still quite short on that October 2023 dividend in 12 months' time. The purpose of this call is not to scare everyone on the call, we were in the exact same position in July and August of 2020 following coronavirus, so I guess my advice to you, I can't give financial advice but I can give you this advice, is just to keep monitoring the net tangible asset updates that we give every month. Keep monitoring the market and keep monitoring our performance on the market.

So now turning onto the next slide and I guess my review of the last 6 months. We have just had Russia and Ukraine; inflation concerns were starting to bite and Australia was starting to open up from Omicron. Now unfortunately these concerns dragged on over the last 6 months and what this meant was that risky small-cap companies that we own within WAM Capital underperformed and were sold off compared to what was perceived to be safer large-cap companies in sectors such as Financials, Materials and Energy where we have a very, very small exposure to in the fund. To give an example, I use the company Elders (ASX: ELD) which had its half year result back in May. Elders actually upgraded earnings expectations by over 30% of that result. Normally we would see share price respond quite positively and we did on Day 1, but I think a week or two later the share price was down around something the team hasn't seen for some time where it was very difficult for our catalyst to work. Given the uncertainty that we saw in the market, small-cap companies underperformed large-cap companies by the greatest margin since the global financial crisis and this is the major contributor to the fact that we underperformed the market by 11% over the year. I guess if we could take a positive out of the year though we actually outperformed the small-cap industrials index by over 5% and we think the small-cap industrial index is a fairer representation of the stocks that we actually invest in within WAM Capital. So I guess in summary what I am trying to say is our stock picking over this period was quite good. Over this 6 month period we have stayed invested into the market, our cash levels have stayed between 12 to 14%. Liquidity levels have remained high and the reason why we stayed in the market is that we are still very positive on our portfolio and the companies that we own and we are seeing very cheap valuations and we are

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seeing strong catalysts with the companies that we own that we can see generate a re-rating of the share price over time.

On slide 4 of the presentation we have tried to show just how cheap small-cap companies have become not just in Australia, but globally and this chart that was done by Bank of America which shows you the valuation differential between small-cap and large-cap companies in the United States. As you can see from the chart, I think we are currently close to 1999 or 2000 lows and that chart I think from memory goes for about 35 years, so we are at 20 year lows now in terms of valuations. So in our view, we are seeing a lot of opportunities. We have remained in the market as I said before, we are seeing a lot of catalysts, a lot of discounted companies trading below asset backing, so we are very positive on the outlook for the stocks. We just need the market to come back to small-cap companies. I will pass it onto Tobias Yao who will give you all a review of the reporting season and our outlook.

Tobias Yao: Thanks Oscar. In this period of volatility, our focus continues to be bottom-up research. As an example the Investment Team have travelled and met with over 150 companies in the US, UK, Singapore, New Zealand and Perth in June and July to find ideas. We were able to find quite a few ideas like Webjet (ASX: EWB), IDP Education (ASX: IEL) and Mainfreight (NZE: MFT) have positively contributed to our performance over the last few months. The recent reporting season was mixed with no real sector themes in the small-cap space, however there were a few areas in the market that outperformed. The first group of companies consisted of quality companies and quality is defined by the track record of the management team, the robustness of the business model and then in the current environment the ability to pass through cost pressures onto their end clients. The second group of companies consisted of companies with very strong balance sheets that announced capital management initiatives such as buybacks which is a signal to the market that the management team thinks the share price of these companies such as oOh!media (ASX: OML) is undervalued by the market. Mining services companies also outperformed during the last reporting season as they have strong visibility of their revenue and contracts and their valuation continues to be very attractive. The final group of companies that outperformed are some of the beaten up tech companies that were able to announce more favourable costs or revenue such as Temple & Webster (ASX: TPW). As always, we have had our fair share of detractors such as DGL (ASX: DGL) and Red Bubble (ASX: RBL) but it is pleasing to say we have had more winners than detractors and as a team we are very pleased with the performance of all of our funds over the last 2 months. So going forward our portfolio is quite balanced. We continue to favour companies with strong balance

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sheets and strong management teams that we believe will be able to best navigate what continues to be an uncertain environment and we are pretty excited about some of the ideas that we have in the portfolio to deliver performance over the next 12 months.

Next the team will be pitching our top ideas over the next 6 months and I will kick it off with AMP (ASX: AMP). Now Geoff's mantra has always been buying a dollar for 80 cents and AMP is currently trading at a 20% discount to its net tangible assets (NTA) post the investments which they have announced, so there is valuation support from the get go and at the same time there are a billion dollars of buyback over the next 18 months that should support the share price. Longer term, if the management can execute according to their plan then there is a turnaround in the wealth management business post the right sizing of the cost base and you also get a banking business that is growing at above market rate. Now I would like to pass over to Shaun Weick our Senior Equity Analyst for his ideas.

Shaun Weick: Thanks mate, so my idea today is NRW Holdings (ASX: NWH) and long story short, we think mining services is back. The FY2022 result beat the top end of management guidance in what were very challenging conditions for the sector driven by the impacts that coronavirus had on labour movement. However going forward, we believe the worst is behind the sector and this is being underpinned by continued margin recovery which began to really materialise in the earnings throughout the second half of FY2022. Looking out into FY2023, we think there is upside to the guidance. They have strong visibility over the revenue profile within the mining and minerals businesses and we believe the construction business is strongly positioned to benefit from the ramp up in iron ore, Kazakhstan amongst the majors into the next couple of years. The balance sheet's net cash is trading on a very compelling valuation of around 10 times price-to-earnings multiple which provides optionality for capital management or mergers and acquisition down the road, so we like that one within the space. I will now hand it over to Sam.

