Learn more about our listed investment companies (LICs), performance and dividends

What is the net tangible assets (NTA)?

GEOFF WILSON: The total assets (the investment portfolio and cash), less any liabilities, divided by the number of shares on issue, equals the NTA per share.

How do you establish the value of WAM Alternative Assets over time?

DANIA ZINUROVA: WAM Alternative Assets holds investments in unlisted funds which are not quoted in an active market. Transactions in such investments do not occur on a regular basis. These investments are valued at fair value. The method that the Company uses to determine the fair value of these investments is generally the reported or latest available unit price received from the underlying investment fund managers. This reported or latest available unit price is calculated by the relevant underlying investment fund manager in accordance with their methodologies and assumptions to determine the fair value of the unlisted fund's investment.

What is the profits reserve and how is the dividend coverage determined?

GEOFF WILSON: The profits reserve is made up of amounts transferred from monthly profits that are quarantined for future dividend payments. Dividend coverage is determined by reference to the balance of the profits reserve and the number of years that the Company can continue to pay dividends, assuming that the Company continues to pay dividends in the future at the same rate as the most recently declared dividend.

Each month we announce the profits reserve in the investment update. The profits reserve makes up part of the NTA and is an accounting entry.

Why did the WAM Leaders Board of Directors decide to raise capital?

GEOFF WILSON: We knew that there was high demand for additional exposure to WAM Leaders' track record of strong investment portfolio performance and stream of fully franked dividends.

The purpose was to continue to equitably grow the Company's assets due to the benefits of managing a larger pool of capital. It garners additional interest from financial planners and provides Matt, John and Anna with better access to market opportunities and deal flow and the liquidity of the shares also improves.

How are WAM Capital, WAM Microcap, WAM Active and WAM Research managed?

OSCAR OBERG: We have a team of six and we run the four funds as one strategy, however within that one fund we have two different investment strategies, one research-driven and one market-driven. WAM Microcap holds companies with less than $300 million and anything above is in WAM Capital, WAM Research or WAM Active with a focus on small industrial companies.

WAM Strategic Value has approximately 30% cash. When will that cash reduce?

GEOFF WILSON: WAM Strategic Value's current cash holding is 25 - 30%. We remain cautious on the short-term sentiment around equity markets amidst the rising interest rate environment and as such, in line with the company's objective of preserving capital, the company is retaining a higher cash balance. We are continuing to uncover discount asset opportunities in LICs and listed investment trusts (LITs) trading at a discount to net tangible assets (NTA) as well as direct discount assets. Cash will be deployed into select discount asset opportunities that fit our investment process and as the investment team's medium term view on equity markets begins to shift.

You have a dividend reinvestment program (DRP) for all your listed funds, and the DRP for WAM Strategic Value, you're buying those shares on market rather than issuing new shares at a significant discount. Why do you not do that for WAM Global? That discount is almost 20% and you're issuing new shares. You know you're always telling us we like to buy things for 80 cents in the dollar and here you are selling things for 80 cents in the dollar.

GEOFF WILSON: The reason why we're doing a DRP through purchasing existing shares on-market is to trial this method in WAM Strategic Value. That was the logic. The WAM Strategic Value Board came to that conclusion. The interesting thing is the participation in DRP's are very small and immaterial. From our perspective we're pretty confident it'll only be transitory with these discounts, and that at some point in time WAM Global will trade at a premium. The broad policy is when they're trading at discounts to NTA then there will not be a discount in the DRP, so we're not trying to encourage people to go into the DRP. A lot of shareholders use the DRP particularly for their children or grandchildren. It's just an easy way of accumulating an increased position in a company without paying brokerage.

Have the number of mispriced opportunities increased in WAM Strategic Value?
GEOFF WILSON: Discounts in the LIC and LIT sector have increased with the LICs and LITs focused on global equities experiencing the largest widening to share price discount to net tangible assets. While these discounts provide appealing entry points for investors we remain cautious on the short-term outlook for global equities. The team and I are selectively deploying capital in investment opportunities that meet our investment criteria where we believe that an investment presents a favourable risk/reward opportunity for shareholders.

How are the dividend dates decided by the Board of Directors?
GEOFF WILSON: In relation to dividends, there are four key dates; the announcement date, ex-dividend date, record date and payment date. Not all dividends are paid on the same day and are generally split over a couple of weeks and paid over 8-10 weeks after the reporting period ends.

WAM Capital, WAM Leaders and WAM Global can sometimes be paid later, around 10-12 weeks after the announcement date, due to capital management initiatives. This time frame allows the share price to trade cum-dividend for a period of time, where the share price is typically strong, and allow shareholders who would like to buy more to top up.

