W|A|M Research

The most compelling undervalued growth opportunities in the Australian market.

ASX: WAX

WAM Research Limited
ABN: 15 100 504 541

2021 September Quarter

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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, generating 6.4% outperformance compared to the S&P/ASX All Ordinaries Accumulation Index 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 Research 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 the strength of their balance sheets to the market and, with patent applications and fuel volumes at cyclical lows, both companies saw their share prices rise.

The construction and building material industry had a mixed reporting season. One of the portfolio's largest holdings, MAAS Group Holdings (ASX: MGH) beat earnings expectations and continues to benefit from a large pipeline of acquisition opportunities in quarry and real estate businesses across Australia. Building material companies such as 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 DDH1 (ASX: DDH) and Imdex (ASX: IMD).

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 79% of the portfolio able to be sold within 30 days as at 30 September 2021. We ended the quarter with a cash level of 10.5%.

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Market capitalisation

$345.6m*

Gross assets

$258.3m

Listed equities

$231.3m

Dividends paid since inception

(per share)

119.05c

Fully franked dividend yield

5.6%*

Profits reserve

48.7cps

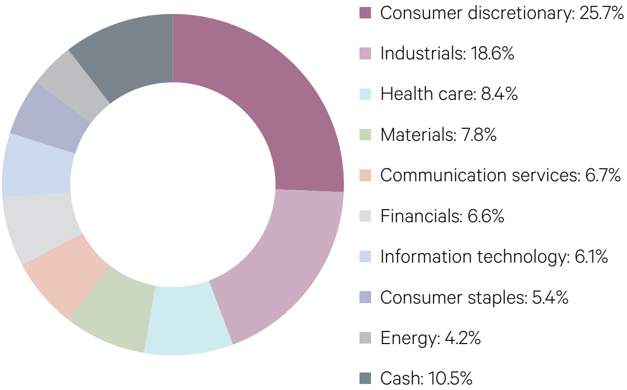
*Based on the 30 September 2021 share price of $1.765 per share and the FY21 fully franked full year dividend of 9.9 cents per share. WAM Research has 195,818,039 shares on issue.

