



Product Review

WAM Leaders Limited

ISSUE DATE 10-08-2020

About this Review

ASSET CLASS REVIEWED	AUSTRALIAN EQUITIES
SECTOR REVIEWED	AUSTRALIAN LARGE CAP
SUB SECTOR REVIEWED	LIC
TOTAL COMPANIES RATED	10

About this Company

LIC REVIEWED	WAM LEADERS LIMITED
ASX CODE	WLE
ASX LISTING DATE	30 MAY 2016
COMPANY OBJECTIVE	SUMMARY: DELIVER FULLY FRANKED DIVIDENDS, CAPITAL GROWTH OVER MID-TO-LONG TERM & CAPITAL PRESERVATION.
MANAGEMENT COSTS	1.11% P.A.
PERFORMANCE FEE	20% (OF INDEX O/P WITH HWM)

Market data

MARKET CAPITALISATION	\$1000M
SHARES ON ISSUE	865M
SHARE PRICE (7-8-2020)	\$1.16
52 WEEK HIGH/LOW SHARE PRICE	\$1.32 / \$0.79
NTA (30-6-2020)	\$1.18
52 WEEK HIGH/LOW NTA	\$1.33 / \$1.03
SHARE PRICE PREM/(DISC) TO NTA	-1.79%

Board of Directors

NO. OF DIRECTORS	5
MAJORITY INDEPENDENT DIRECTORS	YES
CHAIRPERSON	GEOFF WILSON

About the Investment Manager

INVESTMENT MANAGER	MAM PTY LIMITED
OWNERSHIP	PRIVATELY-HELD
ASSETS MANAGED IN THIS SECTOR	C. AS3BN
YEARS MANAGING THIS ASSET CLASS	23

Investment Team

PORTFOLIO MANAGER	MATTHEW HAUPT & JOHN AYOUB
INVESTMENT TEAM SIZE	2
INVESTMENT TEAM TURNOVER	NONE
STRUCTURE / LOCATION	BLEND PM/ANALYST CO-LOCATED IN SYDNEY

Investment process

STYLE	STYLE AGNOSTIC (MOMENTUM TILT)
MARKET CAPITALISATION BIAS	LARGE
BENCHMARK	S&P/ASX 200 ACCUMULATION INDEX
TYPICAL NUMBER OF STOCKS	20-100 (65 TYPICAL)
STOCK LIMITS	LONG: 20% SHORT: 5%
SECTOR / INDUSTRY LIMITS	NONE
MAX SHORT	50% (MAX 150% GROSS)

Company rating history

AUGUST 2020	RECOMMENDED
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What this Rating means

The 'Recommended' rating indicates that Lonsec has strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered an appropriate entry point to this asset class or strategy.

Scope of this rating

- Lonsec has used its Managed Funds research process in forming an opinion on this Listed Investment Company's (LIC or Company) ability to meet its stated investment objectives. The extent of any 'point-in-time' divergence between WLE's share price and its underlying Net Tangible Asset Value (NTA) per share is not part of the ratings consideration.
- Lonsec does consider whether structural or management issues could potentially lead to a LIC trading at a significant discount to its NTA over an extended period of time without any recourse for shareholders. This aspect forms part of the wider qualitative and quantitative assessment that Lonsec undertakes when assessing the relative investment merits of a LIC.

Strengths

- Wilson Asset Management is well-regarded as a specialist listed investment company provider.
- The Company's market cap was c. \$900mn, at time of writing, and has a diverse shareholder base which should be beneficial to liquidity.
- The Company has delivered an increasing stream of dividends which is generally desired for this investor class.
- Despite not being fully reflected in the total shareholder return, the underlying portfolio has delivered strong gross-fees performance over the three years to June 2020.

Weaknesses

- The investment team is small and with lower levels of direct portfolio management experience compared to many large-cap peers with many responsibilities (e.g. research, portfolio management, trading, risk management and marketing).
- The investment process could be better structured and documented when compared to peers which also offer their capabilities to institutions.
- The risk management framework has scope for improvement (e.g. adding dedicated resources).

We strongly recommend that potential investors read the product disclosure statement Lonsec Research Pty Ltd ABN 11 151 658 561 • AFSL No. 421 445 • This information must be read in conjunction with the warning, disclaimer, and disclosure at the end of this document. This report supersedes all prior reports.

