W | A | M Active

Market mispricing opportunities in the Australian market.

ASX: WAA

WAM Active Limited

ABN: 49 126 420 719

2021 September Quarter

Geoff Wilson AO

Chairman & Chief Investment Officer

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Portfolio Manager

Portfolio update

Supply chain disruption combined with increased freight, commodity and wage cost inflation was the major concern for equity markets in the September quarter. Together with the rapid increase of the delta coronavirus variant, this contributed to growing fears about slowing global growth.

The US 10-year bond yields rallied 7 basis points over the quarter to 1.54% as the US Federal Reserve signalled that conditions to taper asset purchases have been "all but met," given confidence around an improving US job market. Half of the Federal Open Market Committee members now expect at least one rate rise in 2022. Meanwhile, a more hawkish rhetoric was also signalled by the Bank of England which announced it would be willing to tighten monetary policy before the end of its existing bond asset repurchase program. Concerns about China and in particular, property developer Evergrande, weighed on global sentiment, while rapidly rising thermal coal and oil prices caused problems for power and utility networks globally.

The Reserve Bank of Australia surprised markets by extending its bond repurchasing program to February 2022. This reflected economic uncertainty as the delta strain prompted a rapid increase in new coronavirus cases within New South Wales and Victoria. Despite the continued ascent of Australian house prices, the Reserve Bank stated that interest rates are unlikely to increase before 2024. Late in the quarter, however, the Australian Prudential Regulation Authority (APRA), tightened its policy settings by increasing the loan serviceability buffer from 2.5% to 3.0%. This means banks must assess new borrowers' ability to meet repayments at rates at least 3% higher than current levels.

Within the Australian equity market, the September quarter was dominated by a rapid reduction in iron ore prices due to concerns about the Chinese housing market and slowing economic growth. This, combined with rising raw material, wage and freight cost inflation, contributed to the August reporting season being weaker than anticipated, with aggregate earnings downgrades of 1.4% for the 2022 financial year. Brent crude oil prices continued to rise over the period, reaching a seven year high of more than USD80 per barrel in September. After a strong June quarter, the technology sector underperformed given concerns about rising long-term bond yields.

The investment portfolio had a strong start to the financial year, generating 2.9% and 1.5% outperformance compared to the S&P/ASX All Ordinaries Accumulation Index and the S&P/ASX Small Ordinaries Accumulation Index respectively. We have continued to position the portfolio away from sectors that had benefited from the coronavirus pandemic and into sectors such as tourism, retail and industrials that had been impacted by the recent lockdowns in New South Wales and Victoria.

We participated in six capital raisings over the September quarter, with an average performance from listing price of 4.4%. We continue to see many opportunities and are taking active trading positions in companies that fit our market-driven investment process. We expect strong corporate activity to continue through the end of the calendar year given record low interest rates.

Pleasingly, we had a strong reporting season led by the tourism sector with companies such as Corporate Travel Management (ASX: CTD) performing well as hotel bookings and airline travel recovered in the United States and Europe.

The construction and building materials industry had a mixed reporting season. Construction companies such as CIMIC Group (ASX: CIM) and Downer EDI (ASX: DOW) saw positive results led by asset divestments, capital management and a stronger than expected outlook. Building material companies such as Adbri (ASX: ABC), however, struggled through the period as lockdowns in Australia and New Zealand impacted results. We remain positive on the sector and have increased our weightings across the portfolio as state borders look to reopen towards the end of the year.

Despite concerns around labour inflation, valuations in the mining services sector look attractive. We see a positive outlook for exploration fuelled by record commodity prices in gold and copper. For these reasons, we have increased our weightings in companies such as ALS (ASX: ALQ). With the removal of stimulus programs such as JobKeeper, we believe the retail sector will struggle to grow over the next two years given the record levels of earnings delivered during the pandemic. However, we do see a strong outlook for offshore retailers such as Premier Investments (ASX: PMV) which should benefit from a reopening of shopping malls and increased mobility.

While we expect volatility to remain high over the course of 2022, we remain constructive on the outlook for equities. Given the sheer volume of economic support we have seen globally, we anticipate a period during which economic data continues to positively surprise. Our expectations for the Australian market remain upbeat with the prospect of double-digit earnings growth over the next 12 months. The announcement of $18 billion of share buybacks and special dividends emphasised the ongoing strength of corporate balance sheets. The portfolio remains positioned towards cyclical sectors that are most likely to benefit from an improving economy. We have also continued to focus on investing in companies offering the most liquidity, with 88% of the portfolio able to be sold within 30 days as at 30 September 2021. We ended the quarter with a cash level of 9.2%.

