Wilson
Asset Management

Guide to *Listed Investment Companies*

Contents

The evolution of Wilson Asset Management

1998
Geoff Wilson establishes Wilson Asset Management

2003
W|A|M Research
$161M IPO

2014
Future Generation Australia
$201M IPO

2016
W|A|M Leaders
$394M IPO

2018
W|A|M Global
$466M IPO

2021
W|A|M Strategic Value
$225M IPO

1999
W|A|M Capital
$20M IPO

2008
W|A|M Active
$15M IPO

2015
Future Generation Global
$302M IPO

2017
W|A|M Microcap
$154M IPO

2020
W|A|M Alternative Assets
Wilson Asset Management appointed as Investment Manager

2023
Wilson Asset Management Leaders Fund
Launch of unlisted fund

Our *story*

Wilson Asset Management's eight listed investment companies (LICs) each offer a unique exposure to a portfolio of companies in Australia, internationally and in alternative assets. In essence, by owning shares in a Wilson Asset Management LIC, you become a shareholder in a diversified portfolio that we manage on your behalf.

A mid-nineties stock broker report on the closed-end fund market demonstrated the structural benefits of listed investment companies (LICs): closed-end funds significantly outperformed open-end funds over a 50-year period. LICs are considered closed-end investment vehicles, which means they have a fixed pool of capital. The report showed open-end funds buy and sell in line with investor inflows and outflows, which is impacted by market sentiment, while a manager of a closed-end vehicle, such as a LIC, does not face this dynamic. With a stable pool of capital, the LIC structure allows us to invest according to our rigorous investment process, rather than ever being a forced buyer or seller influenced by fluctuations in market sentiment.

Wilson Asset Management was established with the purpose of making a difference for our investors and the community. This is done through investment portfolio performance and returns for shareholders, advocacy for retail shareholders and philanthropy. In particular, as the creator and lead supporter of the Future Generation companies, Australia's first LICs to provide investment and social returns.

The first LIC

The Australian LIC industry is more than 100 years old and it has experienced many cycles since the country's first LIC, Whitefield Limited (ASX: WHF), was incorporated in 1923.

The current environment for LICs provides patient and discerning investors with significant opportunities. In 2002, Geoff welcomed a 'golden decade' for the LIC sector, which extended to almost two decades, with 122 LICs and listed investment trusts (LITs) listed on the ASX during this time.

"Over four decades in financial markets, I have developed a disciplined investment process focused on my preferred investment vehicles, listed investment companies."

Geoff Wilson AO
Chairman and Chief Investment Officer
Wilson Asset Management

Wilson Asset Management LICs

W|A|M Capital

ASX: WAM

The most compelling undervalued growth opportunities in the Australian market

Listed in August 1999, WAM Capital provides investors with exposure to an actively managed diversified portfolio of undervalued growth companies listed on the Australian Securities Exchange, with a focus on small-to-medium sized businesses. WAM Capital's investment objectives are to deliver investors a stream of fully franked dividends, provide capital growth and preserve capital.

W|A|M Leaders

ASX: WLE

Actively investing in the highest quality Australian companies

Listed in May 2016, WAM Leaders provides investors with exposure to an active investment process focused on identifying large-cap companies with compelling fundamentals, a robust macroeconomic thematic and a catalyst. The Company's investment objectives are to deliver a stream of fully franked dividends, provide capital growth over the medium-to-long term and preserve capital.

W|A|M Global

ASX: WGB

The world's most compelling undervalued growth companies

Listed in June 2018, WAM Global provides investors with exposure to an actively managed diversified portfolio of undervalued international growth companies and exposure to market mispricing opportunities. WAM Global's investment objectives are to deliver investors a stream of franked dividends, provide capital growth over the medium-to-long term and preserve capital.

W|A|M Microcap

ASX: WMI

The most exciting undervalued growth opportunities in the Australian micro-cap market

Listed in June 2017, WAM Microcap provides investors access to a portfolio of undervalued micro-cap growth companies with a market capitalisation of less than $300 million at the time of acquisition. WAM Microcap also provides exposure to relative value arbitrage and market mispricing opportunities. WAM Microcap's investment objectives are to deliver a stream of fully franked dividends, provide capital growth over the medium-to-long term and preserve capital.