ANALYST: RUI FERNANDES | APPROVED BY: SHAILESH JAIN

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Company Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK		●	
CAPITAL VOLATILITY			●
SECURITY LIQUIDITY RISK	●		
SECURITY CONCENTRATION RISK		●	
RELATED PARTY RISK			●
LEVERAGE RISK		●	

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the financial product's asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

BIOmetrics

Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE						●	

A Standard Risk Measure score of 6 equates to a Risk Label of 'High' and an estimated number of negative annual returns over any 20 year period of 4 to less than 6. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY		●	
ESG	●		

Fee profile

	LOW	MODERATE	HIGH
FEES VS. UNIVERSE			●
FEES VS. ASSET CLASS			●
FEES VS. SUB-SECTOR			●

Fee BIOmetrics are a function of expected total fee as a percentage of expected total return.

What is this Company?

- WAM Leaders Limited (WLE) is an ASX-listed closed-end investment vehicle that primarily seeks to invest in large cap (ASX200) Australian stocks. WLE's objectives are to deliver a stream of fully franked dividends; provide capital growth over the medium-to-long term, and; preserve capital. Additionally, and subject to its objectives, WLE aims to maximise total shareholder returns. The underlying investment portfolio of up to 100 stocks is managed with the aim of outperforming the S&P/ASX200 by 3%-5% p.a. over rolling three to five years.

The Structure

- WLE is formally structured as a listed investment company and is governed by a Board of Directors (the Board). Investment management activities have been delegated to a related party in MAM Pty Ltd (the Manager), which forms part of the privately held Wilson Asset Management Group of Companies. The Manager's appointment is subject to an investment management agreement which is summarized in the original prospectus. The original term is for 10 years plus a five-year auto renewal extension.
- The Board is comprised of five individuals, three classed as independent, and is led by Geoff Wilson as Executive Chairman. It has operational responsibilities for the effective functioning of the vehicle. Additionally, and more important from a practical shareholder value perspective, the Board is solely responsible for WLE's capital management decisions. Notably, the Board reconfirmed its

commitment to paying an increasing stream of fully franked dividends when declaring the FY20 fully franked full year dividend. WLE operates a dividend re-investment plan.

- The pricing of 1.11% p.a. (inc. GST) plus a performance fee (20% of ASX200 outperformance) is towards the upper end of long-only strategies although this vehicle has some additional flexibility.

The Investment Strategy

- The investment portfolio is managed by a team of two professionals who are jointly responsible for security research, portfolio construction and implementation. The investment philosophy is broad and self-described as 'style agnostic' which contrasts to the Wilson Group's 'growth' house style. Moreover, while expected to be a primarily long-only strategy, there is flexibility to short which is capped at 50% of the portfolio. Cash can also be used for defensive purposes and has generally ranged between 10% and 20% and is now expected to range between 5-15%. WLE can also hold stakes in other listed investment companies although with these vehicles falling outside the ASX200 these investments are not generally expected to feature as holdings.
- The portfolio is expected to be dynamically managed with turnover guided in the range of 300-400% p.a., albeit this may market dependent. Additionally, the Manager has noted that the turnover is expected to be predominantly related to position re-sizing. Proprietary top-down views can be used to inform portfolio construction but are mainly an important element in focusing attention and directing idea generation.

Using this Company

This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.

- The Company offers a predominantly long-biased, large cap strategy with the potential to 'short' names. The portfolio is not explicitly managed with a definitive style although momentum has been noticeable characteristic. Lonsec considers the Company to be suitable for blending with other Australian equities strategies, including 'benchmark aware' and small-cap products. Additionally, Lonsec believes that investment allocations to Australian equities are appropriate for investors with a time horizon of at least five years.
- The Company is subject to equity market risks and movements (both positive and negative) in the prices of the underlying securities in the portfolio. Investors should, therefore, be aware of, and comfortable with, the potential for the Company to experience periods of negative returns which may result in capital losses being incurred on their investment. As such, the Company will generally sit within the growth component of a diversified investment portfolio.
- The Company can utilise a broad range of strategies including short selling and adjusting the Fund's net equity position to implement its strategy. The use of shorting and the adjustment of net equity levels are undertaken for performance enhancement, risk mitigation and hedging purposes. Lonsec

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recommends that investors consider all the additional risks associated with short positions (including the potential for unlimited losses) prior to investing.

- Despite the large cap focus, investors should be aware that the Company can invest in other LICs as part of its special situations flexibility.

