

2020 December Quarter

Portfolio update

The December quarter was dominated by news of the development of a coronavirus vaccine by manufacturers Pfizer-BioNTech and Moderna with higher-than-expected efficacy rates of over 90%.

A path to Brexit was announced in the United Kingdom and a USD920 billion economic package was passed by the US Congress on 21 December 2020. The clarity of the US election outcome saw markets rally through November, with the Democrats achieving a majority following the Georgia run-offs in January, paving the path for a USD1.9 trillion stimulus package in 2021.

Globally, coronavirus cases continued to increase, with record daily case numbers in the US and Europe. Of particular concern was the spread of a highly infectious mutant strain of coronavirus in the United Kingdom, which has contributed to strict lockdowns through to February 2021. In Australia, daily cases of the coronavirus remained under control until a cluster emerged in the Northern Beaches of Sydney, leading to domestic border closures and localised lockdowns that restricted mobility over the summer holiday period.

Markets were fuelled by the announcement of two vaccines on 9 November and 16 November, coupled with further fiscal support to battle the pandemic in December. In the US, the NASDAQ Composite was the best performing Index, finishing the year at an all-time high, rising 44% in local terms. Both the Dow Jones Industrial Average and the S&P 500 Indexes also reached new records. By contrast, in Europe, the FTSE 100 Index closed down 14% and the Euro Stoxx 50 Index fell 5% for the calendar year in local terms. In Australia, large-cap mining and financial companies drove equities over the quarter, with the S&P/ASX All Ordinaries Index closing at 6,851 points, 6% off previous highs in February 2020. Record inflows in the week following the vaccine announcement highlighted the bullishness surrounding equities as an asset class. An estimated USD45 billion of inflows saw the largest weekly global equity inflow on record, with this momentum maintained over December and January.

The key theme in Australia was the shift from growth companies into value companies as a result of improving confidence in a pathway to economic recovery. Companies in sectors such as financials, resources, tourism and property outperformed the perceived beneficiaries of the pandemic, such as technology, agriculture, healthcare and retail companies. To put this into context, the initial news of an imminent and effective coronavirus vaccine in November triggered the strongest one-day rotation to value companies since 2008, a trend that continued through December.

The resources sector performed strongly over the three month period, with record iron ore prices fuelling BHP Group (ASX: BHP), Rio Tinto (ASX: RIO) and Fortescue Metals Group (ASX: FMG) share prices. Lithium and battery material companies also performed strongly, driven by the surging demand for electric vehicles. Global oil prices began to rebound with the West Texas Intermediate Crude Oil price increasing 25% over the quarter to USD48.50 per barrel of oil (bbl). Surging commodity prices and the strength of the Australian economy through the coronavirus pandemic contributed to a 12% increase in the Australian dollar against the US dollar, with one Australian dollar worth 77 US cents in January 2021, the highest level since April 2018.

While we expect volatility to remain over the course of 2021, we are constructive on the outlook for equities. This reflects the better-than-expected results from the three major vaccines announced and the accelerated vaccination plans undertaken by heavily impacted countries, such as the US and the United Kingdom. Given the volume of economic support we have seen globally, we expect economic data will continue to surprise on the upside over the next 12 to 24 months. Inflation remains our major concern, particularly given our view that central banks will be reluctant to raise interest rates through the recovery period. Given the ongoing volatility, we have continued our strategy of investing in companies offering the most liquidity, with 72% of the portfolio able to be sold within 30 days as at 31 December 2020. We ended the quarter with cash levels of 6.1%.

The WAM Capital investment portfolio increased 10.2% over the December quarter and the S&P/ASX All Ordinaries Accumulation Index rose 14.4%. While we had planned for a possible announcement regarding a successful vaccine, the efficacy levels above 90% surpassed both our and the market's expectations, contributing to gains in sectors that we had limited exposure to within the portfolio. We saw investors reduce exposure to sectors that had performed strongly over the past six months, such as e-commerce, retail, agriculture, technology and healthcare. Furthermore, the strong performance of the resources sector impacted performance given the minimal exposure to resource companies within the investment portfolio. Given the changes we could see in the market, we took the opportunity to increase our exposure to companies within cyclical sectors such as mining services, financials and building materials that fit our investment process.

