WAM Leaders (ASX: WLE) FY2023 Full Year Results Webinar transcript

OLIVIA HARRIS: Good morning everybody. Thank you for joining us today for the WAM Leaders Full Year Results Webinar. My name is Olivia Harris and I'm joined today by WAM Leaders Lead Portfolio Manager Matthew Haupt and Portfolio Manager John Ayoub. Before we begin there is a disclaimer displayed for you on the screen to read and that's just to say that everything we discuss today is general in nature only and is not considered financial advice. Today to start I will first give you an update on the WAM Leaders Full Year Results which were announced to the ASX earlier this month. And then I will pass over to Matt and John to discuss the market. So let's start with the portfolio performance. The WAM Leaders investment portfolio performed strongly during the year to 30 June 2023, increasing 13.5%. Since inception in May 2016 WAM Leaders has achieved 14% investment portfolio performance, outperforming the S&P ASX 200 accumulation index by 5.6%. The WAM Leaders Board of Directors declared a full year fully franked dividend of nine cents per share and this represents a 6% dividend yield on yesterday's share price of $1.50 per share. The profits reserve was 36.1 cents per share as at 30 July 2023, representing four years of dividend coverage. And with that I will now hand over to Lead Portfolio Manager Matthew Haupt.

MATTHEW HAUPT: Thanks Olivia and welcome everyone to the WAM Leaders Webinar. I thought I'd start off by talking about the year that was and then we'll walk through our outlook for the market. And then I'll hand over to John who'll walk through some of the insights from reporting season. So I thought a good place to start was always looking back at the year that was. So the financial year 2023 was a very good year for equities, despite significant headwinds. We had really high rising interest rates. We had Central Banks trying to tackle inflation. And we had banking crisis as well which was happening in March of 2023. So despite all these risks equities went up and I guess the question is why did equities go up? And ultimately it came down to a resilient consumer. What we saw was a lot of participants were talking about recession calls, which you know we had sympathy towards, but what we saw was a really resilient consumer. And I guess the key takeout here was around real wages increasing a lot and high levels of employment. And it created an environment where corporate profitability was high, despite all these concerns. So I guess when you look back at the year, despite all these significant headwinds, the underlying health of the consumer because they were fully employed and had higher levels of real wages consumption continued at a pretty good pace and I guess we saw that across most companies throughout the year. So I guess the weakness which was highlighted a lot throughout 2023 was in the

manufacturing sector. You could argue we were in a global manufacturing recession. And that was predominantly by a slowdown after the large demands we saw coming through the COVID period. And then there was an overstocking because of supply issues. Manufacturers built up huge supplies and what we saw was a real wind back in the goods demands. So manufacturing looked terrible through 2023. But I guess the bright spot was services. So you saw services across the world be hugely resilient and they were printing at really high levels. So that saw some strength across end markets and again increased employment which was great for equity markets. If we look at the market outlook now. So markets, when we look at markets we always try and work out if they're fairly valued, what are the drivers going forward, and at the moment we find it hard to come up with a clear catalyst which will drive the market higher. But on the flipside we can't identify a catalyst to drive it lower at this point in time. The soft landing camp is very much the consensus at the moment. So what that means is everyone thinks the economy will hold in there. And we tend to agree with that in the short term. So what will happen is equity markets are likely to trade sideways for a period. And what we will see in 2024 we think it will be the year of interest rate cuts. So in Australia you can have a look at the forward interest rate curve and it says there's going to be one interest rate cut in Australia. In the US there is over 1% of interest rate cut. So 2024 will mark the year of interest rate cuts. And what we think this will mean is it will be supportive of valuations but again I think activity levels will decline. We're seeing a slowdown across the world. So it's going to be a slowing environment, a solid earnings growth, higher costs. So the environment, despite those headwinds, our investment process allows us to trade through cycles, so we actually don't really care what part of the cycle we are in. Our investment process is nimble enough where we can identify opportunities in all markets. So I can envisage us positioning in a slightly more defensive way, more conservative way, over the next period. But saying that, there was a few remarkable opportunities coming out of reporting season. So I think overall the backdrop is quite supportive in the short term. We think medium term it's going to get a little bit tougher, especially on the growth front, earnings growth. But ultimately we're going to go into interest rate cutting cycle which again is traditionally pretty good for equities once you commence that and are part way through that. So overall I think the environment short term is pretty benign. But ultimately it's going to get tougher. But we can invest through this cycle. And then 2024 will be the year of interest rate cuts. So that will be the start of a new cycle. So I'll probably leave that there. And I'll hand over to John now who will run through some of the insights we saw from reporting season.