Suggested Lonsec risk profile suitability

SECURE DEFENSIVE CONSERVATIVE BALANCED GROWTH HIGH GROWTH



For guidance on appropriate asset allocations and risk profiles, refer to the latest Lonsec Strategic Asset Allocation Review and Risk Profile Definitions on our website.

Changes Since Previous Lonsec Review

- This is Lonsec's initial review.

Lonsec Opinion of this Company

Board of directors

- The Board is mostly comprised of independent directors (3:2), a positive which is consistent with general good corporate governance principles. That said, the Chair, namely Geoff Wilson, is an executive of the contracted investment manager and the significant majority shareholder of the eponymously named Wilson Asset Management. This structure runs counter to the usual practice of the chair also being independent. Lonsec is understanding Wilson's philosophy, wanting a strong chair with an intrinsic long-term focus to navigate challenging markets, although is mindful that this can potentially stymie legitimate shareholder interventions.
- Wilson is a strong advocate for listed investment structures and has deep experience in this space. His leadership of the Board is viewed as a relative strength, particularly in building shareholder support and loyalty which are critical elements in helping minimise the gap between the market price and underlying asset values.
- The main Board is only supported by one delegated committee in the Audit Committee which is seen as appropriate. Moreover, given WLE's relatively uncomplicated operations, the absence of a remuneration/nomination committee is not viewed as a negative. Lonsec considers the remuneration arrangements for the Board to be reasonable, especially considering the overall cap of \$90,000 for the five.
- Critically, Lonsec considers that WLE is stewarded by a Board with deep and, most importantly, relevant experience with investment markets. Setting aside Wilson and Kate Thorley who are executives in the Wilson Asset Management, the remaining three independent directors have strong domain experience in either managing investment businesses, providing investment banking services or investment consulting. Lonsec considers WLE's Board composition to be a strength and enough to effectively counterbalance to the non-independent chair.
- The Board has been largely stable since WLE floated in 2016 with only two changes: departure of Chris Stott (former Wilson Asset Management CIO) at the end of CY18 and the addition of Ross Finley during FY19. Finley's appointment has a notable backstory,

joining after WLE completed the acquisition of Century Australia Investments Limited (CYA). Prior to launching WLE, Wilson Asset Management had intended to acquire and use the CYA shell.

People and resources - Investment manager

- Wilson Asset Management is regarded as a listed vehicle specialist and with over A\$3bn in AUM across six listed investment companies is seen as well placed from a business perspective. The Group is also considered to be particularly strong with regards to shareholder support and communications. This marketing and sales function is often less well executed at non-specialist providers and is important in keeping a diverse shareholder base well-informed.
- Geoff Wilson leads the investment team as CIO although the role is best described as being more about guidance and support to the individual Australian equities franchises. Lonsec considers his deep experience to be particularly valuable. Wilson is the Chair of WLE, as noted earlier, as well as serving in this capacity for the other listed vehicles offered by Wilson Asset Management as well as other directorships outside the Group. Lonsec is mindful of Wilson's workload and will continue to test this in future reviews.
- Matthew Haupt and John Ayoub comprise the responsible investment team responsible with each having blended research and portfolio management responsibilities. This large cap capability was founded by Haupt who identified a gap in Wilson Asset Management's product offering and recruited Ayoub as support. Lonsec considers both professionals to have solid finance industry experience although, in both absolute and peer relative terms, their buy-side equities research and portfolio management is low albeit considered satisfactory.
- Wilson Asset Management has several capabilities across the cap spectrum in Australian equities (micro and small cap) and while they operate separately from each other but also in different market segments, there is the opportunity to share information. Lonsec sees this resourcing as valuable more in terms of market perspective and colour although less relevant in a day-to-day management. The aggregate team has been broadly stable with only the departures of Chris Stott (2018) and Martin Hickson (2019), both were however senior leaders in the business.
- The team's alignment with investors is considered reasonable albeit lagging many peers. While there is a bonus scheme in place as normally expected, bonuses are dependent on the aggregate business performance albeit with a discretionary aspect that can be applied by the CIO. This is reasonable from a whole of business perspective but can risk in individuals not feeling fully rewarded and open to offers to join other organisations. By contrast, better regarded remuneration structures, where equity participation is curtailed as with Wilson Asset Management, provide more direct correlation between performance earnings in a product and a team's bonus. For instance, either a proportion of the performance fees or profit from the product itself is made available to the team. Moreover, the

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overall structure could be further strengthened by introducing a vesting schedule to bonus payments. Lonsec however notes the noteworthy personal investment of the two team members in the vehicle itself.