I invested in WAM Capital and WAM Research five years ago. Can you explain the drop in share price?
OSCAR OBERG: WAM Capital and WAM Research provide investors with an extremely high fully

franked dividend yield. The annualised 2023 fully franked interim dividend provides shareholders with a yield of 9.0% and 8.5%, respectively, based on the share price at 30 April 2023. Over the past 5 years, WAM Capital and WAM Research have paid shareholders 77.5 cents per share and 49.15 cents per share in fully franked dividends, respectively. These dividends exceed the decrease in share price over the past five years.

Given the increase in interest rates, particularly the rapid increase we've seen in the last 12 months, how do you see the management of the WAM Capital portfolio going forward as long as interest rates keep increasing or don't decrease, because it's going to be harder for small companies to raise capital? It's going to more expensive. And they need to grow. So how are you generating capital to pay the dividends that WAM Capital has projected that they will pay in the next few years? Do you actually trade more? Do you short stocks? Or do you concentrate more on the mid-size caps?

OSCAR OBERG: First part of the question. So what we saw around this time last year was a big divergence in sectors in the market. We had a lot of resources companies do very well with the Russia Ukraine war, and then we also had inflation which meant that a lot of the core companies exposed to the economy, automotive, retail etc. they've done very poorly over this period as the market has anticipated rising inflation and rising interest rates denting consumer confidence. So that part of the market is around 50% of the stocks that we invest in. That part of the market has really dragged the small cap companies down. Now what also happened through that period though, which is on the positive side, is that a lot of the analysts, so the stockbrokers following these companies, have really hit their earnings forecast very hard, anticipating a very tough period. Particularly a year ago I think we all thought we were going into recession this year in Australia. I think at this point in time it's probably not as bad as what people thought. So that's actually a really good time for us to invest. This exact same thing happened around coronavirus, where people thought it was a very negative scenario playing out, cut their numbers very hard, and then three months later we saw the actual numbers going up. So that's where we think we are right now, and that's why we think small cap companies will have a very good period, notwithstanding that the economic environment is tough looking forward, because a lot has been factored in on the negative side. Now in terms of the second part of the question, we won't be changing the way we manage the investment portfolio. So when in terms of the profit, or effectively the capital we generate to pay your dividends, around 70% of that is through gains in the investment portfolio, and 30% is the dividends that we receive from our companies and then we pass through to you. So the fact that we go into a rising interest environment it doesn't really impact I guess the view of whether we can pay dividends or continue to pay dividends. What really matters to us is the market keeps going up and we perform with the market and can keep building the profits reserve.

To put it into context- research we saw a couple of weeks ago was, if we go back to 2007, and someone did this on the small cap sector as a whole, the ratio of what they call net debt or borrowings to earnings was about 1.5 times. Today it's 0.5 times. So we don't see the same amount of leverage today as what we saw back in 2007, which is what I was saying before, that we actually see a very good time for our businesses that we have in the portfolio to actually be acquiring other businesses. Rising interest rates brings valuations down. If you take a view like we have that we think that interest rate rises are now moderating it could be a very positive period for the market.

GEOFF WILSON: Back to the other part, how is the dividend paid. In terms of that, and that's why on a monthly basis when we announce the NTA we include the profits reserve, because to pay a dividend you need a profits reserve for it to be franked. You need the franking. And in terms of the profits reserve with WAM Capital we've got pretty much the next dividend and the dividend after in the profits reserve. To continue paying those dividend then, as Oscar mentioned, the portfolio needs to go up. On that, someone asked me the other day they said "well you know the share price was trading up here now it's trading down there". And if we go all the way back, years ago someone asked me they said "we're disappointed with your performance versus the market", and I went and had a look at that and did the numbers. And what you find is when a company is paying an enormous fully franked dividend, and say look with WAM Capital is paying say 15.5 cents on assets at the moment they are $1.45, so it's nearly 11% you're getting fully franked, so to actually earn that at the pre-tax level and pay tax it's a little over 15% that you've got to earn. The current S&P/ASX All Ordinaries Index is yielding around 3.8% or something similar and it's probably 77% franked. So in terms of your return, if we were paying a 4% yield then you get more capital gain. You can't have both high yield and high capital growth. You can't have a 10% fully franked dividend and expect 10% capital gain. We can give you no fully franked dividend and we can give 15% or 10% capital growth. So to me it's one or the other. And with WAM Capital over the last period it's been tough. It's been one of the worst ten year periods since 1926 for small caps.

OSCAR OBERG: I remember the February 2022 reporting season like it was yesterday because we had a really good reporting season and I think we had 70% of our companies beat estimates which is unheard of. And I think it was our worst month like ever in WAM Capital because everything hit all at once. It was a price to earnings (PE) contraction.

Why doesn't WAM Strategic Value pay a higher dividend?

