

2020 December Quarter

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Portfolio update

Distortions from extraordinary policy.

The unprecedented global fiscal and monetary policy implemented during 2020 has inevitably led to extreme valuations. With business activity still depressed in the first quarter of FY2021, and equities still the preferred relative asset class, investors were drawn to high risk areas of the market, such as technology, growth and small-cap stocks. As such, the first quarter can be summarised as one of 'excesses'.

In the December quarter, the WAM Leaders investment portfolio was positioned with high conviction for a rotation away from these excesses seen in the market. In our view, there was a clear path back to a normal environment and companies that were leveraged towards economic activity would benefit from this reversion. While equity market gyrations between 'coronavirus beneficiaries' and the 'reopening trade' continued to create noise on a daily basis, ongoing positive vaccine developments accelerated the overall shift in sentiment towards companies in the latter.

We positioned for this rotation by holding companies that had suffered the most from both the economic shock and distortive policy interventions, but remained with sound business models which would likely return to stronger profitability following a resetting of cost bases. These include sectors such as financials, insurers, energy, and consumer discretionary. In November, we positioned the portfolio to take advantage of the rotation towards base metals and oil companies. Australia's second largest oil and gas producer, Santos (ASX: STO) performed strongly, driven by oil prices reaching an eight month high in late November amid a weakening US dollar, a surprise decline in US crude supplies and positive coronavirus vaccine news.

We have continued this positioning and have built further conviction in financial institutions and base metals, slowly moving away from the bulk materials such as iron ore.

In the current environment, despite seemingly stretched valuations, conditions remain supportive of equities.

However, when the liquidity impulse wanes, policymakers will be placed in the difficult position of managing a spike in inflation with nominal rates rising and a bear steepening of the yield curve.

While impossible to predict the timing, we expect the adjustment phase will commence mid-year and will closely monitor all indicators.

Financials will benefit from a shift away from emergency policy settings for two main reasons. Firstly, when interest rates increase, interest income will increase from their replicating portfolios. Secondly, a rising interest rate environment will result in expanding spreads between interest paid for deposits and interest earned on borrowings. In our view, the Australian banks are overcapitalised for this point in the cycle, which will likely lead to capital management over the medium term.

Energy is a sector that will benefit from increased activity and mobility. In a successful defensive measure to protect oil prices, while we are still approximately 10 million barrels per day (mmbd), or approximately 10%, below pre-coronavirus demand levels, equilibrium has been achieved through significant supply cuts from the Organisation of the Petroleum Exporting Countries (OPEC) members and allies (OPEC+). These artificially low supply levels have extended into 2021, and we expect upward pressure on oil prices if OPEC+ manage a slow and controlled release of supply concurrently with activity and mobility recovering.

While our current portfolio positioning has led to outperformance over the last quarter, we are still a long way from 'normal' policy settings. We are confident that our contrarian view on this trade will drive further outperformance for the WAM Leaders investment portfolio over the coming months.