Research and portfolio construction

- The overall investment process is dynamic and considered less structured than larger and well-established institutional peers although reasonable and consistent with approach adopted by the team. Macro plays an important part in framing the investment landscape and helping to narrow the opportunity set for bottom-up stock research as well as a catalyst to enter a name on macro / thematic grounds. The use of macro is considered a pragmatic solution to compete with larger investment teams in addition to differentiating the investment strategy.
- The strategy has broad constraints which includes the ability to short. This is broadly in line with WLE's capital preservation objective albeit that there is no requirement for shorts to be risk driven but can be alpha seeking. Shorting has played a limited role in the strategy which Lonsec views positively given this is generally viewed as a specialised skill. However, there is the potential for this to increase in prominence dependent on market conditions.
- The investment philosophy is broad and less defined relative to peers. The team applies a self-described style agnostic approach and portfolio style analysis supports this with no fixed 'value' or 'growth' bias identified. That said, Lonsec has observed the portfolio tending to exhibit notable beta and momentum tilts relative to the index. Momentum is notable and consistent with the team's generally short holding periods and more dynamic approach to sizing opportunities. Notably the team has been successful with this approach to date, spanning a range of difficult market environments.
- Aside from the greater risk of compounding investment losses when poorly executed, higher momentum strategies can have higher trading costs and increased tax burdens. WLE's company structure helps shield shareholders from the tax consequences of the underlying portfolio being turned over at an elevated rate (i.e. capital gains are not passed through unlike with unlisted trusts). Returns can also be eroded through higher trading / transaction costs. Importantly, data supplied to Lonsec suggests that WLE's average brokerage has been trending lower.
- The investment team uses a range of quantitative screens when searching for opportunities however prior experience, discussions with companies themselves and macro considerations (e.g. which sector is better positioned) are explained as the main drivers. This is broadly comparable to peers however there is a greater reliance on macro and top-down views is seen as a differentiating feature.
- The extent of fundamental research depends on a stock's classification as either a research or market driven idea, respectively at weights of 1-3% and <1% each. 'Research' ideas will have the usually expected mix of company notes, valuation models and regular contacts. 'Macro' and 'market' ideas meanwhile are more opportunistic and time dependent with a less rigorous due diligence process and is generally

consistent with the flexible investment philosophy applied in WLE's management. Importantly, deeper research would be carried out should a name graduate to a core holding.

- Nevertheless, there is scope for improvement such as introducing some standardisation to the research output as well as formally tracking the success (or otherwise) of the reasoning for initiating an investment.
- Portfolio construction decisions are by convention consensus-based although either portfolio manager can act on the portfolio. Given the team comprises only the two portfolio managers, Lonsec considers it critical that both individuals discuss views and share a common vision for the portfolio's direction. It is expected that unilateral decisions will be limited to time critical decisions and contact is not possible which is reasonable.
- The sizing of market ideas will also be more constrained to manage stock specific risks. Lonsec considers this to be an important and pragmatic means to ensure the longevity of the strategy. That said, there is no aggregate portfolio limit to macro or market ideas and there is the potential for the whole strategy to comprise these ideas albeit in practice this is not expected.
- Additionally, implementation is the responsibility of the portfolio managers. This is viewed as being consistent with the number of opportunistic with macro and trading ideas where entry and exit timing and price are particularly important to the success of the investment thesis. The historic practice of the portfolio managers conducting meetings together however can detract from the effectiveness of the implementation programme and underscores that greater resourcing may be needed.
- Wilson Asset Management is well-known as a special situations' player in the Australian market. The strategy, as outlined in the original prospectus, is broad and includes the potential for listed investment company special situations and there was such a position at the time of review, albeit at a de minimus weight. In saying this, and while technically permitted, this exposure appears to be somewhat inconsistent with the team's general large cap ASX200-orientated framework. Lonsec will be watchful for any further similar investments.

ESG integration

- While the Manager has indicated a commitment to ESG, there is little evidence in their public positioning. There is a limited policy framework to support the ESG approach. However, Lonsec assesses the overall level of disclosure with respect to the Manager's proxy voting policies and reporting as being in line with peers.
- Additionally, there was no evidence of ESG integration, and the Manager had no observable approach to the collection or use of ESG data within their investment process. Overall, Lonsec considers the ESG integration within this product to be low relative to peers.