Sam Koch: Thanks Shaun. Our next high conviction stock pick is Hub24 (ASX: HUB). It is a specialist platform provider that provides platform services to the financial advice industry and its held across WAM Capital and WAM Active. Now Hub24 has made a number of strategic acquisitions over the last couple of years that have really enhanced their platform capability especially relative to its peers. We believe that this enhancement will drive an acceleration in organic growth for the business and they are quite bullish on that medium term. Hub24 is trading at about 20 to 25% discount to its closest listed peer despite offering a higher growth rate and better functionality for their customer base. We believe that the catalyst to close that gap will be quarterly flow updates and earnings upgrades. Iwill now pass onto Will for his stock idea.

Will Thompson: The stock idea I have today is Close the Loop Group (ASX: CLG). Close the Loop sits in our microcap portfolio, it is about 150 million market cap. Close the Loop aims to use resource recycling, so taking in plastics from different landfill and using it to actually create its own packaging, so Close the Loop between recycling and packaging. They reported a really strong result in the last result FY2022 and beat our expectations and we were really impressed with management when we caught up with them last week. We think they have the ability to grow both organically and through acquisitions into FY2023 and we think it is a really strong sector at the moment and there is a lot of capital flowing in and we will see lots more of investment and I think they are at the forefront of the innovation there.

Oscar Oberg: Thanks Will and thanks guys for all your insights. Now we are going to ask as many questions as you like, I will pass it onto you Camilla.

Camilla Cox: Thanks Oscar. The first question is actually for you. This one is from Ian he says shareholders were advised some months ago that because of the WAM Capital acquisition activity the share price was likely to fall in the short term. It fell from $2.30 to about $1.80, why has it remained at that level?

Oscar Oberg: Thanks for the question Ian, we are all shareholders in WAM Capital too so we are not happy where the share price is but look I can give reasons for that. So at the time we had announced the acquisition of Westoz and Ozgrowth, we thought there would be selling pressure following that acquisition like we saw with the amaysim takeover. I think it would be fair to say we probably underestimated how large that selling pressure would be, but I think the main difference really to what we saw with amaysim or previous takeovers was the market fell quite sharply and I think at the time around April, WAM Capital was trading at around 30% premium to its net tangible assets. At the moment we are trading at a 20% premium to net tangible assets, so the share price has fallen from $2.30 to $1.80 because the portfolio has fallen, but I think what is more important is the premium has shrunk. So it has gone from 30% to 20%. Why is that the case? Well now firstly like as I said earlier, the market has been out of favour to small-cap stocks. I think more importantly as I tried to discuss at the beginning of the presentation we can fund the next two dividends, but the October 2023 dividend as it stands today we only have a small proportion of that dividend to fund, so I think that would be my answer thanks Camilla.

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Camilla Cox: Thanks Oscar. Tobias we will go to you now. This one is from Theo; he says the annual report for WAM Active stated that it was a quiet period for all corporate transactions. Do you anticipate this activity increasing in the coming months?

Tobias Yao: Yeah thanks Camilla and thank you for the question Theo. It has definitely been pretty quiet with the volatility of the market. We have seen a couple of transactions in the portfolio including Carsales.com (ASX: CAR) and IPH (ASX: IPH) in terms of acquisitions and we have seen inbound mergers and acquisitions for a couple of beaten-down technology companies. You know we think as the market stabilised over the next period there will be potentially corporate transactions. A lot of private equity funds have raised money and are ready to deploy capital into the market so we think the number of activities could actually go up.

Oscar Oberg: I think what is interesting is comparing this period to say the global financial crisis, balance sheets are very, very strong, so it is around half of the portfolio WAM Capital is either net cash, in other words it has more property than the debt it has on the balance sheet, so it is a vastly different period that we see compared to the global financial crisis. We think that the Australian companies certainly have fire power for acquisitions or for buybacks which there has been a record level of buybacks that we saw at reporting season, so that is one of the big reasons we have stayed invested in the market over the last 6 months despite the volatility that we have seen.

Camilla Cox: Thanks Oscar. Thanks Tobias. Shaun we will go over to you now, this one is from Sam. He has asked when is the right time to be bullish on the consumer sector?

Shaun Weick: Thanks Camilla and thanks for the question Sam. I guess in general we underwrite the retail sector at the moment giving concerns over the impact that rising inflation and interest rates will have on budgets looking into calendar year 2023 and you also have the impacts I suppose of declining wealth effects as house prices come off. The other theme we are also seeing out there which was certainly evident within my US trip back in June which seems like a lifetime ago was really the shift from goods to services is accelerating. But I mean with this in mind valuations have retraced and we have maintained positions in those companies we think have duration or longevity in their growth profiles and also strong balance sheets to capitalise on weak industry conditions as Oscar mentioned. Examples here would be fast fashion jewellery retailer Lovisa (ASX: LOV) which in my view was the standout result of the reporting season. We think the market continue to underestimate both the pace and I suppose the duration of the opportunity there along with the operating leverage that will accrue medium term. Look at Premier Investments (ASX: PMV) it has a substantial net cash position, we think that provides optionality around capital management and mergers and acquisition which there is the potential catalyst at the upcoming result in a couple of weeks. We also have smaller holdings in companies such as plus size retail City Chic (ASX: CCX) where we think the management team is very strong and well positioned to navigate a tougher environment and discount retailer Myer (ASX: MYR) is another example too. All in all we think there is selective opportunities to deploy capital within the retail space and consumer space, but yeah as a broad brush band we don't underrate the sector.

Camilla Cox: Thanks Shaun. Oscar we will go back to you now. This one is from Adrian, he has asked is WAM Capital still invested in DGL (ASX: DGL) following its negative results and what is your view on the company?

Oscar Oberg: As Tobias mentioned before we do sometimes get a few things wrong who would have thought. Lots of things wrong I should say. That company was a strong performer for us in the first half of the financial year, it was one of our best stocks in the microcap fund. Look unfortunately it probably became a victim of its own success really. Share price probably went a lot higher than what it should have. We probably didn't sell enough it would be fair to say, and then we owned basically the stock because it did very well in both WAM Capital and WAM Microcap, so when the sell-off did occur we added to the position so it was a decent holding. In terms of what the business does it is effectively a waste services company, roll-up style company where it is acquiring a number of businesses and using its elevated share price to generate any secretive acquisitions and I think it was fair to say what we totally estimated on the business was how many tailwinds it had from the agricultural sector in the last 12 months and they gave weaker than expected guidance. The cash flow was weak, so exited the company, so we no longer own shares in it.

