W | A | M Capital
The most compelling undervalued growth opportunities in the Australian market.

ASX: WAM

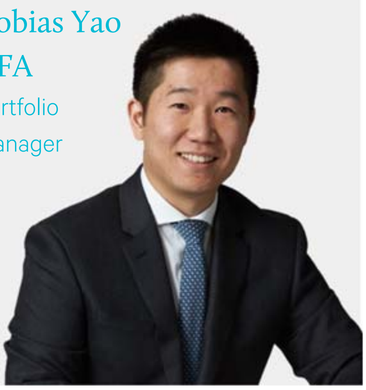
WAM Capital Limited
ABN: 34 086 587 395

2021 September Quarter

Geoff Wilson AO
Chairman & Chief Investment Officer

Oscar Oberg CFA
Lead Portfolio Manager

Tobias Yao CFA
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 (RBA) 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 RBA stated that interest rates are unlikely to increase before 2024. However late in the quarter, 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 that are 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, with the fund generating 4.4% and 3.0% outperformance compared to the S&P/ASX All Ordinaries Accumulation Index and the S&P/ASX Small Ordinaries Accumulation Index respectively during the September quarter. 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. Pleasingly, we had a strong reporting season within the WAM Capital investment portfolio led by the tourism sector with companies such as Webjet (ASX: WEB), EVENT Hospitality & Entertainment (ASX: EVT) and Ardent Leisure Group (ASX: ALG) performing well as hotel bookings and airline travel increased in the US and Europe. Industrial companies such as IPH (ASX: IPH) and Viva Energy Group (ASX: VEA) demonstrated to the market the strength of their balance sheet, and with patent applications and fuel volumes at cyclical lows, both companies saw their share prices strengthen.

The construction and building materials industry had a mixed reporting season. Construction companies 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) and Fletcher Building (ASX: FBU) 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), DDH1 (ASX: DDH) and Imdex (ASX: IMD). 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 retailers such as Accent Group (ASX: AX1) and Universal Store Holdings (ASX: UNI) which should benefit as restrictions ease across the country.

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. Meanwhile, the announcement of $18 billion of share buybacks and special dividends emphasised the ongoing strength of 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 86% of the portfolio able to be sold within 30 days as at 30 September 2021. We ended the quarter with a cash level of 12.5%.

PM Capital Asian Opportunities Fund takeover bid

In September, WAM Capital announced its intention to make a conditional off-market takeover bid for PM Capital Asian Opportunities Fund (ASX: PAF) (**Offer**). Under the Offer, accepting PAF shareholders will receive 1 WAM Capital share for every 1.99 PAF shares they own.

In the event the Break Fee (defined within the announcement) is removed, WAM Capital's intention is to increase its Offer to 1 WAM Capital share for every 1.975 PAF shares.

The scrip consideration issued under the Offer allows WAM Capital Shareholders to benefit from the issuance of shares at a premium to the underlying net tangible assets (NTA), which is accretive to WAM Capital's pre-tax NTA. We look forward to growing WAM Capital to the benefit of all shareholders.

Platforms and research

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

INDEPENDENT INVESTMENT RESEARCH
Recommended+

MORNINGSTAR
Neutral

Zenith INVESTMENT PARTNERS
Approved

ORD MINNETT

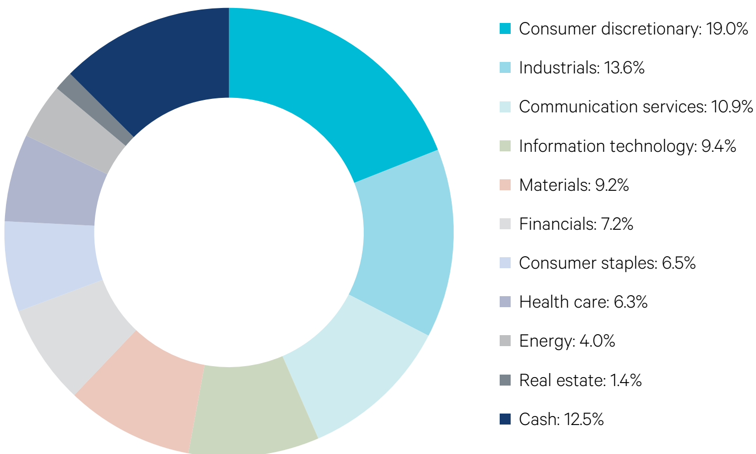
BELL POTTER

WAM Capital top holdings

as at 30 September 2021

Code	Company	%
Research driven holdings		
EVT	EVENT Hospitality & Entertainment Limited	2.4%
MGH	MAAS Group Holdings Limited	2.3%
VEA	Viva Energy Group Limited	2.1%
ACL	Australian Clinical Labs Limited	1.8%
PDL	Pendal Group Limited	1.8%
ALG	Ardent Leisure Group Limited	1.8%
IPH	IPH Limited	1.8%
CDA	Codan Limited	1.7%
CCX	City Chic Collective Limited	1.7%
IEL	IDP Education Limited	1.6%
Market driven holdings		
CAR	carsales.com Limited	2.4%
ABC	Adbri Limited	2.2%
ALQ	ALS Limited	2.1%
VUK	Virgin Money UK PLC	1.8%
SHV	Select Harvests Limited	1.8%
CIM	CIMIC Group Limited	1.8%
ALL	Aristocrat Leisure Limited	1.6%
360	Life360 Inc	1.6%
PGH	Pact Group Holdings Limited	1.5%
TYR	Tyro Payments Limited	1.4%