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Risk management

- Risk systems are considered adequate with Wilson Asset Management using EZE software for order and portfolio management. The risk constraints are broad with only informal sector guidelines (+/- 10%) and stock constraints being absolute (e.g. long positions up to 20% each). The investment team's knowledge of the stocks held, their role in the portfolio and the aggregation of exposures is the risk management mechanism.
- Day-to-day investment risk management forms part of Haupt and Ayoub's portfolio management responsibilities and the framework could be improved with greater separation of duties. By contrast, many peers tend to have dedicated teams (or individuals) who are responsible for this critical function. This separation is important not only from a control perspective but also to ensure the adequacy of resourcing. The additional overlay of Board reporting adds another layer of oversight which is valuable albeit analogous with the executive reporting associated with other structures.

Funds under management

- There has been no capacity limit communicated to Lonsec however there are no immediate concerns with this aspect of the product. WLE uses a closed-end structure and AUM is expected to grow organically mainly through asset price growth. The underlying strategy is also focused on the more liquid segment of the ASX which can accommodate higher AUM levels in any event. Additionally, WLE is Wilson Asset Management's only 'pure play' large cap product reducing the risk of capacity cannibalisation. Wilson Asset Management was responsible for c. A\$3bn in assets as at the end of June 2020.

Performance

- The performance outcomes are complicated given the ASX-listed nature of the product and the potential for the traded share price to differ from the underlying per share net tangible assets. The vehicle has traded at a discount averaging c. 5% since listing with this having extended to 12% as at July 2019 at its deepest point. The discount has tended to have widened during periods of volatility (which is expected), such as in March 2020 when the market wobbled on Covid-19 fears.
- Wilson Asset Management's philosophy is to keep shareholders informed and generate consistent dividend growth with buybacks not generally viewed as favourable. This approach appears to have been effective to date, the average discount through time is seen as reasonable while recognising that premiums/discounts are expected to oscillate.
- In terms of total shareholder return, for the three years to June 2020, WLE delivered 2.94% p.a. which contrasts to the S&P/ASX200's 5.19% p.a. The comparable performance over the one-year period was much stronger however with WLE posting 1.09% whereas the index delivered a loss of 7.68%.
- The underlying portfolio has performed much more strongly, however, although a limitation of listed vehicles is not being able to have this reflected in a

portfolio. The portfolio, before fees, returned 10.3% p.a. and 2.7% respectively for the same three- and one-year periods. This strong performance has allowed the Board to increase the FY20 fully franked full year dividend by 15% on FY19.

Overall

- Lonsec has initiated research on the Company with a "Recommended" rating. WLE is supported by the Wilson Asset Management Group which is a well-regarded specialist listed investment company provider. The Board has a majority of independents despite the Chair being an executive and significant majority owner of the underlying manager. The trading performance relative to NTA has been reasonable with a c. 5% discount though time (dipping to as much as 12% in July 2019) supported by a well-considered strategy of growing dividends. The investment team of two is small but adequate for the investment process albeit additional resourcing would be welcomed. The philosophy is flexible and has been successful to date with strong portfolio returns. The risk management framework could be improved and the process overall lacks some structure.

People and Resources

Corporate overview

The Wilson Asset Management Group of companies is responsible for the management of the Company's assets. The Group was founded in 1997 and is privately-held with AuM of A\$3bn as at June 2020. It specialises in offering equities strategies, mainly Australian equities, through listed investment company structures. MAM Pty Ltd forms part of the Group.

Key events

2019	WLE ACQUIRES CENTURY INVESTMENTS AUSTRALIA LIMITED (CYA)
2017	WLE OPTIONS EXPIRE
2016	WLE IS LISTED

Size and experience - Board of directors

NAME	POSITION	YEAR JOINED
GEOFF WILSON	EXECUTIVE CHAIRMAN	2016
KATE THORLEY*	EXECUTIVE DIRECTOR	2016
MELINDA SNOWDEN**	INDEPENDENT DIRECTOR	2016
LINDSAY MANN*	INDEPENDENT DIRECTOR	2016
ROSS FINLEY*	INDEPENDENT DIRECTOR	2019

* Member of Audit Committee. | **Chair of Audit Committee.

Geoff Wilson, Executive Chair, founded and owns Wilson Asset Management where he serves as CIO. Wilson boasts over 39 years of industry experience and is a strong believer in the listed investment company structure. He brings deep and relevant financial markets experience to the Board and most importantly a strong understanding of the idiosyncrasies of LICs.