Camilla Cox: Thanks Oscar. We have another one from Adrian, this one is actually for Sam. He has asked what is your view on MA Financial Group (ASX: MAF)? Do you still think it is a strong buy?

Sam Koch: Thanks Adrian. We aren't shareholders anymore in MAF. It was a holding back in the back end of last calendar year and we reduced it as the market uncertainty picked up at the start of this calendar year. Obviously the valuation has come back to a more reasonable level at this stage, however there has been recent news about how long the special program will continue into the future and that is a large chunk of their assets under management at this stage, so I think that will really create noise around the company and the share price in the short-to-medium term that we are not going to be taking a part of so at this stage we are not shareholders. We are keeping tabs on the business but appreciate your question.

Camilla Cox: Thanks Sam. Oscar we will jump back to you, this one is from Wayne. He says if you view your target stocks as cheap, why do you have over 10% cash in the fund?

Oscar Oberg: It's a good question. Clearly I think we are about at 12% today in cash in WAM Capital and about the same in WAM Microcap so that would be on the low side relative to history. In terms of how we managed it really since I guess coronavirus hit us in March or April 2020 it is probably pretty consistent really since that point in time, we obviously went to cash through coronavirus. We feel that gives us flexibility. We have gone lower than 10% before in reporting season and we are very happy to go below 10% when we see strong ideas and I guess yeah it is just a reflection of if we are seeing ideas or companies that fit that our investment process, we will buy more of them if they are undervalued and cheap. So our cash levels do fluctuate every day, but I would say I wouldn't rule it out though less than 10% if the valuations are maintained and more importantly we are seeing companies where we are with that level.

Camilla Cox: Thanks Oscar. Will, we have one for you, it is from another Will. He has asked what is the team's view on the energy sector in particular coal and uranium equities?

Will Thompson: Thanks Will. I am not going to be able to add much value on what is happening to the oil price given on the back of the Ukraine war and Russia and what is happening in Europe, obviously that has created quite a big supply shock, but I think it is the continuation and we have seen significant underinvestment in the sector for quite a while and it is creating opportunities even if the Russian/Ukraine war was to end tomorrow, it is still be going to be quite constructive for energy prices and they are not going away from I guess what we like to invest in in the WAM Capital funds, so we look for things with catalysts with valuations support and that can potentially rerate in the future. Karoon Energy (ASX: KAR) is one. We have seen that perform really well in the energy sector. Stanmore Resources (ASX: SMR) has done really well buying BHP (ASX: BHP) assets really cheaply and then the uranium sector we really like Boss Resources (ASX: BOE) and Paladin Energy (ASX: PDN) they have performed really well and should be producing within the next couple of years. We are still looking for stocks which we think have the right catalyst and it is quite a constructive area at the moment the energy sector.

Shaun Weick: We are also looking at stocks that are derivatives I suppose beneficiaries of that, so one of our larger holdings is Worley Parsons (ASX: WOR). The disruption that is been created in

Ukraine has created significant opportunities for them as supply lines essentially readjust to Russia being out of the market and they are also in a position to continue to assist companies in that green transition, so yeah we are actively looking at and monitoring the space and playing where we see opportunities that fit our process.

Camilla Cox: Thanks Will. Thanks Shaun. Tobias we will go to you now. This one is from Sam and he has asked for your thoughts on Bubs Australia (ASX: BUB)?

Tobias Yao: Thanks Sam. Bubs is one which we think there is potentially upside obviously it is not without risks. We initially invested in Bubs on the back of our view that the China strategy is looking very positive and the roll out of their plans and the launch to new brands to their initial Gold Infant formula product could be very attractive for consumers in China. Then their positivity surprised the market by going into the US. Now if they are able to have a little bit of success in the US that is a very material sort of revenue and profit for the business given the size of Bubs, so we are waiting for the execution and getting more data points on how they are going in the US. So far I think they have already entered into over 6,000 stores in the US which is quite an effort considering it has only been a couple of months since they have been in the US, so for now we are just waiting for sale through data and hopefully if they can execute and run the right marketing campaign then if they are able to therefore generate strong revenue and proper growth from the US as well as China.

Camilla Cox: Thanks Tobias. Sam this one is from Bill and he has asked about your view on technology stocks?

Sam Koch: Thanks Camilla and thanks Bill, a very topical question for sure at the moment. From our perspective we have always been highly selective in the technology space. If you go back to previous webinars many of us would have said that we are very highly selective but also have the belief that valuations at those times were quite full. But what we have seen now is that valuations have come back to a much more attractive and much more reasonable levels. The biggest trend that we noticed during our reporting season over the last couple of months is that it is really those technology companies that have control of their profit and loss which is starting to outperform and what I mean by that is control of their cost base and pathway to profitability without impacting their revenue growth. So the fund has actually benefited from a number of those stocks recently and Temple & Webster is an example and Tyro Payments (ASX: TYR) is another example of that, that the fund has benefited from. So in conclusion we remain highly selective. Valuations have come back to more reasonable levels and to be honest I think it has really been proven by the fact that private equity interest has picked up recently with the private equity bid of Nitro (ASX: NTO) and Tyro.

Camilla Cox: Thanks Sam. Will this one is for you and it is from Luke. He wants to know if there are any interesting initial public offerings (IPOs) on the team's radar?

