W | A | M Leaders

Actively investing in the highest quality Australian companies.

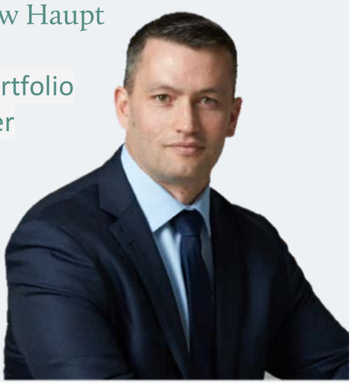
ASX: WLE

WAM Leaders Limited
ABN: 33 611 053 751

2021 September Quarter

Geoff Wilson AO
Chairman & Chief Investment Officer

Matthew Haupt CFA
Lead Portfolio Manager



John Ayoub
Portfolio Manager

Portfolio update

The September quarter tested the resolve of central banks' tolerance for potential weaker economic conditions and the planned tapering and hiking decision priced into forward markets.

We monitored global central bank speeches and press releases very closely over this period. As soon as we saw confirming statements from multiple G20 nations, we knew the path towards tighter policy was firmly in place and adjusted the investment portfolio appropriately. We also gained confidence to invest as equity markets held up despite weaker economic prints as the Delta coronavirus strain impacted global growth.

The September quarter was difficult for Australian economic growth, with Sydney and Melbourne in various levels of lockdowns due to the outbreak and spread of the Delta strain. However, when comparing the impact of the Delta variant to that of the first wave in 2020, the contrast is stark. The 2020 lockdown triggered unprecedented fiscal and monetary policy to stabilise economic shocks, while both governments and central banks have now shifted to "riding the waves" and carefully unwinding these emergency measures as we transition to a vaccinated "new normal".

During the quarter, we positioned for the US Federal Reserve to begin signalling the tapering of its asset purchasing program. This occurred at its most recent meeting, with Chairman Jerome Powell noting the jobs threshold required to justify tapering was "all but met". Despite the spreading Delta variant, the Reserve Bank of Australia (RBA) also continued its tapering path in September, with quantitative easing purchases declining from $5 billion to $4 billion per week. The S&P/ASX 200 Index unwound its July and August gains in September as a result of these tapering talks and the subsequent rise in bond yields. US debt ceiling discussions and the Evergrande crisis in China added further uncertainty.

Key contributors to the investment portfolio performance in the quarter were South32 (ASX: S32), National Australia Bank (ASX: NAB), Oil Search (ASX: OSH), Star Entertainment Group (ASX: SGR), QBE Insurance Group (ASX: QBE) and Santos (ASX: STO).

Looking ahead, the equity asset class remains very attractive given the backdrop, though we expect this will change over the next few quarters. Breaking down the main drivers of equities (the risk-free rate, the equity risk premium and growth levels), we expect all factors will tilt negative. This may not be enough to end the remarkable run we have seen in equity markets, though we expect it will weigh on future returns. It remains to be seen whether the policy support prompted by the Global Financial Crisis and coronavirus crashes can be fully withdrawn, with history suggesting this may be a painful process.