JOHN AYOUB: Thank you Matt and welcome everyone and appreciate your time this morning. We would characterise the last reporting season and the last little period as probably one of the trickier periods that we've faced in some time. Why we would say that is the volatility and the composition of earnings and reporting was vastly different from what we've seen over the last decade where it was a lot easier to quantify revenue and costs and the trends that certain companies and sectors were directionally moving in. Where we are today, I'll call out a few things that we've identified that we'll be conscious of going forward and I think the market again will be focusing on. Firstly, revenue trends have slowed down. To Matt's point around being cautious we were probably a little bit cautious too soon, and what we saw was towards the latter half of last financial year those revenue trends held up a bit longer than we thought. But they have actually slowed down post reporting periods. And as we're getting into August and September we continue to see a more rapid slow down of the topline for most companies globally. So from that standpoint we have become more and more cautious around the outlook for companies broadly around that revenue. The second factor that we are becoming more and more aware of and you saw in reporting season was the ability for analysts and market participants to forecast the cost of debt. The cost of debt within balance sheets, so companies like Ramsay and the like where there was material spirals on their balance sheet and the amount of money they'd have to pay to facilitate their balance sheets. That was something that the market probably was focused on but not enough. And what we've seen is the cost of debt, the inflationary pressures on companies. More broadly around CAPEX in the mining space, where blowouts from mining companies when it comes to doing projects, just doing the day to day operations, they have actually heavily weighed on the carrying value of assets, also of the profitability of those assets as they start to produce. And the other area in the retail space and other spaces is wage inflation. We are still yet to see the full impacts of wage inflation to carry through the P&L of companies. When you start talking of Wesfarmers, Woolworths and Coles and they're talking 4, 5, 6% wage inflation that commences this year and in slowing revenue trend environments for us that's a very difficult recipe to combat and we really need to isolate and focus on companies that have the ability to manage the cost bases going through these parts of the cycle, and those that don't we need to be really cautious of and ensure that we find those companies with the self help and the ability to navigate these tough waters that we're heading into. As Matt said also what we did find was there are a lot of opportunities come out in reporting season and I'll identify a couple of those. And we've already started to see a few of the questions come through so we want to make sure that we leave enough time to answer everyone's questions today. But names

that we really really liked, and one which actually is very topical at the moment is Orora, which announced a material acquisition this morning. We think today's acquisition is a game changer for that company. It moves away from a more CPI plus growth business to a more cyclical exposure to luxury brands and we think it's a step change and we really like the opportunity that it presents so we will be participating with your money in that capital raising today. Other names like QBE, Treasury Wine, Challenger, Brambles, and we've actually now put WiseTech in a meaningful way to the portfolio, we think these are companies that should carry the portfolio for the next twelve to eighteen months and we really like what they've provided us. And things that we would add to the watchlist where we're not ready to pull the trigger quite yet but things that we've identified as potential opportunities, these names are Domino's, A2, Ramsay which we haven't owned for some time, Stockland and Iris. Now these are companies that all have some warts on them we'll say, but we will identify the value opportunity and ensure that if we do decide to pull the trigger one way or another they'll be in favour for shareholders. So that's probably the wrap up of reporting season. Other themes that emerged was the reach of government. We're starting to see an increased amount of government policy that's going to impact the earnings of companies and Qantas. Now we know there's a question on Qantas later so we'll save that for later. But Qantas is one that's being impacted by government reach. The oil and gas space, coal, the gaming sector, we're starting to see the prevalence of government reach impact the earnings of these companies. Unfortunately theft and what they call shrinkage in pockets of retail has started to emerge as a material headwind as well so we're going to see CAPEX or spend from the likes of Coles and Woolworths and Wesfarmers to Police and I think that will generate a lot of headlines in the press around that but it's actually having a material impact on margins of companies which are part of cyclical downturns and the way that we manage cyclical downturns. So it's clear that we are going to go through a tough period going forward and how we navigate that it's going to be challenging but we should be there.

MATTHEW HAUPT: Yeah and I was just going to add there. The thing that we're really watching is the labour market. So the labour market has been remarkably resilient and we touched on that but there are signs, sort of some early signs I guess. So for us the labour market is crucial this year. That's the one thing we'll be watching, every bit of data we can get our hands on around employment and wage growth. So I mean they'll be the key drivers we're watching this year. But I think that's about it from us Olivia. If you want to open up to questions now we can go through those.

OLIVIA HARRIS: Thanks Matt and John. Yes we'll get right into questions. Lots coming through so everybody please keep sending your questions because we'll try to get them all. If we don't get to your question during the webinar we will contact you afterwards. The first one is from George. Could you please comment on the Dexus result and your outlook for the company, and maybe you can touch in your comments on the property sector as well?

MATTHEW HAUPT: Yeah so Dexus we caught up with Dexus recently on the result. I guess the key takeaway from us is the company is doing extremely well in an incredibly tough environment. Probably the difference, when we saw them last I think there was a little bit more hope around a quick runaround in the cycle, what was evident this meeting was it's going to be a little bit more drawn out. So for us we were investing in the company because there was a heavily discounted asset to its NTA, and we thought maybe interest rates would get cut more aggressively, and what we've seen is a higher for longer environment which is not ideal for Dexus because it becomes more of a grind cycle rather than a quick turnaround. So the investment horizon had increased a lot from where we thought we'd get rewarded quite quickly. So for us great result, great company, great management. They are fighting the cycle and the cycle in the absence of a big interest rate cutting cycle it's going to be a bit of grind there so we've reduced that holding materially. But still like the fundamentals. But we were running at around 5% of the portfolio. Now it's way down like 1.5%-1.25% of the portfolio. So the conviction around the thesis hasn't decreased. It's really the timing. So we just don't want to tie capital up for that longer period of time.

OLIVIA HARRIS: Thanks Matt. The next company that we are getting some questions on, we've gotten quite a few questions on, Star Entertainment. So can you just provide some comment on Star and if you think all of the negativity has already been factored into their share price, or do you think there's potential for another unknown unknown to spring up?