Will Thompson: Thanks Luke. Yeah there are. It is actually quite an interesting sort of time for the IPOs. I think we did nearly 20 in the same half last year and then this year we have done 1 and that is going to be listing next month, it is called LGI Group. It is a really interesting company. They take methane gas from landfills, so like your average council landfill, they drill holes into there, take the methane gas out, turn it into a bio fuel and then burn that bio fuel to create energy and put back into the main powers, so it is quite an interesting company solving that environmental, social and governance (ESG) problems that we are seeing. Methane gas I think is over 25 time worse for the environment than carbon dioxide is and interestingly the companies that can do that earn carbon credits and the carbon credits are a good thing. Recently it is trading quite well and it is an interesting space, so that is one coming up but we are being very selective in the IPOs we look at and to be honest there hasn't been a lot come to market just yet.

Camilla Cox: Thanks Will. Oscar this one is for you and it is from Walter. He says he has seen your recent comments on Myer and he is wondering if you are still positive on the company?

Oscar Oberg: Yeah we are. It has been a long investment, but yeah we are actually making good money on it now, I think it was 65 cents or something like that, so the management team has done a fantastic job. If they weren't there who knows where the company would be. Well they are now getting the benefit of everyone opening up so the big detractor for the business was the 3 CBD stores, 2 in Melbourne, 1 in Sydney, same as the international travel and foot traffic return to the stores, the online business has held up really well and you are starting to see that operating leverage in earnings come through given they have taken out a lot of costs, that was before coronavirus and that was one of the reasons why we bought the business initially back in mid-2018, so yeah we think the management team has done a fantastic job. Balance sheet is great. Net cash likely to pay a very good dividend at the result I think it is this week or early next week, so yeah still very, very positive on the business.

Camilla Cox: Thanks Oscar. Shaun this question is for you and it is from Sam. He says that companies such as Lovisa have performed well due to earnings resilience from exposure to younger consumers who are less exposed to increased cost of living. Is this a theme you are seeing across a number of companies and do you see its performance continuing in an uncertain economic backdrop?

Shaun Weick: Yeah thanks Camilla and thanks for the question Sam. I think absolutely. I mean the younger demographics clearly have less exposure to housing and rising interest rates unfortunately that is reality typically in Australia, so yeah we are positioned around those companies that we think the demand profile will I suppose prove more resilient. We think Lovisa fits into that bucket. Another stock we like there is Universal Store (ASX: UNI) as well, so yeah, yeah to summarise that is our view on that space we are seeing evidence of that. The Reject Shop (ASX: TRS) would be another one we think where consumers will increasingly seek out value. It has gone through a 2 year period where it has been heavily impacted by coronavirus given it is a store based retailer, but they are coming out the back of that now we think that looks very attractive with the buyer back in place and on a low single digit price-to-earnings ratio.

Camilla Cox: Thanks Shaun. Will this one is from Alice. She said I read in a recent Wilson Asset Management Newsletter you attended Diggers and Dealers in Western Australia. How many companies did you meet with and what was the overall sentiment from the companies at the conference?

Will Thompson: Their sentiment really depends on the commodity, it was like 200 to 300 companies there the whole time, there was about 3,000 people there, it was the first time since the pandemic that people from the East coast could go over. In terms of the gold stocks, because traditionally it is a gold conference however there is more lithium creeping in now. The gold stocks sentiment wasn't great just because of the labour pressures they have have had over in Western Australia and also the supply chain issues. There was a couple of stocks we really liked including Emerald Resources (ASX: EMR) which we own in WAM Capital and then Predictive Discovery (ASX: PDI) which we own in WAM Microcap. Both are kind of not as exposed to the Australian labour market. PDI is still drilling out, it looks like it has quite a big resource. Emerald has got some really exciting drill results hopefully coming out soon about the bull's eye asset and then sentiment on the lithium stocks was very bullish. I am not sure if you are aware but the lithium stocks have been flying recently and we were able to meet with a couple of the companies and really get a good view of the supply and demand that is happening there. Everyone does have questions about what is happening in the lithium market and I think everyone came away a bit more constructive than when they went in.

Shaun Weick: And I attended along with Will and on the services, mining services side of things I mean sentiment was diabolical. People couldn't have been more pessimistic on the space at least among other investors which is what we felt created a really strong opportunity in these names that were trading on very compelling valuations. They were priced to nothing, they had been put in the bin for 2 years, people would rather own the direct commodities as opposed to the derivatives being the services companies, but we could see that the worst was starting to be behind these companies. The labour issues were easing. Contract mechanisms were resetting and more reflective of the environment going forward. The overall I guess conclusion we drew was that the margin profiles had improved from here and revenue visibility was strong from the commodity players, so yeah we actually used that opportunity to dial up a number of positions around the conference and they have performed very well around reporting season.

Oscar Oberg: One of the things we have noticed is as the borders have opened up there has been a great opportunity for us to do a lot of travelling which we really haven't done for the last 2.5 years, so we really did hit the ground particularly in that June where it was a really tough time in the market, it was a shocking time in the market to be fair. We did a UK trip, US trip, Diggers and Dealers where we saw a lot of companies face-to-face and the interesting thing we are seeing is a lot of our competitors aren't yet doing face-to-face meetings, they are still doing Zoom meetings, so we do think it has a competitive advantage for us and a lot of our good ideas that we see in the portfolio today did come through that June and early July period when we were on the road, so we will be on the road quite a lot in the coming months.

Camilla Cox: Thanks Oscar I will stay with you. You did touch on this a bit earlier but if you could add some thoughts. Ashok has asked will the interest rate hikes have an impact on the small-cap portfolio?