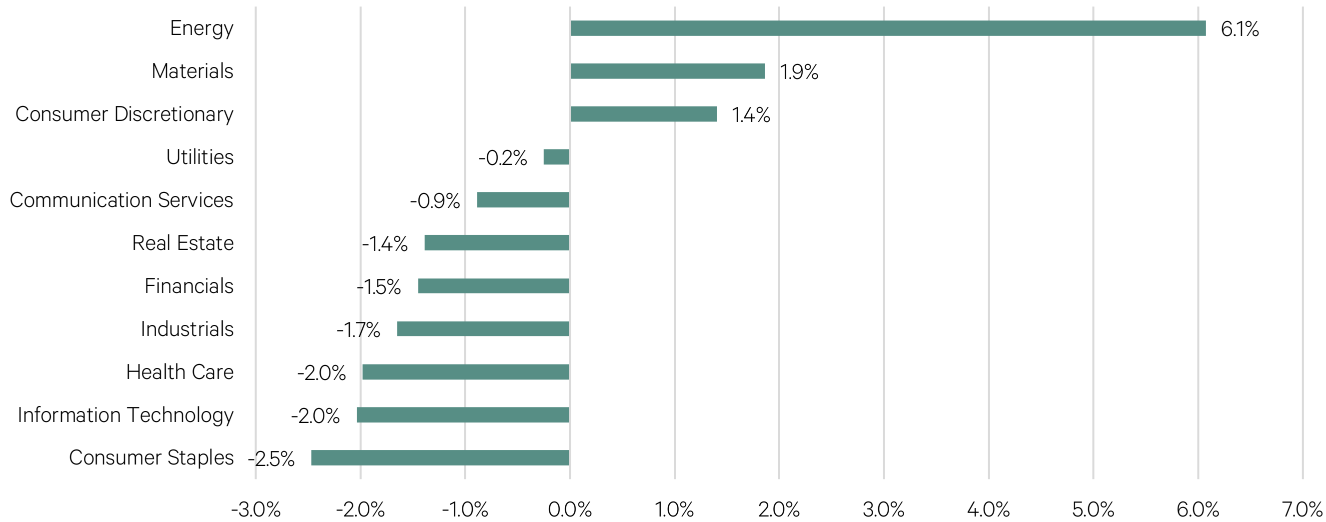
With that in mind, it is crucial to be ready to adjust the portfolio towards a lower rate environment should this be required, and timing will be key. In the meantime, however, we remain positioned for a rising rate environment, a recovering China from its self-induced slowdown, and for strong commodity and energy prices.

We are also focused on fast moving economic indicators and on-the-ground feedback from China. Current policies are forcing property developers to liquidate holdings, pay off debts and raise cash, while passing the liability of any default to bankers, who are therefore less willing to lend to property developers and homebuyers. With the majority of Chinese household wealth in property, we think China will ultimately be forced to reverse these policies to preserve economic and political stability. We have overweight positions in iron ore producers Fortescue Metals Group (ASX: FMG) and BHP Group (ASX: BHP) where we expect material improvements in sentiment as our thesis eventuates. A further deterioration in China's economy would be highly embarrassing for the current government and therefore, we believe there is room for a positive policy response over the next quarter.

We remain overweight in the Energy (top picks Ampol (ASX: ALD) and Santos), Insurance (top picks QBE, Suncorp Group (ASX: SUN) and Insurance Australia Group (ASX: IAG)), Consumer services (top picks Crown Resorts (ASX: CWN) and Aristocrat Leisure (ASX: ALL)) and Materials (top picks BHP Group, South32 and Fortescue Metals Group) sectors. The sectors where we have underweight allocations include technology, healthcare and banks. Our position on technology stocks is based on elevated valuations; healthcare is due to our preference for cyclicals over defensives; and banks given recent outperformance and catalyst realisation.

Major changes in holdings over the quarter included switching from Commonwealth Bank of Australia (ASX: CBA) into Westpac Banking (ASX: WBC) within financials, given relative performance and valuations. We have also built a position in Ampol following the announcement of the Z Energy (NZE: ZEL) takeover proposal where we expect material synergies. We have increased our weight in Crown Resorts, which should benefit from pent up demand profile and trades at parity with its land valuation with no value ascribed to the operating company. New additions to the portfolio include Sydney Airport (ASX: SYD), Woodside Petroleum (ASX: WPL), Origin Energy (ASX: ORG) and Lendlease Group (ASX: LLC), while portfolio exits include ResMed (ASX: RMD), Qube Holdings (ASX: QUB), Wesfarmers (ASX: WES), and WiseTech Global (ASX: WTC).