Kate Thorley has business and operational experience which is particularly value in the management of a

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listed vehicle. Thorley has over 20 years' accounting/governance experience of which 14 gained at Wilson Asset Management. She currently serves as CEO of the Group

Melinda Snowden's executive career was as an investment banker for over 25 years and as such has strong experience with capital markets. Snowden has served on ASX-listed company boards since 2007. Most pertinently for this investment vehicle, Snowden is a director of Mercer Investments (Australia) Limited the institutional asset manager and consultant.

Lindsay Mann has over 40 years' financial services experience. His past responsibilities have included serving as CEO of prominent asset management businesses such as First State Investments (Singapore and Asia Regional Head) and AXA Investment Managers in Hong Kong.

Ross Finley has over 40 years' experience in Australian financial markets, particularly equities and property. He also serves on the Board of Ironbark Capital Limited (ASX: IBC). Finley joined the WLE Board following CYA's acquisition by WLE.

Board remuneration

Board remuneration is capped at \$90,000 and the vast majority is expected to be paid to the independent directors. Directors do not receive bonuses or are issued options on securities for their work with WLE.

Size and experience - Investment team

NAME	POSITION	EXPERIENCE
		INDUSTRY / FIRM
MATTHEW HAUPT	LEAD PORTFOLIO MANAGER	15 / 8
JOHN AYOUB	PORTFOLIO MANAGER	13 / 4

Matthew Haupt and John Ayoub are solely responsible for the management of WLE's investment portfolio. They have blended portfolio management and research responsibilities and no fixed sector coverage.

Haupt originally joined Wilson Asset Management to research small and mid cap stocks. He identified a gap in the Group's offering and was given the opportunity to manage this large cap strategy. His experience before Wilson Asset Management was gained mostly at Australian Executor Trustees (now part of IOOF) contributing to the management of a multi-asset product. Haupt has main ownership of the top-down macro view generation.

Ayoub was recruited to support the management of this capability. While this represents his first buy-side role, Ayoub has gained reasonable experience on the sell-side (equity research, sales and trading as well as in equity capital markets). He was most recently with Credit Suisse and got his start with Ord Minnett.

Investment team remuneration

The remuneration structure comprises salary and bonus components. Salaries are described by Wilson Asset Management as being above average. Bonuses are dependent on the Group's profitability and WLE performance. There is also a significant discretionary component which is applied by the CIO. Bonus are cash settled once declared and there is no vesting or deferral. Investing in WLE is not a requirement of the firm, however both Haput and Ayoub are shareholders.

Research Approach

Overview

RESEARCH PHILOSOPHY	FUNDAMENTAL WITH A MIX OF TOP-DOWN AND BOTTOM-UP
TARGET COMPANY	FLEXIBLE
NO. STOCKS IN UNIVERSE	200
NO. STOCKS FULLY MODELED / RESEARCHED	200
RESEARCH INPUTS	COMPANY VISITS, PROPRIETARY COMPANY RESEARCH AND TOP-DOWN INDUSTRY/MARKET VIEWS
BROKER RESEARCH	IMPORTANT - IDEA GENERATION, SCREENING, ETC.
VALUATION OVERVIEW	PRICE MULTIPLES & IRR WITH A 3-YEAR HORIZON

The research process blends top-down and bottom-up elements. Top-down views, developed by reviewing a range of market sources is used to help narrow the research focus as well as when it comes to portfolio construction. The idea is to target companies that are expected to benefit from tailwinds.

Quantitative screens also feature in idea generation. The team has proprietary screens on data platforms like Bloomberg but also engages the sell-side. The screens are more akin to guardrails as the team seeks to use its experience and company meetings to test and generate new opportunities for research.

Stocks are streamed into 'research', 'macro' or 'market driven' names with corresponding implications to their due diligence. Research names are seen as being longer-term investments and traditional fundamental bottom-up analysis is conducted (e.g. company analysis and financial modelling). Consideration is given to management, the industry dynamics and how a company is positioned and translated into forecasted EPS, growth as well as a valuation outcome. Macro or market driven opportunities are inherently dynamic and the due diligence process centres more on identifying the catalyst and upside potential/downside risk. Macro-based names also rely on the team's corporate knowledge of a name and deeper research will be required before graduating to a core holding.