We participated in a number of initial public offerings (IPO) through the quarter with mixed performance of the companies given the changing macroeconomic conditions. The market saw a number of small-cap technology focused IPOs perform poorly, such as Plenti Group (ASX: PLT), Harmoney Corp (ASX: HMY) and Access Innovation Holdings, known as Ai-Media, (ASX: AIM). One of the most anticipated IPOs of the quarter, e-commerce player Adore Beauty Group (ASX: ABY), disappointed on debut, as investors looked beyond the stay-at-home beneficiaries in favour of companies set to benefit from a successful rollout of a vaccine. Going against this trend was the largest IPO of the quarter, technology company Nuix (ASX: NXL), which performed strongly over the quarter to finish up 55%. Within WAM Capital, we participated in Adore Beauty and Nuix and remain positive on the outlook for these companies.

While the volume of capital raisings has declined since peak levels in the June quarter, we continued to see a higher-than-usual volume of companies raising capital over the December quarter in attempt to strengthen balance sheets or make acquisitions. We participated in 17 capital raisings over the period, with an average performance from listing price of 14.4%. We expect a buoyant period for capital raisings in 2021 given the recent strength in equities coupled with record low interest rates. For these reasons, we are positive on companies that have the ability to consolidate a sector through earnings accretive acquisitions.

Geoff Wilson AO
Chairman & Chief
Investment Officer



Oscar Oberg
CFA
Lead Portfolio
Manager



Tobias Yao
CFA
Portfolio
Manager



The investment team continues to identify new ideas for the WAM Capital investment portfolio that will benefit from a successful roll out of the coronavirus vaccine. We have added a number of companies in the mining services space that should benefit from increased exploration and infrastructure spending from the major mining and energy companies in the next few years, as surging commodity prices boost cash flow and encourage resource companies to replace depleting reserves.

Companies exposed to booming infrastructure markets are poised to benefit over the next few years given the record levels of expenditure by State and Federal Governments in Australia. We expect Downer EDI (ASX: DOW) to perform strongly, with recent asset sales in capital intensive industries providing the business with a strong balance sheet for capital management initiatives or acquisitions. Low interest rates, government support and improved consumer confidence should also benefit the housing market over the next 12 months. We have positioned the portfolio to take advantage of this thematic through building material company Fletcher Building (ASX: FBU) and mortgage aggregator Australian Finance Group (ASX: AFG).

The transition towards online shopping in the retail sector continued to accelerate over the December quarter with a number of companies providing updates that beat market expectations. Despite this, the sector underperformed through the period as investors chose to rotate away from the stay-at-home beneficiaries to companies that were well placed to benefit from the development of a vaccine. While we have reduced our exposure to a number of companies within the retail sector, we remain positive in our outlook. This reflects limited domestic and overseas travel over the next 12 months (exemplified by the recent border closures over the summer holiday period), limited discounting and the recent rise in the Australian dollar.

While the tourism sector remains compelling in our long-term view, we reduced our exposure to companies such as Flight Centre (ASX: FLT), Corporate Travel (ASX: CTD) and Sealink (ASX: SLK) through the period. We expect the recent lockdown and state border closures to impact demand for domestic travel in the short term which may push out predictions of a recovery. We do expect a higher level of discretionary expenditure to be directed to the tourism sector once the vaccine is successfully rolled out.

Detractors for the quarter included Pushpay (ASX: PPH) which saw a slowing of new business at its half year result and had a series of insider sell downs which impacted sentiment towards the company and we have since exited our position. Despite strong quarterly numbers which beat expectations, Temple & Webster (ASX: TPW) underperformed through the period due to investor sentiment shifting towards cyclical companies that would benefit from a successful rollout of a vaccine. We remain positive on Temple & Webster and believe the structural shift towards online shopping and a booming housing market will allow the company to continue to expand market share.

WAM Capital investment team update

In November 2020, Cooper Rogers was promoted to Senior Equities Dealer and we recently welcomed Will Thompson as an Assistant Dealer. Prior to joining Wilson Asset Management, Will worked for three years at Terra Capital.

FY2021 Interim Results Webinar

Please join us for our [FY2021 Interim Results Webinar](#) on Tuesday 2 February 2021 at 2:30pm (Sydney time).