W|A|M Alternative Assets

ASX: WMA

Unique opportunities beyond traditional assets

Wilson Asset Management was appointed as Investment Manager of WAM Alternative Assets in October 2020. WAM Alternative Assets provides retail investors with exposure to a portfolio of real assets, private equity, real estate, infrastructure and private debt strategies. The Company's investment objectives are to consistently deliver absolute returns through a combination of dividend yield and capital growth, while providing diversification benefits.

W|A|M Strategic Value

ASX: WAR

Discounted asset opportunities

Listed in June 2021, WAM Strategic Value provides shareholders with exposure to Wilson Asset Management's proven investment process focused on identifying and capitalising on share price discounts to underlying asset values of listed companies, primarily LICs and LITs.

W|A|M Research

ASX: WAX

The most compelling undervalued growth opportunities in the Australian market

Listed in August 2003, WAM Research provides investors with exposure to a diversified portfolio of undervalued growth companies, which are generally small-to-medium sized industrial companies listed on the ASX. WAM Research's investment objectives are to provide a stream of fully franked dividends and achieve a high real rate of return, comprising both income and capital growth, within acceptable risk parameters.

W|A|M Active

ASX: WAA

Mispricing opportunities in the Australian market

Listed in January 2008, WAM Active provides investors with exposure to an active trading style with the aim of achieving a sound return with a low correlation to traditional markets. WAM Active's investment objectives are to deliver a regular income stream via fully franked dividends, provide a positive return with low volatility, after fees, over most periods of time, and to preserve capital.

What is a *listed investment company?*

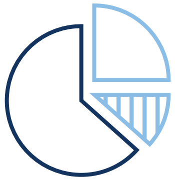
Listed investment companies (LICs) are corporate entities in a ‘company’ structure established for the purpose of investing in a portfolio of securities or investments. LICs are listed on an exchange, which in Australia is usually the Australian Securities Exchange (ASX). Each company on the ASX has a ASX code, also known as a ‘ticker’.

Diversification through LICs

LICs are actively managed and provide investors with simple and cost effective portfolio diversification benefits. Wilson Asset Management’s stable of eight LICs offer investors exposure to different investment strategies and asset classes, with various underlying securities invested in line with our rigorous investment process.

Benefits of a *LIC structure*

Closed-end structure

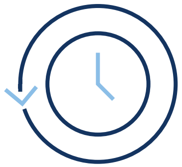


LICs have a closed-end structure; this means they have a fixed pool of capital.

A LIC raises capital at a specified point of time, unlike open-ended managed funds that may raise capital continuously from investors in the form of deposits. Investors in LICs can increase or decrease their investment by buying and selling shares on the ASX, rather than depositing (applications) or withdrawing (redemptions) funds from the LIC directly.

As such, this gives LICs the ability to invest for the long-term and it means they are not subject to applications and redemptions like exchange traded funds (ETFs) or managed funds, which can force Investment Managers to buy and sell investments at sub-optimal times.

Ability to make longer term decisions



The structure of a LIC can allow for stability in the amount of money the fund has for longer term investing by the Investment Manager, without a constant inflow and outflow of cash that changes with investor sentiment. This means if investors want to sell in times of market uncertainty, they can do so by selling their shares on the public market, which does not affect the amount of capital managed in the LIC by the fund manager.

Public companies provide stringent corporate governance and accountability of Directors

Companies that are listed on the ASX, such as LICs, have a Board of Directors. The Board follows the principles and best practice recommendations established by the ASX Corporate Governance Council. The role of the Board is to set the strategic direction of the company, approve capital management initiatives and to be responsible for the overall corporate governance of the company, which includes setting appropriate business standards and codes of ethical behavior, as well as ensuring significant business risks are identified and appropriately managed. Shareholders are the owners of public companies and have the right to vote on the appointment of the members of their Board of Directors.

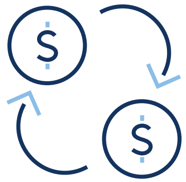
The Board of Directors must act in the best interest of shareholders, which means making informed decisions and adequately preparing the company for any future changes. The Board must also act in good faith with reasonable care, skill and diligence and keep abreast of the company's activities and financial position.

LICs can offer investors the opportunity to buy $1 of assets for 80c and sell $1 of assets for $1.20

LICs trade on the ASX which provides intra-day liquidity

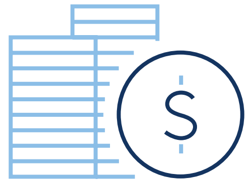
Shareholders can buy or sell their shares through the ASX. This provides intra-day liquidity and avoids the need for lengthy application and redemption forms, or the requirement to wait for a redemption window to access any funds.