Sector allocation



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Market capitalisation

$2,081.6m*

Gross assets

$1,768.0m

Listed equities

$1,547.1m

Dividends paid since inception

(per share)

261.75c

Fully franked full year dividend

15.5c

Fully franked full year dividend yield

6.5%*

Profits reserve

28.2cps

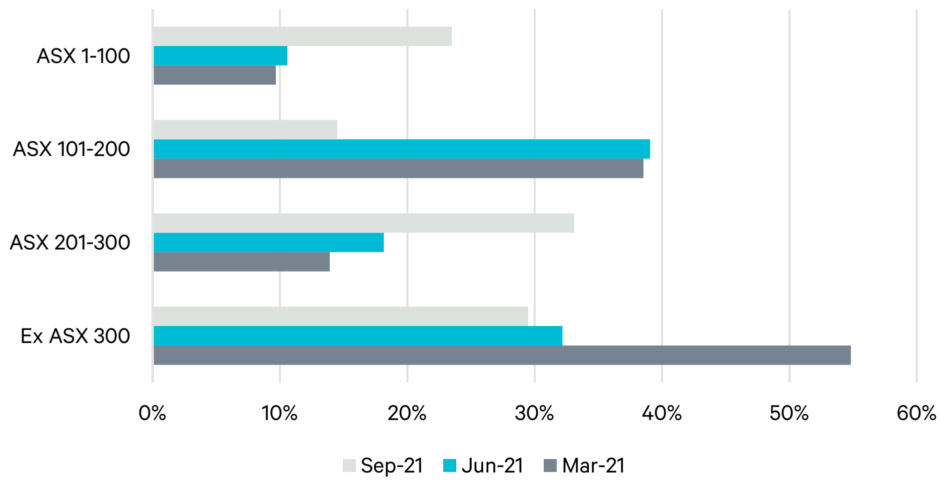
*Based on the 30 September 2021 share price of $2.37 per share and the FY2021 fully franked full year dividend of 15.5 cents per share. WAM Capital has 878,319,194 shares on issue.

Performance

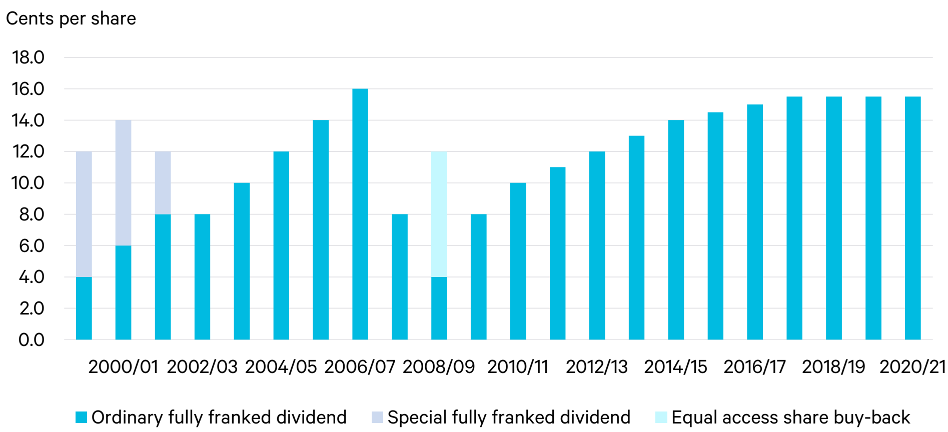
Performance as at 30 September 2021	Fin YTD	6 mths	1 yr	3 yrs %pa	5 yrs %pa	10 yrs %pa	Since inception %pa (Aug-99)
WAM Investment Portfolio^	6.4%	12.2%	31.2%	11.8%	10.8%	15.0%	16.7%
S&P/ASX All Ordinaries Accumulation Index	2.0%	10.9%	31.5%	10.4%	10.8%	10.9%	8.7%
Outperformance	**+4.4%**	**+1.3%**	**-0.3%**	**+1.4%**	**+0.0%**	**+4.1%**	**+8.0%**
S&P/ASX Small Ordinaries Accumulation Index	3.4%	12.2%	30.4%	9.4%	10.2%	7.7%	6.2%
Outperformance	**+3.0%**	**+0.0%**	**+0.8%**	**+2.4%**	**+0.6%**	**+7.3%**	**+10.5%**

^Investment portfolio performance is before expenses, fees, taxes and the impact of capital management initiatives to compare to the relevant index which is before expenses, fees and taxes.

Portfolio composition by market capitalisation



History of fully franked dividends



Contact us

Kate Thorley
Chief Executive Officer
0405 115 644
kate@wilsonassetmanagement.com.au

Oscar Oberg CFA
Lead Portfolio Manager
0401 495 081
oscar@wilsonassetmanagement.com.au

Tobias Yao CFA
Portfolio Manager
0431 127 044
tobias@wilsonassetmanagement.com.au