

2021 March Quarter

Geoff Wilson AO

Chairman & Chief
Investment Officer



Oscar Oberg CFA

Lead Portfolio
Manager



Tobias Yao CFA

Portfolio Manager



Portfolio update

Despite continued lockdowns throughout Europe, markets were buoyed by the aggressive rollout of the coronavirus vaccine in the United States and United Kingdom, with approximately 30% and 50% of the population receiving their first dose by the end of the March quarter.

The United States 10-year bond yield reacted positively, increasing 91 basis points over the quarter to 1.74% as the market began to factor in inflationary expectations, which have been fuelled by the unprecedented fiscal and monetary support over the past 12 months. The Biden administration released details of a USD2.2 trillion infrastructure stimulus package over the next eight years, which would be funded largely by corporate tax increases, with the federal corporate tax rate increasing from 21% to 28%. The most significant macroeconomic event for the month was the March Federal Open Market Committee meeting, with the United States Federal Reserve showing no signs of tapering, keeping interest rates near zero until 2023.

Domestically, the Australian economy continued to recover ahead of expectations. Data points including unemployment, retail sales, car sales, building approvals and house prices were materially better than anticipated, leading to upgrades in gross domestic product expectations. The Reserve Bank of Australia remained committed to its 0.1% cash rate target by 2024 and continued its quantitative easing program. The February 2021 reporting season was one the best in 20 years, with the average earnings per share estimates upgraded by approximately 5%. The vast majority of these upgrades were driven by cost containment measures, with industrial companies revising costs down by 150 basis points despite ongoing pressures in raw materials, freight and wages.

Growing confidence on the economic recovery in Australia saw the continuation of the shift from growth companies into value and cyclical companies, with financials, resources, tourism and property outperforming coronavirus beneficiaries, namely technology, healthcare and retail. While the shift toward value companies has been rapid, we note that the gap between the valuation of growth companies and value companies remains the highest it has been in 50 years. For these reasons, we expect this shift to continue and see plenty of attractive opportunities that fit our investment process.

In the March quarter, the WAM Research investment portfolio outperformed the S&P/ASX All Ordinaries Accumulation Index and the S&P/ASX Small Ordinaries Accumulation Index by 3.3% and 4.8% respectively.

Leading into the February reporting season, we repositioned the portfolio towards cyclical industries such as tourism, traditional media, financials, and construction and into companies that had significant offshore exposure in coronavirus impacted regions. These decisions benefitted the investment portfolio, with our strongest performers over the quarter being cyclical companies such as building materials company Fletcher Building (ASX: FBU) and construction services company MAAS Group (ASX: MGH). Detractors to the portfolio came from the technology and healthcare sectors, with Infomedia (ASX: IFM) and CleanSpace Holdings (ASX: CSX) performing poorly due to earnings downgrades.

The investment team has been diligent in sourcing new ideas for the portfolio that will benefit from a successful rollout of a vaccine. While we have reduced exposure to e-commerce companies that have benefitted from lockdowns, we have added retailers such as Lovisa (ASX: LOV) and City Chic (ASX: CCX) which will benefit from increased foot traffic through shopping centres. Despite mining services companies performing poorly through reporting season, we think valuations remain attractive with companies such as Imdex (ASX: IMD) and DDH1 (ASX: DDH) set to benefit from expanding exploration budgets. Given the positive seasonal conditions we are seeing in the agricultural industry, we have added companies such as Tassal (ASX: TGR) and Select Harvest (ASX: SHV), which have been impacted by the pandemic over the past 12 months.

While we expect volatility to remain high over the course of 2021, we are constructive on the outlook for equities. The successful inoculation in countries that were heavily impacted by the coronavirus provides a case for optimism. We believe that economic data will continue to surprise on the upside given the ongoing fiscal and monetary support, and that rising bond yields reflect the stronger-than-expected levels of economic growth globally. We do not yet see rising inflation as a concern given the continued uncertainty that remains. We continue our strategy of investing in companies offering the most liquidity with 87% of the portfolio able to be sold within 30 days as at 31 March 2021. We ended the quarter with cash levels of 16.2%.

Market capitalisation

\$346.6m*

Gross assets

\$241.7m

Listed equities

\$202.6m

Dividends paid since inception

(per share)

114.1c

Annualised fully franked interim dividend yield

5.6%*

Profits reserve

42.4cps

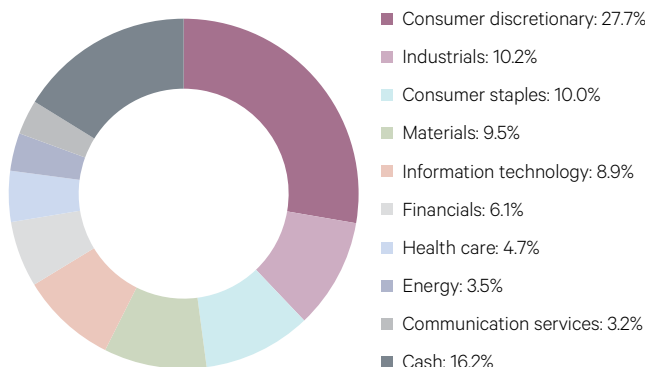
*Based on the 31 March 2021 share price of \$1.78 per share and the FY2021 fully franked interim dividend of 9.9 cents per share. WAM Research has 194,743,490 shares on issue.