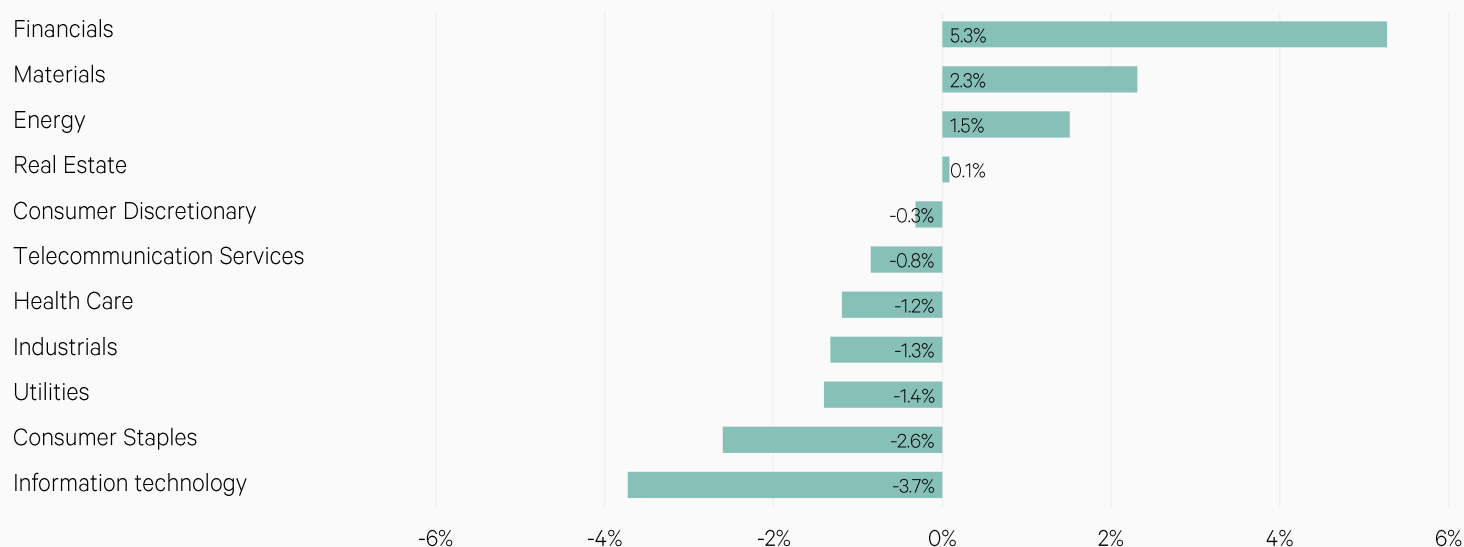
WAM Leaders investment team update

In November, we welcomed Anna Milne to the WAM Leaders team as an Equity Analyst. Anna has more than four years' experience in financial markets. Prior to joining Wilson Asset Management, Anna was a sell-side equity research analyst at UBS, Credit Suisse and Jarden.

FY2021 Interim Results Webinar

In case you missed it, you can listen to a recording of our [FY2021 Interim Results Webinar](#).

Active sector weights



WAM Leaders top 10 holdings – Active weights

as at 31 December 2020

Code	Company	Portfolio %	Benchmark %	Active %
IAG	Insurance Australia Group Limited	6.3%	0.6%	5.7%
NAB	National Australia Bank Limited	8.0%	4.0%	4.0%
SCG	Scentre Group	3.5%	0.8%	2.7%
SGR	The Star Entertainment Group Limited	2.4%	0.2%	2.3%
QBE	QBE Insurance Group Limited	2.8%	0.7%	2.2%
S32	South32 Limited	2.5%	0.7%	1.8%
STO	Santos Limited	2.3%	0.6%	1.7%
QAN	Qantas Airways Limited	1.7%	0.5%	1.2%
OZL	OZ Minerals Limited	1.5%	0.3%	1.2%
IGO	IGO Limited	1.4%	0.2%	1.2%

Market capitalisation

\$1,137.1m*

Dividends paid since inception (per share)