WAM Research top 20 holdings

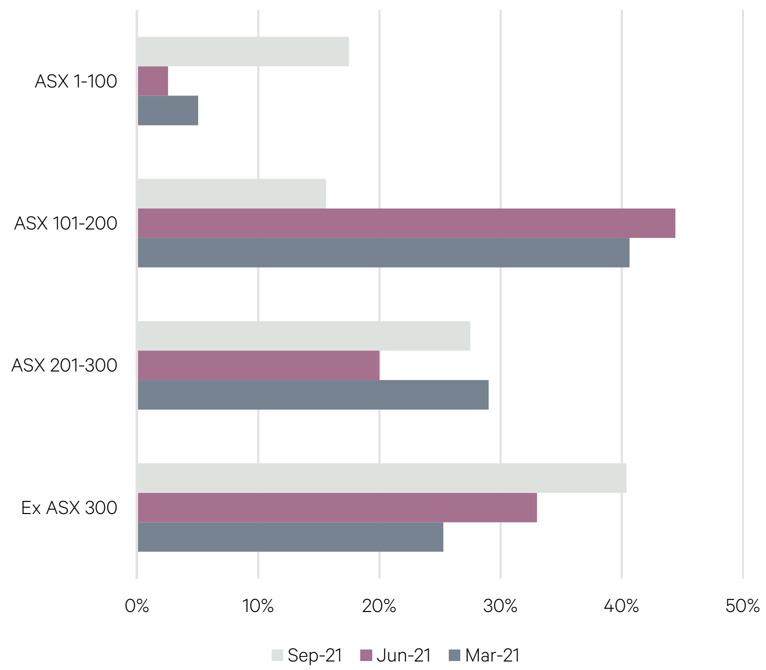
as at 30 September 2021

Code	Company	%
EVT	EVENT Hospitality & Entertainment Limited	4.8%
MGH	MAAS Group Holdings Limited	4.5%
VEA	Viva Energy Group Limited	4.2%
ACL	Australian Clinical Labs Limited	3.7%
PDL	Pendal Group Limited	3.6%
ALG	Ardent Leisure Group Limited	3.6%
IPH	IPH Limited	3.5%
CDA	Codan Limited	3.4%
CCX	City Chic Collective Limited	3.3%
IEL	IDP Education Limited	3.3%
SGF	SG Fleet Group Limited	3.2%
FBU	Fletcher Building Limited	3.1%
IMD	Imdex Limited	3.0%
SLK	SeaLink Travel Group Limited	2.7%
WEB	Webjet Limited	2.5%
VRT	Virtus Health Limited	2.5%
LGL	Lynch Group Holdings Limited	2.3%
EHE	Estia Health Limited	2.2%
UNI	Universal Store Holdings Limited	2.2%
LOV	Lovisa Holdings Limited	2.1%

Sector allocation



Portfolio composition by market capitalisation



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Performance

as at 30 September 2021

	Fin YTD	6 mths	1 yr	3 yrs %pa	5 yrs %pa	7 yrs %pa	Since change in investment strategy %pa (Jul-10)
WAX Investment Portfolio^	8.4%	15.6%	37.3%	13.1%	10.7%	15.5%	16.8%
S&P/ASX All Ordinaries Accumulation Index	2.0%	10.9%	31.5%	10.4%	10.8%	9.6%	9.6%
Outperformance	+6.4%	+4.7%	+5.8%	+2.7%	-0.1%	+5.9%	+7.2%

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

Platforms and research

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

Independent Investment Research — Highly recommended

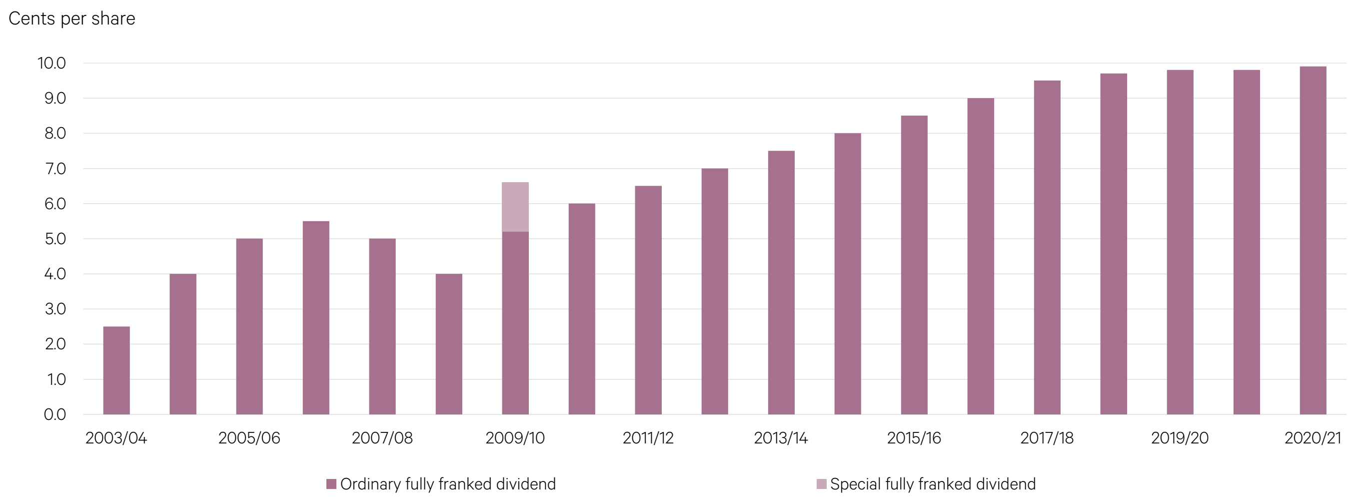
Zenith Investment Partners — Approved

Morningstar — Neutral

Bell Potter

Ord Minnett

History of fully franked dividends



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