JOHN AYOUB: Thanks Olivia. I guess we've been hit by the two most controversial positions in our portfolio straight away. So I did notice there was a question from Geoffery around Star and Dexus are they mistakes. I would say Star is definitely a mistake. We do make mistakes from time to time but it's how we manage that risk in the portfolio which is important. And with Dexus where we went too early, our average entry price in Dexus was in the sevens, and we got a couple of dividends on the way through, and our average exit of those positions on reducing our position was above $8.00. So we managed to reduce the impact on shareholders there and we actually made a profit on the vast majority of it. Where the mistake was was opportunity costs, where we didn't actually deploy

that capital to things that should have outperformed so. But with Star it's very different. Star, if we take a step back, the big mistake we made was we didn't appreciate the impact that the reach of government would have on earnings. And the one thing I'll call out was there was $595 million worth of legal costs associated with the last result of Star. I'll go off on a slight tangent here, and forgive me for this, but when we invested as shareholders and one of the things that we've recently noticed is that the sins of the Board and management have been suffered on the shareholders. We weren't the ones that made the mistakes. We made the mistakes in the investment but we didn't make the mistakes from the earnings standpoint and the shareholders in Star are the ones that have borne all the responsibility and all the pain when it came to the mistakes that regulators, management and government had made in regulating this industry. Going forward what we can say is that the lessons of the last ten years have been learnt. And what we can say is that Star's management have taken large steps in actually turning around this organisation and ensuring that those mistakes and those unknown unknowns don't happen again. So from that standpoint we are very pleased with what Robbie and the team have done. They're not out of the woods in any regard. This is a long battle and we are with them for the long haul now. We did participate in the capital raising and our biggest weight in the name is more recent than it was in the past so we've been able to manage our size okay but it has had an impact on shareholders and our performance over the last twelve months in particular. Where we stand today I think a lot of the reform has taken place. A lot of the change has been done. What's outstanding is the refinancing of the existing debt facilities. We have as much visibility as everyone else does of what's publicly available there. We're confident they'll get through that. I think the last few fines are the last two outstanding things. Again in proportion to the size of the company to its peers we think they'll be able to manage that and what we do know is in 2024 and 2025 when Queen's Wharf is opened and a lot of the reform has taken place these are still critical infrastructure assets for the Australian tourism industry. They still provide numerous jobs for Australians and provide a fundamental purpose for that. So we are encouraged by the New South Wales Government in the way that they handled the current, I'll be clear, the current New South Wales Government in the way they handled the reform of the tax. We think Treasurer Mookhey was outstanding in the way that he pivoted from some of the mistakes of the previous government. And with that we're excited about the next 24 to 36 months that Star has ahead of it. It's not out of the woods. They need to regain their social licence and they're doing everything they possibly can. And we're there for the long haul.

OLIVIA HARRIS: Thanks very much John. The next question is from David. It's about growing the size of WAM Leaders. So do you have a preference on a way to raise capital either through a share purchase plan or a rights issue? And are there any plans in the pipeline for further issuance of shares?

MATTHEW HAUPT: Yeah I mean thanks for the question. I mean obviously we're the managers of the money we don't get to decide on the capital raisings or how it's done. I guess I'll answer the first one, do we have a plan on raising capital, no, not at this point. Do we have a preference between a rights and a share purchase plan, I guess it gets down to your idea of what's fair. Traditionally rights issues are fairer I guess. If you hold a certain amount of stock you get allocated a certain amount whereas a share purchase plan it really doesn't matter how much existing stock you own you can obviously take up more. So I guess it's what idea you have is fair. I mean theoretically a rights issue is fairer. But then also it forces you to take those up as well. So both have got their pros and cons but for us we don't really have a huge preference on how it's done. But it's obviously up to the Board about what structure and when it's done. But I can say there's no real discussions around raising capital within Leaders at the moment.

OLIVIA HARRIS: Thanks very much Matt. John you had mentioned briefly that we've got some questions on Qantas so I'll turn to that one next. Can you just provide a comment on the company at the moment? Andrew has asked has it reached its high water mark?

MATTHEW HAUPT: Yeah. It's one of the things when you go through a new cycle or a period of volatility like Qantas is going through you always turn to how can this go and what's next and we've started to see on Twitter from members of parliament suggesting a Royal Commission and more reform into their profitability and fines from ACCC, pockets of the market. So do we think this is at the end of the news flow for Qantas definitely not. Just to be clear we're not invested in Qantas at the moment. What we do know is that the business itself has a structural advantage in Australia in the domestic market and that domestic advantage will remain through time. Where a lot of the focus is on today is on the profitability and the pricing of international flights. And what stirred up the hornet's nest has been the application of Qatar and other airlines for more international slots. We're starting to see governments State and Federal split and normally that's not a good sign. And Albo defending Qantas is a bit like a Board defending a coach for a sporting team. You know that there's going to be a pivot soon. We would expect that there will be a review into international capacity. I think industry players, so tourism providers, airport owners, I think they would all like to

see more airlines fly into Australia. How that happens and those international agreements that need to be reached that's a different level above us and we'll see how governments negotiate those tactics. But what we do think is that there will be more flights internationally and the profitability of Qantas in international business will change. But it is worth remembering in the past that international it was never the driver of profitability for this group. It's always been the domestic business that has driven profitability. So as when the banks went through the Royal Commission and like that's the darkest before the dawn. So it's something that's definitely is on our watch list. Our valuation assessment today we effectively get the international business for free. So if the share price was to go to the low five's, which it may potentially do on negative news flow, it'd certainly be something that we'd be considering as an investment going forward. But we think news flow will continue to be hard and negative on the company for the foreseeable future.

OLIVIA HARRIS: Thanks John. The next question is from a shareholder named Matt. He has asked where do you see inflation going? Oil prices have gone up over 20% in the last three months. Do you see inflation re-accelerating and if so how are you positioning the portfolio?