Oscar Oberg: Ashok this is a great question and thanks for it. Looking back in hindsight and at the end of the financial year you sort of scratch your head and we have underperformed quite a bit and you sort of go well what could we have done better. We did think that a lot of the inflation we were starting to see was transitory and was coronavirus related so we thought that at the time when Omicron hit or before Delta, okay we would opened up and a lot of that inflation has come off and we never really owned technology companies at all, it was just a lot of the consumer discretionary companies that got hit hard. And I guess you sort of look back on that and you go well it would have been nice to have a lot of exposure there and probably have higher cash. Now those companies have absolutely smashed from around November to June and a big reason why they fell was because the market was looking forward and looking at interest rate expectations and looking where they are and we will wait and see what the United States does tonight, but the likelihood is we are looking at sort of close to 8 cents CPI. This is the longwinded way of answering your question, but yes that is the big reason why small-cap companies have been hit. 50% of the small caps that we looked at are exposed to the consumer in some way, retail, housing, property developers, automotive, right so, but okay we come back to it, but the share prices have fallen a lot and these interest rates are factored in. Now what we are think that is interesting as we look forward is at the moment a lot of the forward looking interest rates are starting to plateau and in some instances are coming down. If we get a situation where that does occur, that will be very, very positive for small-cap companies. So look longwinded way of answering the question and we do think those high interest rates are now factored into the share price given they have fallen so much and that is a big reason why we are still investing in the market and we still see a whole heap of opportunities in front of us as we look forward.

Camilla Cox: Thanks Oscar. Tobias you touched on a few names maybe if you want to add some thoughts or summarise. Sarah has asked what have been the notable detractors in the recent period?

Tobias Yao: We had a holding in Red Bubble which is an online market place and the reason we got that wrong was when the management announced the results it actually included an additional sizeable cost investment which surprised the market to the down side. As Sam mentioned earlier a lot of the technology companies that we were investing in that had high short interests we were hoping in the kind of environment that the management team was able to have a bit more flexibility in the business model so actually they could reduce costs and that is a more favourable catalyst for the share price. In this case we got the catalyst wrong. It felt like they needed to spend more money for their own turnaround and as a result the stock price came off one of the key detractors in the reporting season.

Camilla Cox: Thanks Tobias. Oscar we have another question from Ashok. He has asked do you think you have enough exposure to mining stocks in the small and mid-cap portfolios?

Oscar Oberg: Thanks Ashok. Yeah look we do at the moment. If you look at the history of WAM Capital, mining has always been a very, very small exposure in the fund and at the moment the mining companies would sit at around probably about 3 or 4% of the fund. Now we have increased the exposure over the last 2 years and I wouldn't say that just because mining shares have gone very well over this period it is more we don't have the expertise. As we have spoken previously today about energy and a number of other commodities, Cooper is not here today but both Cooper and Will have experience in past jobs and past lives with the resources sector. As Tobias and I are leading the team we think that it would be mad not to utilise that expertise and for these reasons the guys have put in some stocks in the portfolio. But in the team we do see our skills in industrial companies and as Shaun has talked about previously we have a big exposure in mining services via a number of companies and that is generally the way we like to play the mining sector and that was a big reason why we are quite happy with how we have gone in the first couple of months of this financial year because that sector has done very, very well.

Shaun Weick: And we have a number of exposures across that base. I mean we have touched on a few but ALS (ASX: ALQ) is one that we continue to like. NRW, Perenti we think are well positioned and then we have also a holding in Seven Group Holding (ASX: SVW). They are just a few examples of how we play in the space.

Camilla Cox: Sam this one is for you it is from Lance who has asked does the team still hold Dusk (ASX: DSK) and what are your views on the company?

Sam Koch: Thanks Lance. Yes we do we still own shares in Dusk. We think Peter's doing an excellent job in managing the business and executing in a really tough environment. What we are attracted to there is obviously the store roll out potential both in Australia, New Zealand and longer term offshore should that pursued in the UK. In the short-to-medium term you have as Shaun alluded to earlier this substitution away from goods towards services and that will obviously impact Dusk in their immediate short term, especially with housing uncertainty and a weaker consumer, so we are conscious of that risk and we are sizing the investment accordingly, but at the same time we are bullish longer term on Dusk, so yes we are still a shareholder.

Shaun Weick: And to that point I mean valuations is in a single digit pair, it is a valuations screaming attractive and they have generated such a significant amount of cash throughout this coronavirus period that the balance sheet looks very strong as well, so yeah we are comfortable there.

Camilla Cox: Thanks guys. Oscar back to you. Does the team still like Emeco Holdings (ASX: EHL) for the short-to-medium term and how can the business create further value for shareholders in your opinion?

Oscar Oberg: So we still like the business but we don't own it. Unfortunately it has done very well so was a shame because we have owned a couple of times over the last 3 or 4 years, but the stars have finally aligned for it. But we really rate the management team, the stock is very, very cheap, the Board has done a really good job really our buying back shares positioned the company in terms of cash generation of dividends, so the business right now as Shaun said we have a number of other exposures, but given where coal prices at the moment it is probably one of the best ways to play it.

Camilla Cox: Thanks Oscar. Sam back to you. This one is from Neil. He has asked what companies are you looking at in the building and construction sectors?

Sam Koch: Thanks Neil, another very topical question. I guess this sector has been heavily beaten up. Everyone is worried about the macro uncertainty with the housing market falling off a cliff and the likes. We are actually seeing a number of really interesting opportunities. We are positive on CSR (ASX: CSR) and MAAS Group (ASX: MGH) which we have talked to in the past, both of which actually have significant property holdings which underpin their valuations and have strong order books as well which will drive stable earnings over the next few years. Now we have been looking at Boral (ASX: BLD) which is part of our seven group holding. That has been significantly impacted by coronavirus and by wet weather so we see earnings bouncing back in that business and also Reiss a high quality business that we have talked to in the past. We have always looked for an attractive entry point and there is no better one when everyone's worried about the housing market, so we are seeing a number of really interesting opportunities given the macro uncertainty.

Camilla Cox: Thanks Sam. Shaun this one is for you it is from Joe who says there are continual impacts on international and domestic travel in particular airlines under pressure due to understaffing and they're cancelling flights. Are you positive on the travel sector?