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Market capitalisation

$78.3m*

Gross assets

$78.0m

Listed equities

$70.8m

Dividends paid since inception

(per share)

77.7c

Fully franked dividend yield

5.6%*

Profits reserve

10.9cps

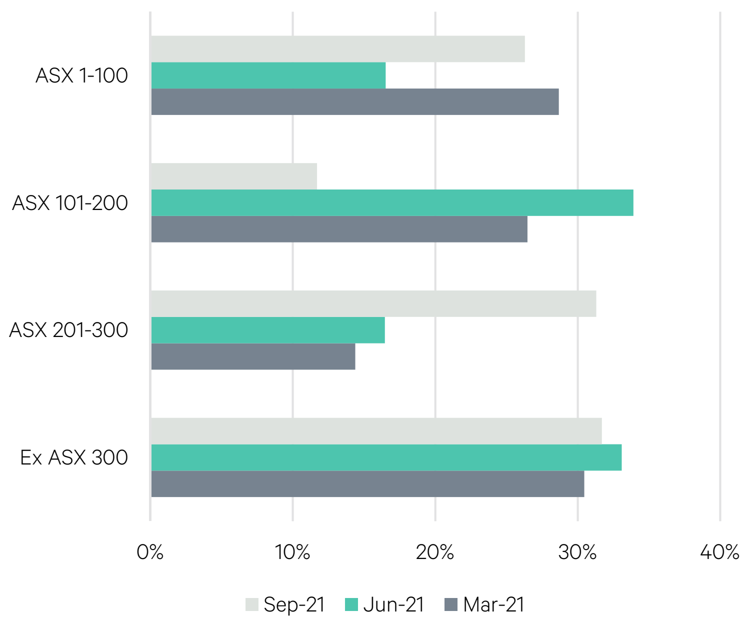
*Based on the 30 September 2021 share price of $1.07 per share and the FY21 fully franked full year dividend of 6.0 cents per share. WAM Active has 73,187,441 shares on issue at 30 September 2021. The above figures are not adjusted for the 67,393,045 options on issue as at 30 September 2021, with an exercise price of $1.10 per option.

WAM Active top 20 holdings

as at 30 September 2021

Code	Company	%
KBC	Keybridge Capital Limited	5.5%
CAR	carsales.com Limited	4.7%
ABC	Adbri Limited	4.3%
ALQ	ALS Limited	4.2%
VUK	Virgin Money UK PLC	3.6%
SHV	Select Harvests Limited	3.6%
CIM	CIMIC Group Limited	3.6%
360	Life360 Inc.	3.3%
ALL	Aristocrat Leisure Limited	3.3%
PGH	Pact Group Holdings Limited	3.1%
TYR	Tyro Payments Limited	2.7%
PXA	PEXA Group Limited	2.6%
PPH	Pushpay Holdings Limited	2.6%
TPG	TPG Telecom Limited	2.5%
DTL	Data#3 Limited	2.4%
TGR	Tassal Group Limited	2.4%
UWL	Uniti Group Limited	2.3%
NWS	News Corporation	2.3%
NAN	Nanosonics Limited	2.2%
SDF	Steadfast Group Limited	2.2%

Equity portfolio composition by market capitalisation



Platforms and research

All major platforms provide access to WAM Active, including AMP North, BT Panorama, Colonial First State FirstWrap, Netwealth, Macquarie Wrap and Hub24. WAM Active receives coverage from the following independent investment research providers:

INDEPENDENT INVESTMENT RESEARCH
Recommended

Zenith INVESTMENT PARTNERS
Approved

BELL POTTER

ORD MINNETT

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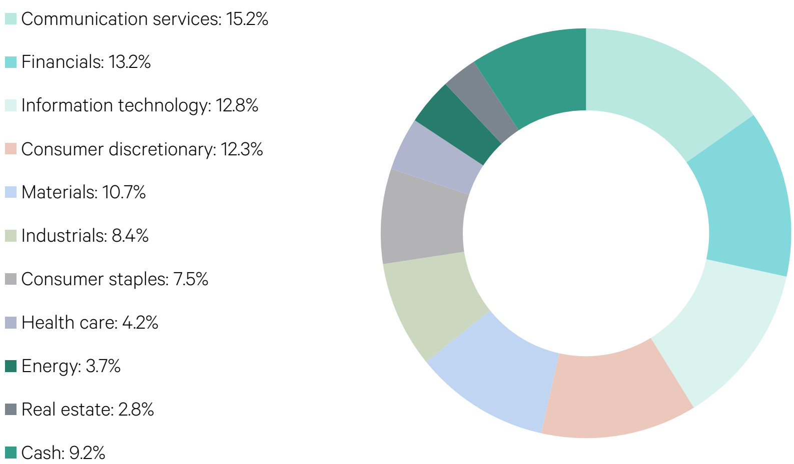
Performance as at 30 September 2021	Fin YTD	6 mths	1 yr	3 yrs %pa	5 yrs %pa	10 yrs %pa	Since inception %pa (Jan-08)
WAA Investment Portfolio^	4.9%	8.1%	22.7%	10.1%	10.9%	12.4%	12.3%
Bloomberg AusBond Bank Bill Index	0.0%	0.0%	0.0%	0.8%	1.2%	2.1%	2.9%
Outperformance	**+4.9%**	**+8.1%**	**+22.7%**	**+9.3%**	**+9.7%**	**+10.3%**	**+9.4%**
S&P/ASX All Ordinaries Accumulation Index	2.0%	10.9%	31.5%	10.4%	10.8%	10.9%	5.6%
Outperformance	**+2.9%**	**-2.8%**	**-8.8%**	**-0.3%**	**+0.1%**	**+1.5%**	**+6.7%**

^Investment portfolio performance is before expenses, fees and taxes to compare to the relevant index which is also before expenses fees and taxes.

Sector allocation



History of fully franked dividends

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