GEOFF WILSON: WAM Strategic Value aims to provide investors with a stream of fully franked dividends. As a newer listed investment company, listed in June 2021, the company is required to generate profits in order to pay fully franked dividend to shareholders. WAM Strategic Value currently has 7.1 cents per share in the profits reserve providing two years dividend coverage based on an estimated fully franked full-year dividend of 3.5 cents per share. The FY2023 fully franked interim dividend of 1.5 cents per share and the FY2022 fully franked final dividend of 2.0 cents per share. The current profit reserve provides the company with the ability to maintain the current dividend during periods of heightened volatility and equity market declines.

About five years ago I bought of WAM Capital shares at $2.50 and now it is trading at $1.73.

GEOFF WILSON: Broadly five years ago the WAM Capital share price was trading at a 25% premium above what the assets are worth. That is why we talk about trying to buy things at a discount to NTA. WAM Capital is still at a premium, it's about a 15% premium but the premium has declined. It has been a tough period for small caps. We have also been paying out double of what the market's yielding. You are taking a lot more risk when you buy at a 25% premium. One of our funds, WAM Research is trading at the highest premium, that's 30% plus, obviously they're big premiums. And the biggest discount, is WAM Global. And then WAM Strategic Value and WAM Alternative Assets are trading at reasonable discounts.

As active fund managers, a simple question, what risks are you actively managing and how do you manage them?

MATTHEW HAUPT: Everyday we're looking for risk. What we're managing for risk now is obviously the economic slowdown. So within WAM Leaders we've been very defensively positioned for maybe six to nine months. So within the fund we don't take excess risk through companies. So we're always trying to outperform using quality companies. So the way we manage risk of the economic slowdown is positioning within sectors. So we've been heavy in infrastructure, consumer staples, health, and anything really leveraged to falling interest rates because we think interests rates are going to be cut potentially this year because of the economic slowdown. So the greatest risks I see now is for the market to get too excited around those cuts which we're seeing now. A lot of the small caps are running and speculative is running ahead of the economic slowdown which has never happened in history. The greatest risk we have is being left behind not chasing returns now before the slowdown. So it's gone from a defensive positioning, now we've got to work out, the bond market is saying we're going into a really tough time, equity markets are running they're going hey all good here, there's a big dislocation. So the greatest risk now we're trying to manage is how do you position for the upcoming slowdown but then also the easing policy which will come with that, which is traditionally good for equities. So the greatest risk now is more how do you manage over the next period, not being too defensive, still having enough cyclical elements to the investment portfolio, but I mean we manage that daily. And we've got a lot of levers within the large caps because they're all liquid companies. We've got cyclical. We've got defensive. But it's more of a sector. Because we don't try and pull the cash lever unless we see a GFC event, which we don't think is going to happen because of the leverage not in the system at present. So for us it's around sector rotation. And going after the quality curve too, which we always have high quality, but we even go higher quality. So within a sector we'll look at Woolworths and Coles we'll go, Woolworths is trading better, it is better run company so it is a higher weighting in Woolworths. Within infrastructure we decide which infrastructure has the best exposure, the debt profile, we'll look at all the quality characteristics. So that's really how we manage risk within WAM Leaders.

CATRIONA BURNS: For WAM Global we have positioned the portfolio in companies that exhibit characteristics of resilient growth. We use our investment process that has been in place for 25 years. This process focusses on businesses that have strong industry positions, and high quality management teams. We reduce risk by analysing balance sheets and not buying companies that are highly levered. For each company we own we take a view on how we think their earnings are going to grow over time. We also reduce risk by buying businesses that have sound valuation support. This meant we didn't have a portfolio full of unprofitable technology companies through the fall out last year as interest rates went up, and we do not own any US banks, or any banks at all right now. Our view is that in owning a portfolio of companies that have strong earnings growth potential in coming years and valuation support we gain a level of risk of risk mitigation from market gyrations over the medium term.

The other way we think about risk management is position sizing. Our largest positions are currently at the 5% level which reduces the risk to the portfolio from any single stock.

OSCAR OBERG: And just quickly for us in small cap land. We've got a team of six within WAM Capital, WAM Research, WAM Active and WAM Microcap. We're probably seeing on average four or five companies a day across the team. And you know in small caps it is very risky part of the market and things can change very quickly and even more so in the last few years. So for us it's being on the ground, speaking to companies, speaking to competitors, speaking to suppliers, trying to get the best information. And the way we've always managed our investment portfolio is to have a wide dispersion of companies in the investment portfolio, the biggest weighting or the highest weighting would be around 3%, so it's not like we're putting all our eggs in one basket and putting 10% of the investment portfolio in one company.

DANIA ZINUROVA: In WAM Alternative Assets a lot of the risk assessment at the investment level really happens at the very start when we do the investment due diligence because the investments are illiquid and are locked in for five to seven years. And it goes across various areas like operational governance and other external risk. And in terms of the monitoring of the risks we do have a risk assessment framework that we then report to the Board. We monitor the investment portfolio on a monthly basis in terms of the valuations, performance and any of the operational changes.