Shaun Weick: Overall we are positive on the travel and entertainment sector. I guess despite emerging consumer pressures we think that the revenge spending continues and consumers continue to allocate more of their spend towards services and travel over goods, so the key stocks we like in this space are Online OTA and Beta Beds distributor Webjet. We believe they have made significant structural improvements in their business model, that will underpin market share gains and the operating leverage will deliver earnings well in excess of pre-coronavirus as we move through the other side. We also like the derivative players on that. IDP Education is a significant beneficiary of travel and borders reopening. We think there are I guess some factors weighing that business with the CEO exiting and escarole arrangements from the Universities, but the policy settings couldn't be better. All of their key destination markets are very on the front foot encouraging migration and the digital strategies are just starting to yield benefits now so we do think you do have to be selective in the space, but they are a couple we like. We own some Event Hospitality & Entertainment (ASX: EVT), some Tourism Holdings (NZX: THL) and businesses that will benefit from international and domestic travel continue to open up.

Camilla Cox: Thanks Shaun. Oscar, Dominic has asked has the WAM Capital portfolio been reviewed for excessive income risks with inflation projected to increase even further?

Oscar Oberg: Thanks Dominic. Yeah constantly reviewed, that is basically all we do really in terms of analysing the numbers. As Tobias touched on, what we are really focused on is trying to find the best companies that can pass on the cost inflation through higher prices given their market positioning or their importance to customers and so forth, so that for us is when we are looking at companies that is the number one thing that we are looking at really. And as we said we are very confident in the portfolio as it stands today. Just on the inflation we are trying to look forward. We feel that we are at peak levels right now, so we are trying to work out where things are in 12 months' time, because that to us feels like that is the most interesting part. We are seeing a lot of the key things that we were talking about inflation 12 months ago like freight rates, we are seeing like a lot of the labour availability and so forth that was an issue about 6 months ago, it is starting to come down. So we are fascinated to see what the consumer price index at least it will be tonight in the United States, but our feeling and the work we have done suggests that things are starting to come off a little bit and as I said that earlier when we get a situation like that, when we get stability, that will be very positive for the small-cap companies that we look at across the funds.

Camilla Cox: Thanks Oscar. Shaun, Alexander has asked what is the team's view on A2 Milk (ASX: A2M)?

Shaun Weick: Thanks Alexander. A2 milk is always a very topical one. We actually have bought some shares coming out of the FY2022 result. We thought it was a claim to the numbers in the context of them taking their medicine around inventory which they needed to do, so going forward they have guided to high single digit revenue growth and a bit of operating leverage, we think that looks very achievable and the balance sheet is very strong. They have a billion dollars in net cash on the balance sheet. They have initiated $150 million dollar buyback which starts in a couple of weeks, so that is the next catalyst we are looking for there and short interest still remains reasonably

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elevated this one at 4%, so there is still scope for A2 milk buying to move in, so yeah we are positive on that one from here.

Camilla Cox: Thanks Shaun. Oscar this one is from Leon. He has asked can you comment on WAM Capital's result suffering from its small cap exposure and did WAM Microcap experience similar sector headwinds?

Oscar Oberg: Thanks Leon. When we look at WAM Capital, the issue is it can be good some years, it can be bad some years, but the issue we have really had for the last since probably about 2016 is that what we invest in doesn't marry up with our index. We invest in small-cap industrial companies largely as I said. Mining is a very small part of the portfolio call it 3%, but our benchmark is the all ordinaries index. Now to put that into context, I think BHP was about 10% to the index, so BHP, Rio Tinto (ASX: RIO), Fortescue (ASX: FMG) and the four big banks that we don't own is… I am throwing out some numbers here, probably about 30 - 35% of the index and they were the companies that investors bought over the market uncertainty which is fair enough. They are large companies, they pay great dividends, they have been around for a very long time, so they are perceived as safe. So that is the reason largely and as I said earlier if our stock picking was bad we wouldn't have outperformed the small-cap benchmark. But however no matter how good our stock picking was we were always going to underperform last year. Now, what I can assure everyone listening is that when the reverse occurs I will tell you on the call that we have had a benefit from effectively small cap companies going up and the large-cap companies going down. Now we haven't seen that for some time, but it will happen and we have seen cycle occur ever since WAM Capital started, so that explains WAM Capital. Now WAM Microcap we don't really have the problem. We invest in small-cap companies and our benchmark is the small ordinaries index and like WAM Capital we are underweight mining companies, despite that we outperformed the small ordinaries index for the fifth year in a row and I think it was 2 to 3% or something, you wouldn't say that was a good result for investors but look we did what we could, so that is the difference. WAM Capital we are in small-cap companies but a large-cap weighted benchmark. In WAM Microcap small-cap companies but we invest in a small-cap weighted benchmark.

Tobias Yao: And I think just to add to it Oscar, during this period of volatility all of us sticking to our investment process which we had ever since the inception of WAM Capital and so we want to stick to what we are good at which is catalyst driven stock ideas and bottom up research which explains our decisions.

Oscar Oberg: That is a good point. If we came to the 30th of June and you saw our annual report and we were invested in BHP and Commonwealth Bank (ASX: CBA) and we had all these mining stocks, if I was an investor I would be worried because that is not our sub set. As much as we would have loved to have done that over the last 6 months, it was something we chose not to do which you could argue it probably hurts us from a performance perspective in that financial year 2022, but over the longer term which is what we are all here for, we know this investment process will outperform. As Tobias said earlier, we had a great start to the year, all funds are outperforming, we are very happy how we are going. If we get a situation where the market turns back to small caps and large-cap stocks are sold in favour of small-cap companies we should do very well.

Camilla Cox: Thanks Oscar. Thanks Tobias. Will you mentioned before that lithium has had a recent surge. George has asked what is the team's view on this surge?