Premiums and discounts



LICs are traded on the ASX and have a fixed amount of capital. At times, the LIC's share price can fluctuate above and below its net tangible asset (NTA) value. The NTA represents the true value of the company and is provided to shareholders and announced on the ASX each month. The share price, however, is influenced by supply and demand in the market. When the share price is above the NTA of the company, the LIC is trading at a premium to NTA. When the share price is below the NTA, the LIC is trading at a discount to NTA. We look more closely at premiums and discounts on the following page.

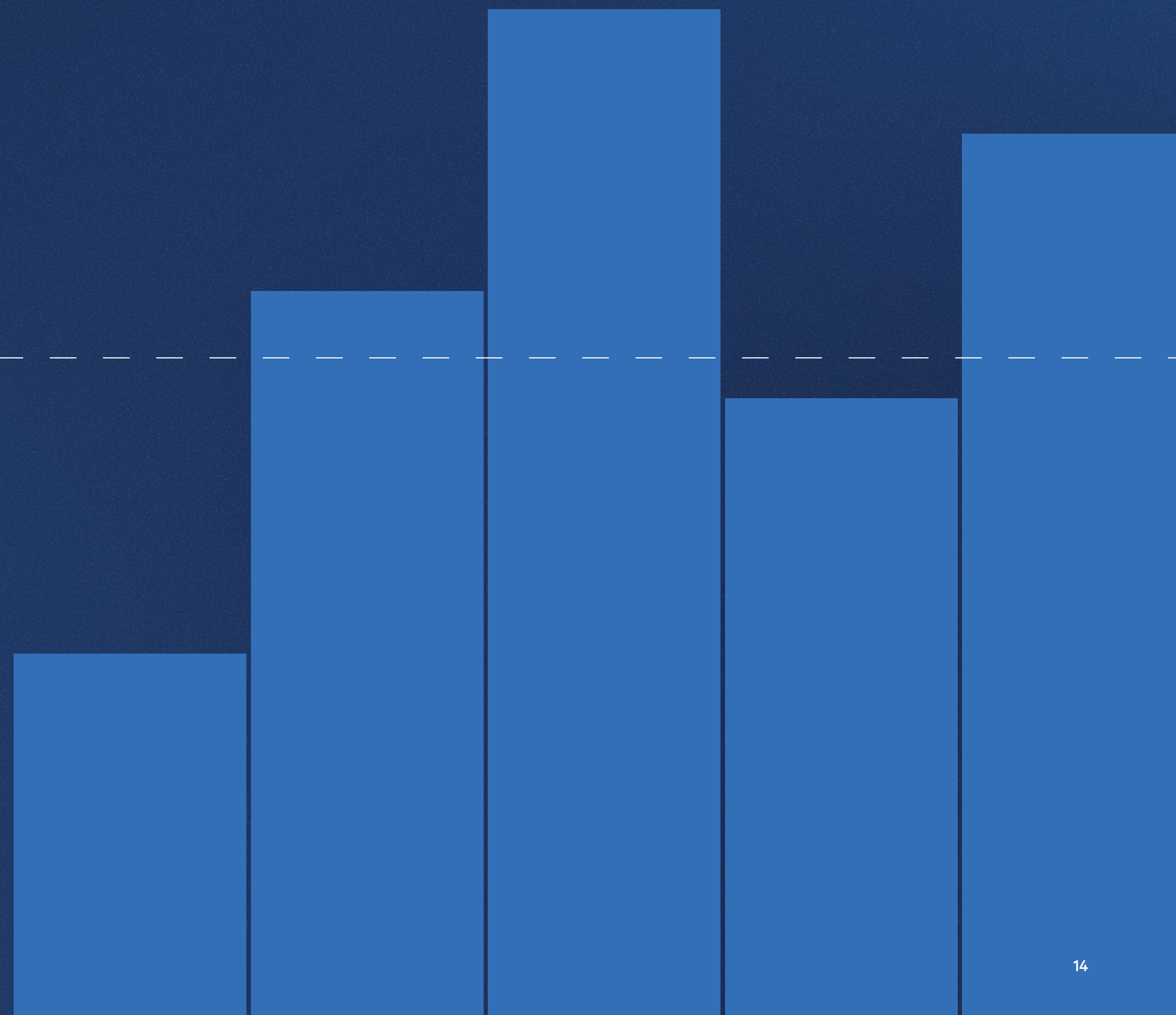
Fully franked dividends



The company structure of a LIC allows it to pay a stream of dividends. As such, LICs can elect to frank their dividends if franking credits are available. When a LIC pays a fully franked dividend, shareholders receive the cash dividend plus the benefit of any attached franking credits the company has paid or received on your behalf. The shareholder can then use this credit to help offset their own taxable income, or even have it refunded to them if their tax rate is lower than the franking rate attached to the dividend. In contrast, open-end funds like unit trusts are typically required to distribute all taxable income earnings each year. These earnings may or may not have franking credits attached depending on the underlying investment, and income is unpredictable, and in some years the unit holder may lose capital and may be required to pay tax.

Why do LICs trade at *premiums or discounts to their NTAs?*

A LIC can trade at a premium or discount to its underlying value, or its NTA. This is because LICs are closed-end funds with a fixed amount of capital, and investors can only buy its shares from an existing shareholder that is willing to sell. This means a LIC's share price is determined by the forces of supply and demand. As a result, a LIC's share price can deviate from the value of its NTA.



When LICs trade on the ASX above their NTA value, the LIC is at a *premium.*

When LICs trade on the ASX below their NTA value, the LIC is at a *discount.*

Premium

When a LIC share price trades at a premium to its NTA, it benefits investors who bought shares in the LIC when the company was trading at or below its NTA.

When a LIC share price trades at or above its NTA, it is able to raise capital and grow in size. The growth in the size of a LIC benefits shareholders by increasing its on-market liquidity and relevance in the market and reduces its fixed costs as a percentage of assets. Increased liquidity tends to improve the prospect of broker and research coverage and interest from financial planners. Conversely, it can be a negative for shareholders who buy shares when the LIC is trading at a premium, as the price may seem 'expensive'.

Some reasons why LICs trade at a premium to its NTA:

- Pay a consistent and growing stream of fully franked dividends.
- Effective investor communications and marketing, raising the profile of the LIC.

Discount

When a LIC share price trades at a discount, this provides investors with an opportunity to gain exposure to the LIC's underlying assets for less than its value.

Some reasons why LICs trade at a discount to its NTA:

- Newer LICs with a limited track record of performance, poor portfolio or corporate performance. Or the LIC may lack a history of paying dividends, or not pay a dividend at all.
- During initial public offerings (IPOs) and capital raisings, some investors with a short-term investment horizon may arbitrage their shares, meaning they buy in only to sell out once the share price rises in a short period of time. This can often negatively affect the share price in the short term until these investors exit the register and the shareholder base stabilises.
- Ineffective shareholders communications and marketing, which can lead to low awareness of the LIC among existing and potential investors.
- The Board has not treated all shareholders fairly, eroding shareholder trust, which can cause shareholders to sell and put downward pressure on the LIC's share price.

The three measures *of performance*

Investment portfolio performance

Investment portfolio performance measures the growth of the underlying portfolio of equities and cash before expenses, fees, taxes and capital management initiatives. Each LIC is driven towards beating a benchmark index, or increasing the underlying portfolio of equities and cash at a faster rate. This measure allows a shareholder to assess whether an active manager can outperform on a like-for-like basis with the benchmark.

Total shareholder return

Total shareholder return (TSR) measures the tangible value shareholders gain from share price growth and dividends paid over the period, before the value of any franking credits distributed to shareholders through fully franked dividends.

TSR = CLOSING SHARE PRICE
+ DIVIDENDS PRICE
/ OPENING SHARE PRICE

Net tangible asset growth

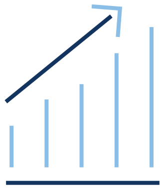
NTA growth is the change in value of the Company's assets, less liabilities and costs (after tax, management and performance fees) and is usually shown on a per share basis. The NTA growth demonstrates the value of the portfolio performance and quantifies the impact of capital management decisions (for example, dividends paid, options exercised, new shares issued at a premium or discount to NTA) under the direction of the LIC's Board of Directors, which can increase or decrease the value of a LIC's NTA separate to the performance of the investment portfolio. The franking credits generated by corporate tax payments, which reduce a LIC's pre-tax NTA when the cash outflow is paid, are available for distribution to shareholders through fully franked dividends.