MATTHEW HAUPT: Yeah that's a great question and very observant as well. It's something we've been discussing over the past week actually the impact of oil because oil has a better track record of predicting inflation than the economists and very direct. So it's really, when I looked at it earlier in the week, it's really March of last year was the peak, and then it's fallen down. But then it's going to start cycling through OPEX, operational expenses, you know really now. So you're seeing a deceleration. I mean the thing we look at is the break even rates which are market based rates, that's the market's interpretation of inflation and the five years rates are 2.3% and the five rate in five years' time is 2.4%. So inflation expectations are actually grounded in the range. The trajectories are lower at the moment. You're seeing it roll over. But you're a hundred percent right, oil will be actually picking up inflation in the operating expenses, so we expect inflation to re-accelerate probably in the first quarter of next year, of the calendar year. That's when we think it'll start to pick up and you will start to get moderation through other names too. But when you break down inflation at the moment it's really, a lot of components are becoming quite sticky, so yeah this oil we think is something that could upset the market. Higher for longer, stickier inflation. So it's something we're watching. But it's really again dependent upon OPEC, what do OPEC do. So far they've held together. That's the group that controls basically I think it's like 40% of oil supply or 35%. They've been cutting dramatically into this market. So you've got a real physical tightness in

the market. Floating storage is at low levels. So all the ingredients are there for a tighter oil market. So yeah it's a great point Matt and we think yeah first quarter of next year will start to pick up and that will change the rate dynamics as well. You know those forward interest rates might come out of the market as well. So a really key thing to watch and yeah something we've been discussing quite a lot over the last week or so.

OLIVIA HARRIS: Thanks Matt. The next question is from Lee. Let's see Lee's asked how does WAM Leaders see the reported slowdown in the Chinese economy and how will this affect the companies that you hold in the portfolio?

MATTHEW HAUPT: Yeah so another great question and really topical as well is around China. I read a stat the other day. China has been responsible for 40% of the global growth over the last ten years. It's such an important part of the global economic picture now. What we saw out of China was post-COVID, they came out of COVID very late, they hoped that re-opening the economy would see consumption really pick up. But unfortunately for them consumption didn't pick up because in the background the asset prices which are house prices and the like are around 60% of everyone's personal balance sheet. So they were watching their biggest asset fall in value and that wasn't translating into consumption. So the government finally, you know as of probably the last month or so, really stepped up support, because they've realised they've got to stabilise asset prices, even get asset prices growth, to unlock consumption. And we're seeing a huge change in rhetoric out of the Chinese government. So China's probably, everyone's called the death of China fifteen times in the last ten years, it's never eventuated because a lot of people look through the lens of an open economy, they're a closed economy so they can actually change things quite dramatically. So we are actually positioned in the portfolio to take advantage of some of the turnaround in the property sector and infrastructure because global growth is pretty slow so they have to turn internally and the lever they know how to pull internally to get growth is through spending through infrastructure. So we think big asset investment will actually be quite a tailwind for the iron ore sector. So the names we're playing in a meaningful manner are Rio as our number one preference, and then BHP. And then if you go down the chain a little bit, a little less exposure but companies like Iluka which have been really hit after reporting season, and South32 as well to a lesser extent. It's not as direct as Rio and BHP but they are the ones we're really putting a lot of shareholders money into because we think there will be a clear lever and we're starting to see some of the sentiment turn because I think the sentiment on China at the moment is at all time lows. Everyone thinks it's almost

uninvestable and global money is not going there. And we think that will change over the next few weeks.

JOHN AYOUB: And outside of resources Leaders primary exposure to China is Treasury Wine where we think China re-opening and relations between Australia and China continue to improve and following the barley decision between the governments we think the opening up of the Chinese market will add a lever of growth for TWE following their improved distribution model throughout broader Asia and their strong acquisitions that they've made in the US. So we think TWE will benefit as relations continue to improve and what they've been able to derive over the last two years and with addition to the Chinese re-opening which would put it in good stead. And the other name that we're looking at, it's a smaller position and it's something that we're looking at from a brand perspective and we're attracted to good businesses with great brands that are going through cyclical or tough periods, and that's A2 Milk. And what we're trying to get our heads around there is around the birth rate in China, how that affects earnings going forward and what is the trajectory of that birth rate. These are really some of the mega things that we've got to try and get our heads around. But the brand is incredibly strong. The product is incredibly good. And the valuation is incredibly attractive. So it's one that's definitely on our watch list and potentially if things stack up could be a bigger position in the portfolio.

OLIVIA HARRIS: Thanks Matt and John. We're getting a couple of questions on Endeavour Group. One from Peter and one from Richard. So can you provide some comment on Endeavour Group and if you see the potential for a likely shift in sentiment?

MATTHEW HAUPT: Yeah so again we caught up with Endeavour. And it's a decent position in the portfolio. So we caught up with them in August. I guess the key thing for Endeavour, so Endeavour owns Dan Murphys and pubs and clubs in it's most simplest form. So we caught up with them and what happened, again similar to Star, the Victorian Government came out, I mean this really sent the share price lower, talking about some of the restrictions around gaming and potential tax changes. And the share price I think on the day was down 15% or something. It was marked down quite aggressively. So the business is performing really well. So we caught up with the company. Their result was great. The high interest rate costs are coming through like most companies but again their clients or customers are actually quite resilient so they haven't seen any slowdown at the moment. And their business is tracking quite well. They've had positive sales growth across most of their businesses in a decent manner. So we think the company looks incredibly cheap at this

point in time. We're a little bit scarred post Star with gaming regulation but again we think Endeavour is in a much better position. And we really like their business. I mean Dan Murphys is a fantastic business. Very resilient.

JOHN AYOUB: And it's worth remembering that Dan Murphys is the vast majority of the business.

MATTHEW HAUPT: Yeah.

JOHN AYOUB: And when you talk about products and brands and stores Dan Murphys is right up there with a Bunnings. So these are assets which are undervalued and I think in the fullness of time Dan Murphys will be realised as one of the best businesses in the country and the valuation will reflect that in time.