Will Thompson: It has been pretty crazy to be honest and it is really interesting because you would have seen all the banks come out, I think Barrenjoey came out yesterday and I think it was Goldman Sachs updated last, they have all been updating their supply demand models and their price expectations just keeps getting higher and higher and they have all been saying FY2024 is likely to see prices coming down and then they have pushed that out, they actually pushed it out last week, so it has been crazy. We have a couple of positions, but we are watching cautiously because on one side you have the supplier which a lot of the resources companies that have been trying to get to market have been a bit slower than everyone is expecting which has been supporters of the price and then the demand has been crazy in the face of consumer demand weakening a little bit, you still have governments subsidising especially in China. In the EU they have a high penetration rate and you have this whole SG movement which is supporting it. But we are watching cautiously because it can change very quickly.

Shaun Weick: We are conscious that there is quite a bit of speculation happening in that pocket of the market. If you look at platforms like Hot Cochran, White Knight it does feel like it is a sector that there is a lot of retail money in, so yeah we are conscious as to where valuations have gone on some of these stocks particularly the developers and the exposure that they have around elevated cost profiles with labour and raw materials and what not, so we have seen a number of DFS see significant upgrades to the capex requirements given that site. Definitely preparing the producing place.

Camilla Cox: Thanks Shaun. Thanks Will. Oscar, what is the team's view on healthcare at the moment? Are you invested in Cape Range (ASX: CAG) and Healthia (ASX: HLA)? That is from Adrian.

Oscar Oberg: Yeah well we like the healthcare space at the moment largely because it has been beaten up over the last 6 to 12 months simply as we have come out of coronavirus and come out of Omicron, there has been a lot of sick leave, there has been a lot of staff absenteeism, staff going on holidays and so forth. There are two companies that we like there is Capitol Health (ASX: CAJ) which is a diagnostic imaging or X-ray company. Focus there in Victoria started a last acquisition recently which was highly accretive. We also like Healthia (ASX: HLA) which is basically an aggregation of podiatry and physiotherapy and optometry companies. It is the ex-green cross management it has had highly successful roll up or acquisition strategy of debt practices. Both those companies have been hit pretty hard over the last 6 to 12 months. They have clear air, balance sheets are good, making acquisitions and we think the valuations will rerate over time.

Camilla Cox: Thanks Oscar. WAM Capital has engaged in a number of takeovers with the most recent being Westoz and Ozgrowth. What are some of the benefits you are seeing in these takeovers and are there any more in the future?

Oscar Oberg: Thanks for the question. In terms of Westoz and Ozgrowth focusing specifically on that. It was a great deal for us and it generated accretion to our net tangible assets around I think it was 3 to 4% and we are always looking for opportunities where we can use the premium in our share price and acquire a listed investment company at a discount because it is accretive for investors and what that means is that effectively your net tangible assets per share will go up. Now in terms of the future, given where we are with our profits reserve, I think it is highly unlikely that we do something of scale of that size. We probably want to see a very strong performance in the market and get the share price a bit higher as well, but never say never. Geoff is always on the lookout for opportunities to grow. In terms of the benefits for our shareholders as a result of the fund growing is your scale increases and your importance to brokers and accessing capital markets transactions and initial public offerings increases, so that is really the main reason and as a shareholder you get accretion or an uplift in your net tangible assets which is really the main reason.

Camilla Cox: Thanks Oscar. Tobias we will go to you now this one is from Arthur. He says he read our July NTA announcement and he saw that the portfolio has outperformed. He is asking how you went over reporting season?

Tobias Yao: Yeah thanks Arthur. Look it hasn't been an easy reporting season. I think for a lot of the companies for the share price to go up on the day you have to tick more boxes and the magnitude of the share price to climb if a stock misses market expectations has been pretty large and it is complicated by the fact that in July the small-cap index rallied really hard, so it was a little bit challenging but I think it is fair to say as a team we are all quite pleased with the performance of all of our funds over the reporting season in August.

Camilla Cox: Thanks Tobias. Oscar this one's from Janet who says you paid a special dividend for WAM Microcap for the last 4 years, why not this year?

Oscar Oberg: Yeah thanks Janet. I am sure the Board talked about this extensively in the Board Meeting. When we launched WAM Microcap we really wanted to and it is fair to say if you look at the performance since inception I think it is probably outweighed our expectations and we are very extremely pleased with our performance and the market also went up quite a lot through that period, so those first 4 years we did reward shareholders with a special dividend. That made the size of the fund come down, I guess we wanted to do it in a situation when the market was positive and our performance was positive. Now this year, our performance was good, we outperformed, but the portfolio was down considerably. So in that situation to not pay a special dividend. Now going back to slide 3, obviously I talked about WAM Capital at the start of the presentation quite extensively, now WAM Microcap is the total opposite. We had a good July and August and September in the fund, so we have added to the profit reserve, so it will be a Board decision. We have paid 10 cents in total last year, but as you can see there is quite a substantial room with the profit reserve, so it will be a Board decision and we will wait and see what they think.

Camilla Cox: Thank you Oscar. An interesting one from Allan for you. Does Wilson Asset Management see investment opportunities in Australian offshore windfarms?

Oscar Oberg: Oh we would like to. We have offshore windfarms, so we have a big holding in this company and this is probably one of our best stocks. We probably should have done this one so the great Mermaid Marine (ASX: MRM). If you have a look at the history of the business it has been probably one of the worst stocks on the ASX I would probably say. It has had two capital raisings to save the company in the last 10 years. But what does it do? So it provides offshore vessels or port tugboats is probably the easiest way to think about it, for offshore oil rigs or for offshore drilling. The outlook for Mermaid Marine is very, very strong from an oil and gas perspective, but the part that we like the stock for is that in that period since the last oil and gas upturn you have had this huge boom in offshore windfarms, particularly in South East Asia and these guys are doing a lot of the work there, it is about 40% I think of their revenue at this point in time. I don't think the market knows this, it is about 40%, but what is more important is they get more revenue than what they do in the oil and gas. So we really like this company trading at a 20% discount to its net tangible assets and trades on an earnings multiple or EBITDA of ten times. If you put that on the Mermaid Marine share price I think the share price would more than double. Really good management team, so yeah we really like that one.