Active sector weights



WAM Leaders top 10 holdings – Active weights

as at 30 September 2021

Code	Company	Portfolio %	Benchmark %	Active %
NAB	National Australia Bank Limited	8.98%	4.42%	4.56%
CWN	Crown Resorts Limited	4.02%	0.17%	3.86%
ALD	Ampol Limited	3.86%	0.32%	3.54%
QBE	QBE Insurance Group Limited	4.08%	0.83%	3.25%
S32	South32 Limited	3.56%	0.79%	2.77%
STO	Santos Limited	3.16%	0.65%	2.51%
RHC	Ramsay Health Care Limited	2.02%	0.62%	1.40%
CPU	Computershare Limited	1.76%	0.50%	1.26%
IPL	Incitec Pivot Limited	1.50%	0.28%	1.22%
OZL	OZ Minerals Limited	1.49%	0.36%	1.13%

Market capitalisation

$1,560.5m*

Dividends paid since inception

(per share)

23.65c

Gross assets

$1,549.9m

Annualised fully franked interim dividend guidance yield

5.3%*

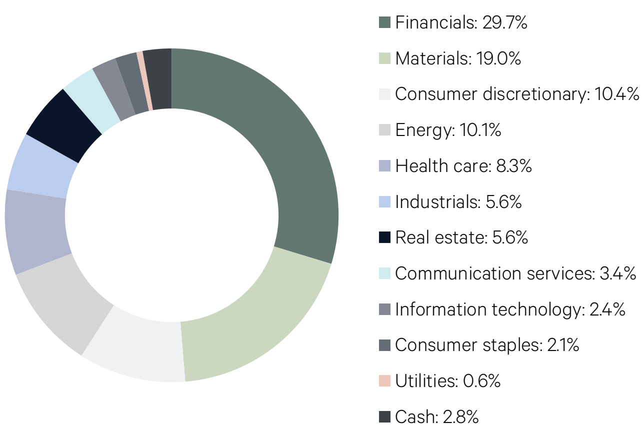
Listed equities

$1,506.4m

Profits reserve

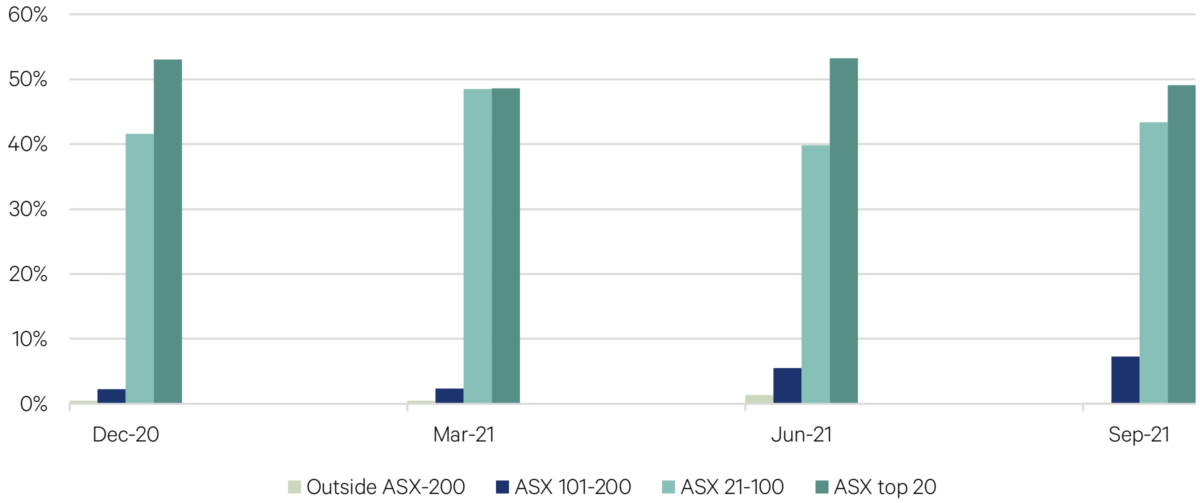
32.8cps

Sector allocation



*Based on the 30 September 2021 share price of $1.515 per share and the annualised FY22 fully franked interim dividend guidance of 8.0 cents per share. WAM Leaders has 1,030,051,858 shares on issue.