MATTHEW HAUPT: Yeah. So we like Endeavour, despite some potential regulation headwinds. And I guess maybe the other thing people are worried about is the consumer the slowdown there, which ultimately they will get hit, but we think the valuation more than takes it into account and it's reflected that already. So we're happy to be invested in Endeavour.

OLIVIA HARRIS: Thanks guys. And we've also got a couple of questions coming through on Ramsay which John I think you touched on earlier. So from Peter and from Craig can you just comment on your take on Ramsay and if there's a catalyst that would stop the decline?

JOHN AYOUB: Yeah thanks for that question on Ramsay. I did mention that following the result that we bought some stock around that $47.00-$48.00 level. And that's the first time since I think $69.00 that we'd owned it. And what happened at the result and I think what was our biggest concern was the amount of debt. Firstly the amount of debt that the business was carrying and secondly the cost base and the wage inflation that they would have suffered from EBAs and the like from nurses and other staff. So that came through in the result leading to 20% to 30% downgrades in the August results. Why are we attracted to it today and why did we put a position back in the portfolio, what are the catalysts, well firstly there's asset sales. Sime Darby which is their Malaysian asset they could realise circa $700 or $800 million of cash there which can bring down the total quantum of debt. Secondly what we do know these assets and the infrastructure like assets that hospitals do provide have a place and have a purpose in society so we don't think the government's going to come in and erode their earnings any day soon. So we think that as relations with Medibank and other private health insurance providers worsen, and it will worsen, I think the

outcomes for shareholders will get better because the current agreements and the current escalation of costs that they currently have with those health insurance providers they'll be ripped up and start again to cover a lot of the extra costs that have been borne by hospital providers. And as people start to return to hospital and surgeries and the like take place the earnings in Europe and Australia stabilise. This is a good business and it's a high quality business that we want to own. Potentially some short term headwinds around the debt structure and we would welcome a capital raising and we'd happily participate in a capital raising but the Board won't want to do that. So I think that we just need to ride out again twelve months of increased debt costs and as earnings return it's something that could potentially be much higher in the portfolio. But as we often do we'll put an incubation position in there, we'll watch it closely and if the opportunities arise or if our fundamental analysis says to have a crack we will.

OLIVIA HARRIS: Thanks guys. The next question is on Woolworths. The August results showed Woolworths maintaining its superiority to Coles in terms of business performance. Do you believe the current management is capable of turning performance around so it can catch up to Woolworths and thereby making it a potential addition to the portfolio? Commenting on Coles sorry.

MATTHEW HAUPT: Yeah it's a really interesting question and one we always think about. But what we've learnt over time is the turnaround within supermarkets takes a very very long time. I remember when we were first invested in Woolworths pre the turnaround it was $18.00 I think it was and they had all these great plans but it was really about three or four years into that journey before it really took traction. The problem we have with Coles at the moment is they're starting way behind and then they've got really big issues with their supply chain. The new systems they're putting in place are over budget, over time, delayed. So we just struggle to see over the next few years how they're going to make inroads when they're actually fighting their own internal battles. So for us Woolworths is a clear leader, management are fantastic. We don't own Coles at this point in time. Would we look at Coles, yes if it got cheap enough. But again we think they're fighting internal battles let alone fighting the market battle. So for us it's a very clear case of being overweight Woolworths and not owning Coles at this point in time.

OLIVIA HARRIS: Thanks Matt. The next question is from Nick. What is the current cash holding of the portfolio and do you expect to increase that over the next couple of months?

MATTHEW HAUPT: I mean cash is really a function of opportunities and at the moment finding quite a lot of opportunities. And John mentioned this morning we've got Orora which hopefully will be a significant addition to the portfolio so we're going to need a bit of cash there. But at the moment we're running at about 4% cash. I mean can't really see it moving too far unless there's a clear inflection point. But it generally runs between 2% and 5% through most of the year. Unless there's a clear inflection point either way where we're like equities are going to rally then we actually dial up some of the exposure, or if we obviously think equities will fall we'll pull back exposure. But generally we do all our work within the holdings within the portfolio. Cash lever is very rarely used. It's really a high conviction call when we pull the cash lever. It's more portfolio construction which is really how we manage risk through the cycle.

OLIVIA HARRIS: Thanks Matt. The next question is from Sally. Does the WAM Leaders Investment Portfolio have any exposure to lithium?

JOHN AYOUB: Yeah we do have some lithium. Significantly less than what it was probably three months ago. The names that we own today are Pilbara following that pullback at the last result and Mineral Resources. The others in the space that we have an eye on is Alkhem but we think it's probably more fully valued relative to the other two. So if I focus on Mineral Resources and Pilbara, Pilbara the last update provided a lot of concern for the market in the increased amount of capital that they had to spend on their existing projects. I think for us what we'd like to see from Pilbara is a bit like Fortescue and what Fortescue did for years in its early days, just reinvest in its single asset, develop that asset over and over and over keep expanding the footprint and the capacity that you can derive from that. So I think with some reflection and some focus Pilbara is the top tier asset that we can see today, has the most leverage if they get things right. We're not quite there to make it a really big weight in the portfolio given some of the industry headwinds and some of the concerns around its capital profile. So we'll watch that one again. And Mineral Resources similar high quality lithium producer. Balance sheet is somewhat of a concern for us and for the market. We will need to see some of that cashflow and some of their CAPEX budgets maintained. So cashflow generation to come through and their CAPEX budget to maintain again for us to increase the weightings in those ones in totally. But as Matt said our focus and our resource positioning has very much been tilted towards BHP and Rio and we have some of those positions like Mineral Resources and Pilbara towards the lower end of the portfolio.