Tobias Yao: And it is one we visited in Singapore.

Oscar Oberg: In Singapore, yeah good point.

Tobias Yao: When we conducted on the ground research.

Oscar Oberg: Yeah good point. We saw this company to see how they were going. I reckon we were probably the only fund in Australia that bothered to do that that is the strength of the model because we see a lot of companies and we feel that what we are really good at is see them. It is really bad, it is really bad, it is really bad, it is really bad, oil price is going up, oh yeah we are starting to see an uptick and so forth and when we do the work and we look at the balance sheet things are getting better and we feel like we can get these opportunities earlier than our competitors can, so I mean that is a classic Wilson Asset Management stock really. But look we will see how the oil prices go and so forth, but we really like that business.

Camilla Cox: Thanks Oscar. Thanks Tobias. Sam would you be able to give detail on why WAM Capital sold out its holdings in Ridley Corporation (ASX: RIC) given that WAM Capital was so confident in it just as recent as 3 months ago?

Oscar Oberg: It was my fault that is why, not Sam.

Sam Koch: I'm happy to answer that one Oscar or give it a crack and then pass it over to you for sure, but thanks Camilla. I think it is really interesting as we were looking at the share price at $1.10, $1.20 and we started buying it in the funds at that point in time and we were incredibly confident and still are in the outlook for the business. Quinton has done an amazing job turning around one sleepy business into a shareholder return machine. From our perspective, Ridley had really outperformed the market. All of our core bread and butter stocks like consumer discretionary and the like and the housing stocks had really underperformed on the concerns on the macro and Ridley had actually gone up. So on a relative performance basis we saw an opportunity to lighten, not exit, but lighten the position and reinvest those proceeds back into companies where we saw much more attractive relative valuation opportunities. Now Ridley has gone onto bigger and better things. We still hold a position now, but actually fortuitously after we initially ceased our substantial holding which I am sure you are referring to there was a big media beat up about the risk of foot and mouth disease in Australia and that gave us the opportunity in the room to buy the stock back around $1.40, $1.50. So we are really comfortable with the position in both funds that it is in at the moment and it is a hold for us.

Oscar Oberg: As I said before our strength is seeing a lot of companies, sometimes our weakness is selling companies too early and that was all my fault with Ridley really. But it really hasn't cost us much, we still have a great position in the stock going a lot higher, great management team as Sam said so we still really like it.

Camilla Cox: Thanks Oscar. Thanks Sam. Oscar this one is from Elise. She is asking is there any opportunities you are seeing in the unlisted space?

Oscar Oberg: Well I don't know if there are many opportunities in the unlisted space at the moment. There will be though and to be fair like it would be a good time to have a look at pre-IPO companies because there won't be much demand there, but we haven't seen a new pre-IPO come across our desk since I reckon January or February. So if we were here 6 months ago we would have talked about Iris Energy (NASDAQ: IREN) which was the bitcoin miner, that was quite a substantial holding in our fund. Now the market situations didn't help the company, they have actually performed well over this time, but listed on the NASDAQ back in November. The shares have been slaughtered I think it is fair to say. We were able to sell a lot when the escrow period ended in May. I can remember it because Will who is on the call today stayed up all night and we were chatting to each other at 2am and we sold at about USD6.70 a share and I think today it is about USD4.00 dollars, so we have basically sold all our holding. We do have a tiny little bit because the share price, or the market capitalisation is now less than what they have in cash and they have actually performed really well it is just the bitcoin price has just fallen so much. So that is now very, very small, it is no longer a pre-IPO investment, but it is listed, it is a very small position. The next position I should talk about is Xpansiv. This is the carbon credits trading platform, been there for just over a year and a half I think, they tried to IPO in the June quarter however given the market conditions they pulled it, but pleasingly Blackstone, which is a large private equity company one of the largest in the world, took an equity stake in the business to allow it to do the acquisition and it is actually valued the company at USD1.5 billion dollars, so we have actually enjoyed an uplift in the valuation that we had

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in Xpansiv. Previously the company was valued at USD300 million dollars. Our pre-IPO exposure is probably around 4% of the fund. Xpansiv would be half of it in WAM Microcap and then the remaining 2% of the fund, there is about 4 or 5 pre-IPO investments that are all doing well. We also had 2 exits through the period and Superhero, but look it is a very tough market for pre-IPO investments right now. We are looking but it will have to be compelling for us to participate.

Camilla Cox: Thanks Oscar and just going back to touch briefly again on takeovers, Ray has noticed that over the last few years WAM Capital has bought a number of other funds and he has asked if this has impacted the profitability of WAM Capital?

Oscar Oberg: When you look at the profits in the annual report it is even a nonsensical number because effectively as you would have seen in the annual report we generated a big loss after tax, that is just because the portfolio has gone down. You would have seen in the year before in FY2021 we would have had a gigantic profit, so that is just the unrealised gain and loss of the profit and loss statement let's call it or the profit of the company. What you really need to look at is the net tangible assets and that is what you should be evaluating the share price versus the net tangible assets. Now when we go into an acquisition this increases the net tangible assets and obviously our performance but secondly by acquisitions or creative ways like that then that is a benefit to shareholders, so rather than look at the profits per sae that is what you should be looking at the net tangible assets.

Camilla Cox: Great thanks Oscar and I will pass back to you for any closing remarks for the call?

Oscar Oberg: That was a great call. Thanks for all the questions, there was a lot. But look please if there is anything we have missed please get in touch. Thank you very much for your support. It has been a rocky ride over the last 12 months, but as I said we are very confident in the portfolio. The team is doing a fantastic amount of work, we are seeing a lot of companies, we are on the road as we said earlier, but yeah look forward to catching up in November so no thanks again for your support and please any questions let us know, thank you.