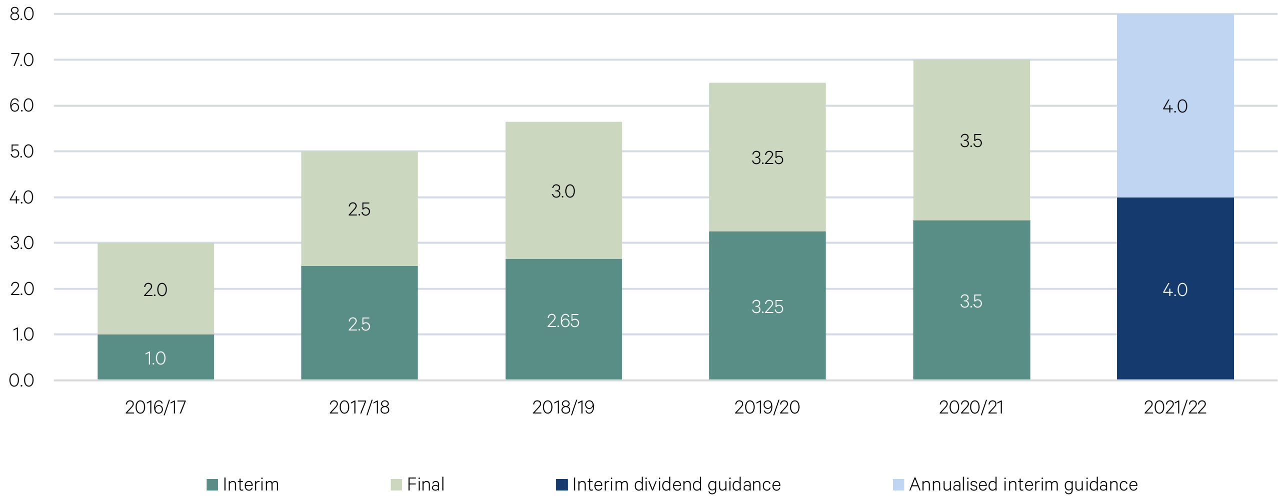
Equity portfolio composition by market capitalisation



Performance as at 30 September 2021	3 mths	6 mths	1 yr	3 yrs %pa	Since inception %pa (May-16)
WLE Investment Portfolio^	5.6%	13.6%	44.6%	17.8%	15.3%
S&P/ASX 200 Accumulation Index	1.7%	10.1%	30.6%	9.7%	10.2%
Outperformance	**+3.9%**	**+3.5%**	**+14.0%**	**+8.1%**	**+5.1%**

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

History of fully franked dividends



Platforms and research

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

Lonsec Recommended

Zenith Investment Partners Recommended

Independent Investment Research Recommended

Ord Minnett

Bell Potter

WAM Leaders Entitlement Offer

The WAM Leaders pro-rata 1 for 5 non-renounceable Entitlement Offer closed on Friday 6 August following strong support from WAM Leaders shareholders. The shares issued under the offer were raised at the 30 June 2021 pre-tax net tangible assets (NTA) of $1.44 per share and are accretive to the post-tax NTA of the Company.

The fully subscribed Entitlement Offer raised $277.2 million, with the Entitlement Offer raising $145.8 million from 10,321 shareholders, the Top-Up Facility raising $47.8 million from 3,416 shareholders and the Shortfall Facility and additional placement raising $83.6 million from more than 650 investors. The raised capital has taken WAM Leaders' gross assets to more than $1.5 billion, making it one of the largest listed investment companies on the ASX.

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