OLIVIA HARRIS: Thanks John. The next question, we've got a couple coming through on Fortescue. Doug and Ava have asked do you have a view on Fortescue? And has the recent turmoil with executive departures provided a buying opportunity or do you think Fortescue's focus on hydrogen is perhaps dragging its performance?

JOHN AYOUB: The biggest challenge with Fortescue is not so much what we think, it's what the market's going to think. We always like to support strong management but what we've seen is that with eleven or twelve senior management leave the organisation there is clearly a misalignment of what the chairman would like and other people in the organisation want. If it was a pure iron ore play which is what it's been since day one it would be a lot more compelling for us today but the difficulty in assessing Fortescue today is trying to work out what the hydrogen projects are worth. And as it stands and from the publicly available information we don't know the capital structure, we don't how much money Fortescue are going to deploy, how much capital partners are going to deploy, what the return on that capital is going to be, where that hydrogen is going to go. So as you go down that rabbit hole more and more questions arise. We're not going to question that hydrogen is going to work because it will. But at what return is what our focus is. The more it pulls back the more attractive it becomes, like all things if you can get something for free. So if we're going to get the hydrogen part of the business for free and Fortescue and the chairman say that only X percent of the free cashflow is going to be geared towards FFO again it'll be something for us to consider. But as we stand today it's a lot easier to buy Rio and BHP given the vast majority of other shareholders and investors out there will play it the same way.

MATTHEW HAUPT: Yeah I was just going to say you can't make an investment if you can't model it and unfortunately Fortescue is in the position where we can't model it. We'll never tell management what they need to do. We'll just do it by our investments and we don't own Fortescue so. We're not in the business of telling billionaires what they can do and what they cannot do. But yeah we can vote by where we deploy capital and it's just too hard to deploy capital into Fortescue at this point in time. And good luck if they can do it and succeed, all the best, but for us and protecting shareholder money we unfortunately can't get comfort.

OLIVIA HARRIS: Thanks guys. We've got a few questions from Kim on interest rates. So what's your outlook for interest rates in the US? And will the rate differential between the US and Australia cause the RBA in Australia to eventually raise rates higher in line with the Western world? And do you plan to rotate to more defensive sectors?

MATTHEW HAUPT: I mean that's one of the hardest questions out there at the moment and it's changed a lot. I guess I'll walkthrough what's changed. A lot of the interest rate cuts have come out of the market in 2024 already as the economy has been a lot more resilient than people thought. Will the RBA follow the Fed up, highly unlikely. We think the Fed will be cutting, not aggressively, but they will start their cutting cycle next year. So the RBA have been quite slow on their hiking cycle but we think the transmission mechanism is so much different in Australia than the US, obviously with the way mortgages work, the variable rate mortgages, so the transmission mechanism is quite direct in Australia. But you're fundamentally right. Australia used to trade at a premium on rates to the US through all periods and for some reason we're trading below at the moment. So it is quite bizarre. The US have been very very aggressive versus rest of the world except for Canada and New Zealand who have obviously been aggressive as well. But we think RBA, they meet today, unlikely to change. The market's got zero chance of a hiking today. And there's basically no more interest rates in the Australia future where you can see market expectations and we've got one cut in December '24 being the start of the cutting cycle. So we think the US, I think I touched on it earlier, has got a 1% of interest rate cuts in 2024, by the time we are hitting December '24 they will be about aligned. So we think the US will come back to the Australian level of interest rates. Obviously the RBA do look at foreign exchange, the Australian dollar, so they could respond to the Australian dollar moving, that could sway them either way, but I think that first scenario of the US meeting Australia is the most likely one at this point in time. Also if you look at oil, we touched on that earlier oil prices, that could be the spanner in the works for everything. If oil price does go over $100.00-$120.00 those interest rate cuts are coming out of the market, or it could fast forward a potential crash scenario where interest rates would be cut in response to an emergency. So very dynamic, and that's the advantage of our process, is we're looking daily at these things to change the portfolio. Will we go more defensive. I think the underlying tone, we always invest in quality businesses, so we never go up the risk spectrum by investing in a low quality business. So the way we do it, we would go more defensive if you saw the labour market falling. So if unemployment increased we'd certainly go more defensive. We are tilting the portfolio a little bit more defensive at the moment so we've added some gold exposure and some Transurban just initial positions to try and add a little bit of defence. Telstra as well, Woolworths. So we are sort of moving in that direction but we don't have enough of a catalyst to really deploy into a defensive position at the moment because the market is in soft landing mode at

the moment. Equities are expensive but everyone still wants to own equities and there's no short term catalyst to change that at the moment.

JOHN AYOUB: The other thing about our portfolio it probably lacks a lot of the momentum stocks that are outperforming in the market at the moment for the short term. We've decided to have a few more battleground stock as we prefer to call it, stocks that have more short or medium term headwinds that we think have a longer term valuation support and we prefer to own those through these cycles where the upside is far more vast than these stocks that are being bid up on on short term earnings results.

OLIVIA HARRIS: Thanks guys. The next question is from Simon. He's asked what Australian economic data are you most concerned about that might cause you to turn more negative on the market?

JOHN AYOUB: Employment is probably where we'd be focused primarily. A lot of the things like retail sales have turned negative now but if you look at the main driver of what the outlook is going to be it is unemployment and what happens there. If you look at the most recent results period a lot of companies are starting to focus on that part of their businesses again. As wage pressures start to come through, as those revenue trends start to slow down, management will always focus on driving the bottom line and the most efficient way to drive the bottom line in the short term is headcount removal. And we think towards the back half of this year and early next year we could see significant head count removal in a lot of the large Australian listed companies and if that does eventuate that changes the focus from a soft landing to hard landing. I think that's where a lot of our focus would be on right now.