WAM Research top 20 holdings

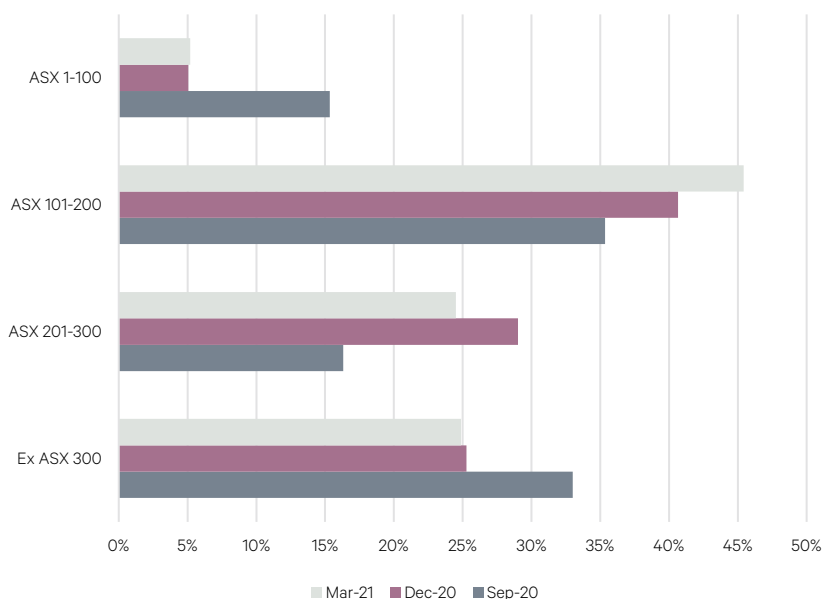
as at 31 March 2021

Code	Company	%
FBU	Fletcher Building Limited	4.0%
SVW	Seven Group Holdings Limited	3.7%
LNK	Link Administration Holdings Limited	3.6%
VEA	Viva Energy Group Limited	3.5%
BWX	BWX Limited	3.3%
SLK	SeaLink Travel Group Limited	2.9%
CDA	Codan Limited	2.9%
BGA	Bega Cheese Limited	2.9%
BRG	Breville Group Limited	2.7%
CCX	City Chic Collective Limited	2.7%
IMD	Imdex Limited	2.6%
AFG	Australian Finance Group Limited	2.6%
IEL	IDP Education Limited	2.3%
JLG	Johns Lyng Group Limited	2.2%
CTD	Corporate Travel Management Limited	2.1%
MGH	MAAS Group Holdings Limited	2.1%
BLD	Boral Limited	2.0%
ING	Inghams Group Limited	1.9%
PDL	Pendal Group Limited	1.9%
FLT	Flight Centre Travel Group Limited	1.9%

Sector allocation



Portfolio composition by market capitalisation



Performance as at 31 March 2021							Since change in
	3 mths	Fin YTD	1 yr	3 yrs %pa	5 yrs %pa	7 yrs %pa	investment strategy %pa (Jul-10)
WAX Investment Portfolio [†]	6.9%	36.1%	60.0%	11.0%	12.5%	14.4%	16.1%
S&P/ASX All Ordinaries Accumulation Index	3.6%	19.9%	41.1%	10.1%	10.6%	8.1%	9.0%
Outperformance	+3.3%	+16.2%	+18.9%	+0.9%	+1.9%	+6.3%	+7.1%

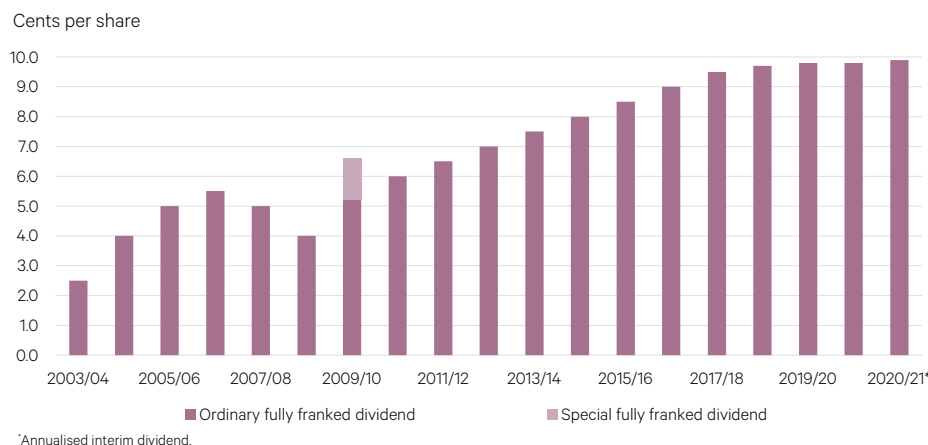
[†]Investment portfolio performance and index returns are before expenses, fees and taxes.

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:



History of fully franked dividends



Investment manager update - WAM Strategic value IPO launching soon

We are pleased to confirm that we are preparing to launch an IPO in May. WAM Strategic Value will focus on identifying and capitalising on share price discounts to underlying asset values of listed companies, primarily listed investment companies (LICs), listed investment trusts (LITs) and other closed-end investment vehicles.

Chairman and Chief Investment Officer Geoff Wilson AO will serve shareholders as the Lead Portfolio Manager of WAM Strategic Value. Full details will be contained in a prospectus that will be issued by WAM Strategic Value when the IPO is launched. We expect to lodge the prospectus with ASIC in early May 2021 and the offer to close in early June 2021. Once lodged with ASIC the prospectus will be made available on our website.

If you have any questions regarding WAM Strategic Value, please call Geoff Wilson AO on (02) 9247 6755 or email info@wilsonassetmanagement.com.au.

Contact us

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