Company meetings feature as part of the research process and generally attended by both portfolio managers albeit this has reduced through time and as the majority of ASX 200 constituents have been visited jointly. Updates and follow-ups may be conducted individually however prospective new portfolio additions will likely be visited jointly. There is no standardised approach to company notes. Sell-side research (e.g. industry and company specific) may also feature in the assessment phase.

Portfolio Construction

Overview

FUND BENCHMARK	S&P/ASX 200 ACCUMULATION INDEX
INTERNAL RETURN OBJECTIVE	+3-5% P.A. (NET) FOR PORTFOLIO
INTERNAL RISK OBJECTIVE	LOWER BETA TO INDEX
PORTFOLIO MANAGEMENT APPROACH	BENCHMARK UNAWARE
INVESTMENT STYLE	STYLE AGNOSTIC (MOMENTUM TILT)
PORTFOLIO DECISION MAKING	CONSENSUS BETWEEN TWO PMS
STOCK SELECTION	MIX OF BOTTOM-UP AND TOP-DOWN
TOP-DOWN INFLUENCE	IMPORTANT
TYPICAL NUMBER OF HOLDINGS	20-100
MARKET CAPITALISATION BIAS	LARGE
EXPECTED PORTFOLIO TURNOVER	300-400% P.A.
OBSERVED ACTIVE SHARE	NOT SPECIFIED
PORTFOLIO EXPOSURE IN TOP 10 HOLDINGS	42.3% (JUNE 2020)

Portfolio management is generally expected to be by consensus between the two portfolio managers although there is scope for either of them to act unilaterally depending on the circumstance.

Market-driven and/or macro driven names will be sized at up to 1% weights and with positions initiated at between 0.25%-0.50%. These positions are entered into with a one to two month horizon.

Research names will be held for a longer period and are expected to be the largest positions in the portfolio at between 1% to 3%.

There is no fixed minimum when it comes to the upside required before entering a position with this being dependent on the opportunity and the shape of the portfolio. That said, smaller cap names (i.e. outside the ASX100) there is a typical minimum of 15% needed to be interesting.

Portfolio turnover has been guided at 300-400%.

Turnover is expected to be driven by frequent position re-sizing.

The number of names in the portfolio has expanded from the 20-50 level flagged in the original prospectus to a maximum of 100 and a typical 65. The expansion was explained as being market related with stocks viewed as being more expensive than at the time of the IPO in 2016.

Shorting is permitted and has featured as a small exposure at times (c. less than 2%). This may increase in importance and expected to be dependent on prevailing market conditions.

Risk Management

Risk limits

SEPARATE RISK MONITORING	NO
STOCK	LONG: 20% SHORT: 5%
SECTOR	UNCONSTRAINED
CASH	5-15% (10-20% HISTORICALLY)
SHORTING	50% OF PORTFOLIO (MAX GROSS 150%)

The strategy is relatively unconstrained and with few 'hard' constraints.

Risk monitoring

Day-to-day risk management is regarded as a function of portfolio management and a responsibility for the two investors. Separate oversight is provided by the Head of Operations which produces high level monthly risk reports that are provided to the Board. Additionally, the Board will meet with the portfolio managers on a quarterly basis.

The portfolio managers also take care of implementation and execute the stock trades. The order management system has rules coded for pre- and post-trade compliance, otherwise there is no other internal checking.

Risks

Equity market risk

Investments in equity markets are subject to numerous factors which may have an impact on the performance of an investment (both positive and negative). Unexpected changes in economic, technological, structural, regulatory or political conditions can have an impact on the returns of all investments within a particular market.

Concentration risk

The Company is generally invested in 20-100 stocks with no sector constraints. The Manager is expected to build a portfolio that may vary markedly from the benchmark (e.g. concentration risk and/or sector or industry exposures). Accordingly, investors should be mindful of the potential for sharper movements in the market price of these movements.

Listed company risk

The market price of the Company's securities may not correlate exactly to the underlying value of the portfolio as reflected in its monthly NTA backing per share. The securities may trade on the ASX at a discount or a premium to the Company's monthly NTA backing per share.

Related party risk

The Company has service agreements with some related party entities where there is a risk that terms may not be at arm's length.

Leverage risk

The Company is permitted to 'short sell' stocks (i.e. borrow and sell a stock it does not own) as well enter into cash borrowings. Shorting will be limited to 50% of the portfolio with related leverage expected to be no more than 10%.