MATTHEW HAUPT: Yeah. In the very short term it is really around credit card data, arrears, the 30 day, 60 day, 90 day arrears through the banks in credit growth. So they are sort of the short term. Retail sales is another one. It's a fairly good leading indicator so. I mean we watch everything but yeah ultimately the thing holding everything together is the employment rate and real wage growth at the moment and if they break then yeah things will change quite dramatically.

OLIVIA HARRIS: Thanks guys. The next question is from Elizabeth. Does WAM Leaders invest in APA? And if so will you be taking up the current share offer?

MATTHEW HAUPT: Yeah we certainly do invest in APA.

JOHN AYOUB: Do you want to give out your favourite quote on the company? [laugh]

MATTHEW HAUPT: Yeah. I call APA the mini Macquarie. It's got all the hallmarks of turning into like the infrastructure business of Macquarie. Very early days, but it certainly does. I mean for us yeah we did take up in the placement with APA when they-

JOHN AYOUB: We're talking about rights issue.

MATTHEW HAUPT: Yeah the rights, when they took over Alinta, the energy business. So for us yeah it's a great business. It's very defensive. It's not very exciting. It's not a business you'd go wow this is incredibly exciting but we don't mind boring businesses and this one generates a lot of cash. And it does actually have some upside to new energy as well as they pivot the company away from the traditional gas pipelines. They generate high levels, over a billion dollars of free cash. There is significant opportunity for this company to transform themselves. They'd have to do it very sensibly and so far so good. We're quite happy with how they are progressing. And we think the company over the next ten years could look a lot different and they have the cashflow to do it. So when you look at opportunities, if it was just a utility with a regulated asset that's not that exciting, but at the moment they're branching away from that and they're developing this business and it could turn into something quite good and meaningful in the next decade.

OLIVIA HARRIS: Thanks Matt. The next question is from Blair. Your views on the ResMed share price weakness please?

JOHN AYOUB: I've got to say we're hitting all the good questions today. I like where this is going. So ResMed was twofold. I think the impacts on the share price were twofold. Firstly the earnings result itself was a miss and if you go back to the previous quarter management had indicated that there would be margin improvement on gross margin improvement and the result had no gross margin improvement. They can say what they want around mix and the like and what drives the margin, but the fact is that on a stock that was trading on the multiple that it was trading on it needed to deliver on what it said. Even though revenue trends have been positive and the product and the like have been continually strong, missing the margin when they explicitly told people that there was going to be margin improvement was a big no no. So I think management have taken that lesson and we would look to, on your question of going forward what does it look like, I think if they have an ability to demonstrate that that margin starts to track towards historical levels then absolutely it would become an attractive investment opportunity. The second part of what's going

on with ResMed is the harder one to answer. And I'll be crude here and there's a new fat drug out there which basically people can take a drug which actually the bare argument on ResMed is you can take the drug or the injection and the need for ResMed masks and the like will dissipate and the addressable market going forward for ResMed will shrink. That view is very strong in the US as a lot of the drug companies are heavily promoting the new drug as a wonder drug to fix all things. That's yet to be proven and we're probably on the side that are more sceptical on the ability for these drugs to combat everything. If anything we're doing a lot of calls right now to understand the impacts on the addressable market for ResMed and other participants in the industry as a twofold approach of taking the drugs and using the ResMed products. So the significant de-rating that ResMed has faced over the last month is certainly an opportunity for us and the market to consider. Firstly if they get that margin right that will give us some short term relief. Will that lead to a PE expansion, possibly. But the longer term question around competitive drugs will take longer to play out. So for us, we have a small position today, for it become a more meaningful position we would need to see more and more data around the addressable market and the impacts of those drugs on the addressable market. So it's something we're doing a lot of work on, but it's certainly an interesting investment opportunity.

MATTHEW HAUPT: Yeah I was just going to add there like the swing away from fundamentals because we're in this peak noise period John was talking about with the magic pill we call it. Because these guys are listed they're promoting this pill to fix everything, heart disease, everything. So you're in this period, sometimes fundamentals are ignored and the level of risk or the sentiment overrides the fundamentals and we're in that phase at the moment we'd say. When do we invest, when we would we increase our weighting, either through valuation if it got to silly valuation, or we saw some data to support the fact that the sleep apnoea is not fixed by these drugs. And we don't know the timing. So we've actually got to be patient and wait for our opportunity until we get either of those two things.

OLIVIA HARRIS: Thanks guys. The next question is from Christine on Origin. Does WAM Leaders hold Origin? And if so can you comment on the proposed Brookfield takeover? This bid was made over six months ago and the energy wholesale market has moved significantly higher since then. Does that takeover still represent good value for shareholders?

JOHN AYOUB: That's a great question Christine because it is a long time particularly in the energy transition world and for Origin and we've seen what AGL has done in that same period go from

$5.00 to a peak of $12.00. The other thing that we've got to consider when we talk about Origin is that Octopus Energy, which is their tech solution which they own a partnership, that has delivered unbelievable results. Standalone if it was listed we would really struggle to value it because it's done so well. So you're right in your assessment that the world has changed. You've got Octopus doing well. You've got the energy futures looking a lot better. We're going to get a bit more clarity on Eraring and the industry structure going forward from that perspective. Using the rearview mirror, yeah probably the bid undervalues what Origin should be trading at. In the absence of the bid where would Origin be trading I'd guess it would be north of $9.00 right now. But you can't make that assessment in the rearview mirror because when Brookfield came to make that bid it was a full bid at the time. They were willing to take the risk. So they arguably should be rewarded with some upside. To say the deal is completed probably not yet because there is still some ACCC concerns. So yeah it's one of those difficult ones because when Brookfield made that decision to make the bid it was absolutely fair. But looking backwards probably a little bit on the low side.