WAM Capital top holdings

as at 31 December 2020

Research driven holdings

Code	Company	%
CDA	Codan Limited	2.6%
IFM	Infomedia Limited	1.9%
BWX	BWX Limited	1.8%
FBU	Fletcher Building Limited	1.7%
ELD	Elders Limited	1.7%
SLK	SeaLink Travel Group Limited	1.6%
BAP	Bapcor Limited	1.6%
VEA	Viva Energy Group Limited	1.5%
UMG	United Malt Group Limited	1.5%
BRG	Breville Group Limited	1.5%

Market driven holdings

CIE	Contango Income Generator Limited	4.7%
AUI	Australian United Investment Company Limited	3.1%
TGG	Templeton Global Growth Fund Limited	2.6%
INA	Ingenia Communities Group	2.4%
CLF	Concentrated Leaders Fund Limited	2.1%
RHC	Ramsay Health Care Limited	2.0%
SGR	The Star Entertainment Group Limited	1.9%
PIA	Pengana International Equities Limited	1.8%
DOW	Downer EDI Limited	1.7%
PDL	Pendal Group Limited	1.5%

Sector allocation



- Financials: 24.0%
- Consumer discretionary: 21.0%
- Industrials: 10.9%
- Consumer staples: 8.5%
- Information technology: 7.6%
- Health care: 6.2%
- Materials: 5.6%
- Communication services: 5.1%
- Energy: 2.5%
- Real estate: 2.5%
- Cash: 6.1%

Performance overview

During the December 2020 quarter, WAM Capital's investment portfolio increased 10.2%, while the S&P/ASX All Ordinaries Accumulation Index rose 14.4%. Since inception in Aug 1999, the investment portfolio has increased 16.4% per annum, outperforming the Index by 8.1% per annum.

Market capitalisation

\$1,697.5m*

Gross assets

\$1,366.9m

Listed equities

\$1,285.3m

Dividends paid since inception

(per share)

254.0c

Annualised fully franked interim dividend

15.5c

Annualised fully franked interim dividend yield

7.0%*

Profits reserve

20.0cps

*Based on the 31 December 2020 share price of \$2.23 per share and the annualised FY2021 fully franked interim dividend of 15.5 cents per share. WAM Capital has 761,209,488 shares on issue.

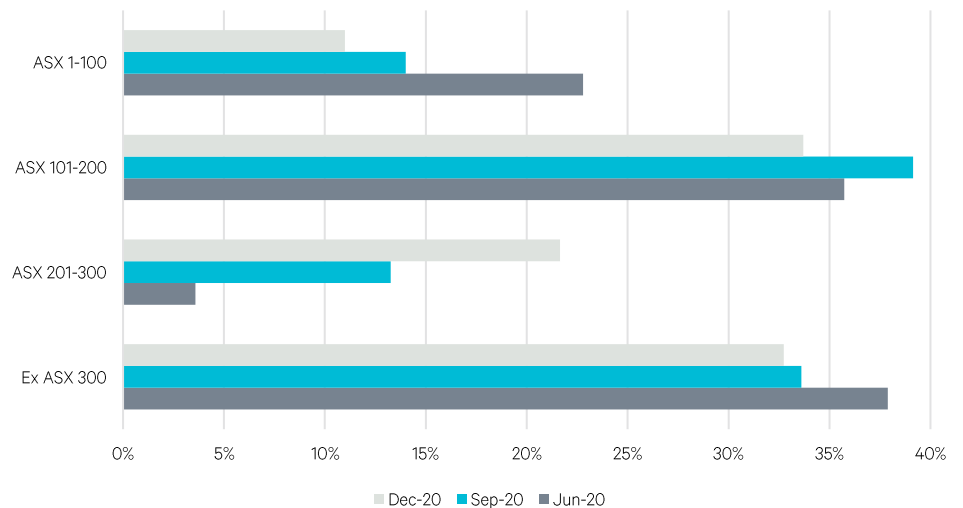
Performance

as at 31 December 2020

	3 mths	Fin YTD	1 yr	3 yrs %pa	5 yrs %pa	10 yrs %pa	Since inception (Aug-99)
WAM Investment Portfolio [†]	10.2%	22.8%	9.6%	8.2%	10.3%	12.9%	16.4%
S&P/ASX All Ordinaries Accumulation Index	14.4%	15.7%	3.6%	7.4%	9.3%	7.9%	8.3%
Outperformance	(4.2%)	+7.1%	+6.0%	+0.8%	+1.0%	+5.0%	+8.1%
S&P/ASX Small Ordinaries Accumulation Index	13.8%	20.3%	9.2%	6.6%	10.5%	3.8%	5.8%
Outperformance	(3.6%)	+2.5%	+0.4%	+1.6%	(0.2%)	+9.1%	+10.6%

[†]Investment portfolio performance and index returns are before expenses, fees and taxes.

Equity portfolio composition by market capitalisation



History of fully franked dividends

Cents per share



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