WAM Leaders Limited

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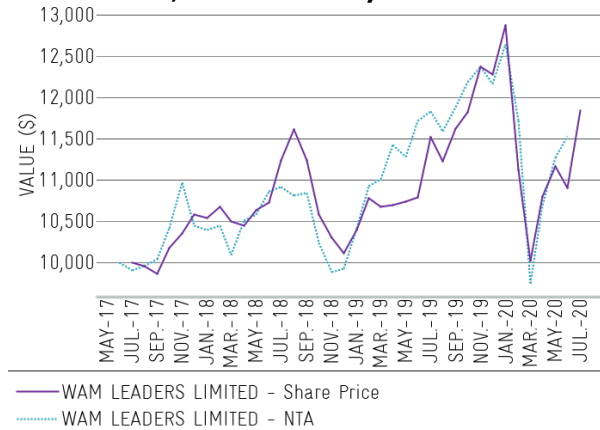
Quantitative Performance Analysis - annualised after-fee % returns (at 31-7-2020)

Performance metrics

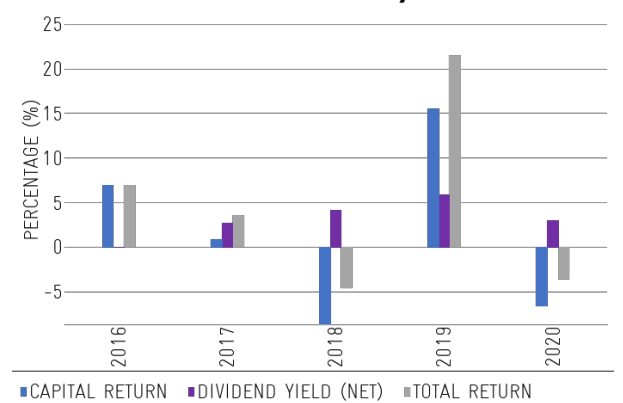
	1 YR	2 YR	3 YR	5 YR
TOTAL RETURN (% PA)	2.75	2.62	5.79	-
STANDARD DEVIATION (% PA)	23.35	18.19	15.23	-
EXCESS RETURN (% PA)	12.61	1.59	0.43	-
WORST DRAWDOWN (%)	-22.18	-22.18	-22.18	-
TIME TO RECOVERY (MTHS)	NR	NR	NR	-
TRACKING ERROR (% PA)	16.18	12.59	10.93	-

FUND: WAM LEADERS LIMITED
 BENCHMARK USED: S&P/ASX 200 TR INDEX AUD
 TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

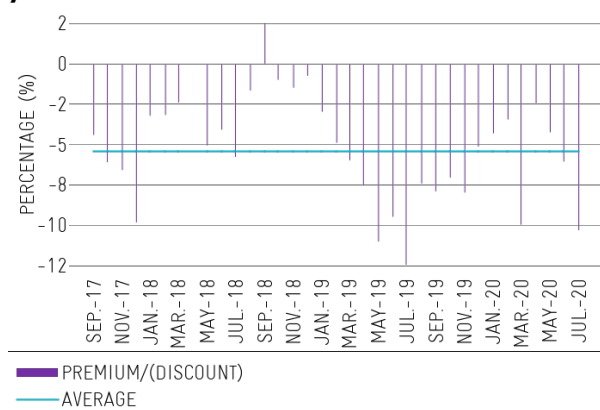
Growth of \$10,000 over three years



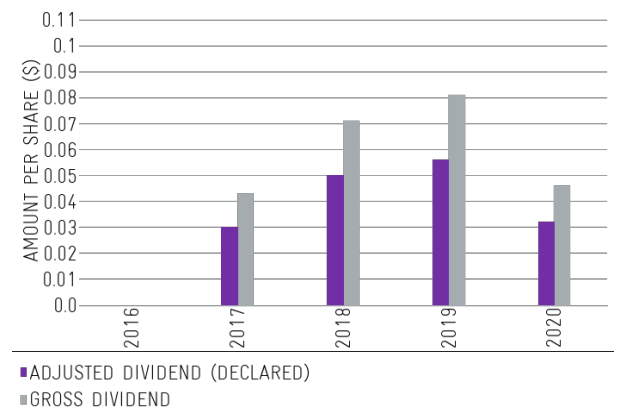
Calendar Year Returns over five years



Share Price Premium/Discount to NTA over three years



Dividend Record over five years



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WAM Leaders Limited

Glossary

[Click here for the glossary of terms.](#)

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