MATTHEW HAUPT: Yeah. And like a hundred percent because the regulation environment changed as well. Like the Australian energy market's probably matured a little bit is probably the comment we'd make. Where we were going to go down this path of closing everything and now there's probably a more moderate approach and a more staged approach so the assets are probably worth more than they were. But again Brookfield took the risk. So yeah we do own it. Do we think it should be worth more yes. But we always do.

JOHN AYOUB: Yeah. We haven't been asked yet but we may as well go off on a tangent on the energy transition. What we're learning around the energy transition is that it's going to take a lot longer. And the practical implications of trying to convert to solar, to wind, to other forms of sustainable energy is going to take far longer as the whole world tries to do it at the same time. So as the whole world is trying to do it at the same time trying to get the windmills from Siemens in Germany and getting the people to install them and to find the land for your solar farms it's becoming longer and longer and longer. So from that basis, what we do understand more and more is that coal and gas will provide the backstop for a longer phase of this globally. And that transition is going to be longer, it's going to be slower, but it's going to be more sustainable. So we are getting more comfortable with our investments in coal, in gas, from that short period, that the stability that they will provide to the transition that will eventually occur.

MATTHEW HAUPT: Yeah I mean it's really gas is where we're really most positive. Gas is going to be crucial for the transition. And I guess that's why we like Santos as well, and APA as well, because we think they'll be, you know critical infrastructure we're seeing like in Germany a lot of the windfarms have been pulled down on maintenance issues and breaking down and baseload effect so yeah the transition is going to be a lot longer than people thought. So on that respect we are a little bit more bullish on the likes of the APAs and the Santos of the world. And also energy. But I think Origin over AGL would be fair.

JOHN AYOUB: Yeah.

OLIVIA HARRIS: Thanks guys. We've got time for just one question. I know there are a few people we didn't get back to so we will get in contact with you after the call. Graham, Peter, Lawrence. But the one I want to finish on is from Greg. Matt or John can you just comment quickly on the banks, if you have an opinion on the big four banks?

MATTHEW HAUPT: Yeah okay so banks are in a really tough spot at the moment. Not on the economic picture more the competition picture. What we're seeing with the banks is generally when you're in CO transition modes it's a terrible time for competition because everyone's trying to keep market growth. And at the moment we've got potentially three CEOs who are going to be leaving the Australian banking sector within the next 18 months. So competition is intense. ANZ are probably going pretty hard to make sure the ACCC thinks the market is pretty competitive as well because they really want the Suncorp Bank which the ACCC knocked back initially. So for banks, what we're looking at, generally for banks is the net interest margin, what are they earning, what are they borrowing for and what are they lending for and that difference. And at the moment it's declining. So normally in an interest rate rising environment it's fantastic for banks. This time around it's been terrible because they've competed all the way. And that has not let up. So what you see is quite often pairs of banks go really aggressive and the other two fall out of the market and at the moment the CBA have really pulled out of the market. They went really aggressive early in the year, but they pulled out of the market. So when we assess the big four, what is our pecking order I guess you could say at the moment, and our pecking order changes based on, not the fundamentals sometimes because CBA is the best bank but it's the most expensive, but we like CBA, we like their management, but it's one of our smaller weightings at the moment. We actually still like National Australia Bank. We think they've probably been the most disciplined of the banks and their business lending has been quite strong, and their reporting has been very conservative.

So we like NAB. And then it falls away quite sharply after that. ANZ we think has got a few issues in New Zealand. New Zealand market they're were even covering costs of capital for a period so ANZ has the biggest exposure there. And we also wouldn't want the Suncorp deal to go ahead. We think they've paid overs for that business. And then Westpac I mean they were in a world of pain too trying to get their IT systems up. ASIC still breathing down their neck. Even today something came out on them as well. And they've got a big costs investment. So again it's pretty dire for the banks operationally. Not like economically yet because the arrears are ticking up but it's not bad yet but I think they're just in a terribly competitive environment. And we don't think the interest rate cycle will continue. So we just can't see a clear catalyst for the Australian banks unless valuations got too cheap. So for us NAB is our top position, and then it falls away quite dramatically. The rest are about even at the moment. So yeah to get excited on the banks we'd have to see a cyclical upturn, bottom of the interest rate cutting cycle. So we're actually probably at the opposite end of where we need to be. So hard to get too excited on the Aussie banks at the moment. Great businesses and if you want to hold them for the dividend and not worry about the share price. But for us we're always trying to perform so we can find better opportunities in the market at the moment.

OLIVIA HARRIS: Thanks Matt. And that's all we have time for today. Thanks everybody for sending in your questions. We will have a recording available on our website shortly. And I'll just pass back to the guys for any closing remarks.

MATTHEW HAUPT: I'd just like to thank everyone for dialling in and thank you for the continued support. And we look forward to catching up with shareholders over the next period and hopefully we get back on the road and do some presentations across all the capital cities. But just want to thank the continued support. And yeah if you've ever got questions feel free to contact us and always happy to answer questions.

JOHN AYOUB: And anyone we didn't get to today I'm sure Olivia and the team will let us know and we'll endeavour to get back to you as soon as we can. So thank you.

MATTHEW HAUPT: Thank you.