20.2c

Gross assets

\$1,098.2m

Annualised fully franked interim dividend guidance yield

5.1%*

Listed equities

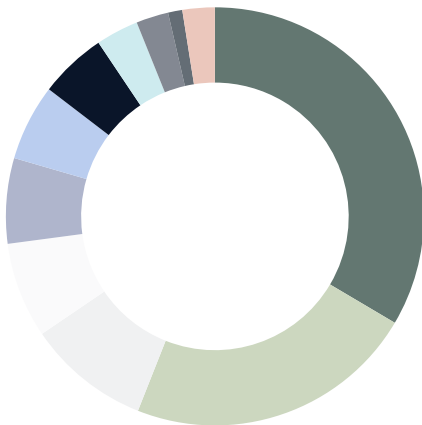
\$1,070.5m

Profits reserve

24.3cps

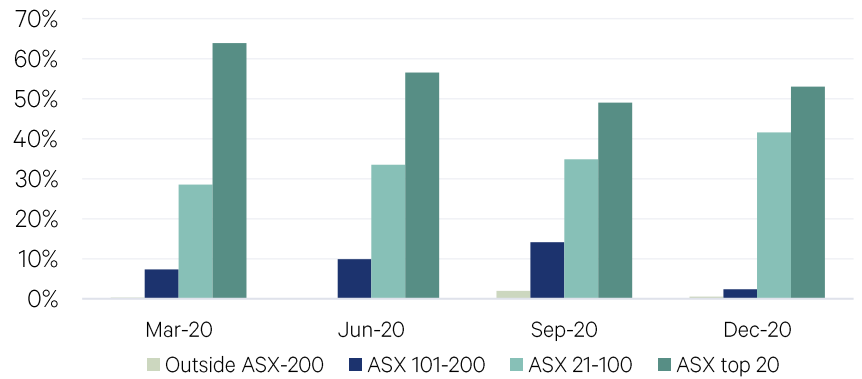
*Based on the 31 December 2020 share price of \$1.36 per share and the annualised FY2021 fully franked interim dividend guidance of 7.0 cents per share. WAM Leaders has 836,115,185 shares on issue.

Sector allocation

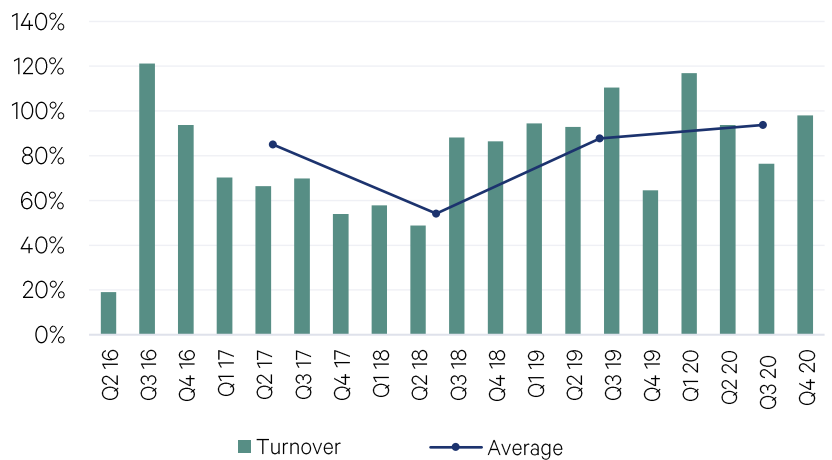


- Financials: 33.5%
- Materials: 22.5%
- Health care: 9.5%
- Consumer discretionary: 7.4%
- Real estate: 6.6%
- Industrials: 5.9%
- Energy: 5.2%
- Consumer staples: 3.3%
- Communication services: 2.5%
- Information technology: 1.1%
- Cash: 2.5%

Equity portfolio composition by market capitalisation



Quarterly portfolio turnover



Performance

as at 31 December 2020

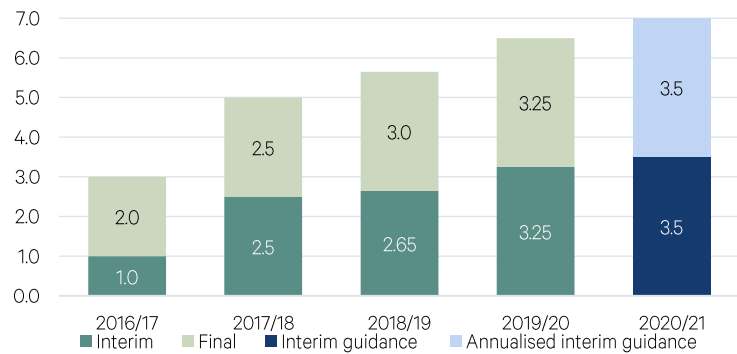
	3 mths	Fin YTD	1 yr	3 yrs %pa	Since inception %pa (May-16)
WLE Investment Portfolio [^]	17.0%	17.1%	12.7%	12.0%	12.8%
S&P/ASX 200 Accumulation Index	13.7%	13.2%	1.4%	6.7%	8.7%
Outperformance	+3.3%	+3.9%	+11.3%	+5.3%	+4.1%

Performance overview

During the December 2020 quarter, WAM Leaders' investment portfolio increase 17.0%, outperforming the S&P/ASX 200 Accumulation Index by 3.3%. Since inception in May 2016, the investment portfolio has increased 12.8% per annum, outperforming the Index by 4.1% per annum.

History of fully franked dividend

Cents per share



Investment portfolio performance and index returns are before expenses, tees and taxes.

Contact us

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