Critical elements of *a successful LIC*

There are four critical elements of a successful LIC:

Performance

Investment portfolio performance. This measures the growth of the underlying portfolio of equities and cash before expenses, fees, taxes and capital management initiatives.

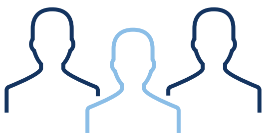


Dividends

The ability to pay a growing stream of fully franked dividends.

Treat shareholders with respect

The fair and equitable treatment of shareholders and understanding that the Board of Directors within a company only exists to represent the best interests of all shareholders.



Engagement

Regular engagement with our shareholders. A comprehensive acknowledgement, engagement, communication and education strategy to build trust.

Our approach to shareholder engagement

Wilson Asset Management takes an especially active approach to engaging with our shareholders, both in terms of ongoing performance and timely insights. We provide:

- Email updates from our Lead Portfolio Managers
- Investment team insights including ‘Buy Hold Sell’ videos
- Shareholder Q&A calls and webinars
- Shareholder education material
- Presentations and events across Australia
- NTA reports and investment updates
- Annual and interim results announcements

Conclusion:
LICs in summary

LICs provide investors with access to a broad range of assets and diversification benefits as well as access to the skills of a professional and experienced Investment Manager.

The LIC structure is closed-ended and has a fixed pool of capital. This structure gives Investment Managers the ability to focus on long-term performance. Investment companies with a fixed capital base, like a LIC, have outperformed open-ended funds over time on an NTA basis.

Before you invest in a LIC make sure you consider the share price premium or discount to NTA and the three measures of performance: investment portfolio performance, NTA growth and TSR.

Investors in a LIC can receive returns in two ways:

01 Investors can benefit from capital appreciation, or the increase of the share price. This is the difference between what an investor paid for their initial share purchase in the LIC compared with the current market selling price of those shares, assuming the share price has appreciated over time.

02 Most LICs pay regular dividends that can often provide a regular income stream for many investors.

Market & LIC
jargon

Bear market "Bearish"	Pessimistic market sentiment, characterised by falling share prices. Bear markets often predict an economic downturn.
Bull market "Bullish"	Optimistic market sentiment, characterised by rising share prices and investor confidence on the expectation that strong returns will continue.
NPAT (net profit after tax)	Net profit after tax is a company's earnings after all expenses and is the profit available to equity holders.
EPS (earnings per share)	A per share measure of earnings **(NPAT)** frequently utilised by investors. The EPS is calculated by dividing a company's earnings by the number of shares on issue.
EBITDA	Earnings before interest, tax, depreciation and amortisation. A measure of a company's operating profitability before reinvestment.
Index	An index or benchmark can be used as a comparison tool to understand how a LIC has performed compared to a particular market. An index is a group of companies that are used as a benchmark, such as the S&P/ASX All Ordinaries Accumulation Index and the MSCI World Index. The S&P/ASX All Ordinaries Accumulation Index includes the 500 largest companies in the Australian equities market. The MSCI World Index is a broad equity index that includes the largest companies across 23 countries.
IPO (initial public offering)	The initial offering of shares by a private company to the public after which the company trades on a public stock exchange.
Leverage	The use of debt as a funding source. A highly leveraged firm has a higher ratio of debt-to-equity or debt-to-earnings.
Liquidity	How quickly and easily assets can be converted into cash.
Market capitalisation (market cap)	The market value of the equity of a publicly traded company, calculated by multiplying the share price by the number of shares outstanding.
P/E ratio (price-to-earnings ratio)	A measure of the relative expensiveness of a given company. Calculated by dividing the share price by earnings per share. Investors often compare a company's P/E ratio to other companies in the same industry or relative to the company's history.

NTA (net tangible assets)	The total assets of a company, less liabilities and intangible assets, such as goodwill. NTA divided by the number of shares on issue equals the NTA per share.
Options	The issuing of options to existing shareholders, to provide them with the opportunity to purchase shares at a discount to its NTA. This occurs when the share price of the underlying shares is higher than the exercise price of the option.
Profits reserve	This reserve forms part of the shareholder equity and is made up of amounts transferred from current and retained earnings that are preserved for future dividend payments.
SPP (share purchase plan)	An offer to existing shareholders to purchase more shares at a stated price and without paying brokerage fees. Each shareholder can buy a maximum of AUD30,000 of shares in the SPP.

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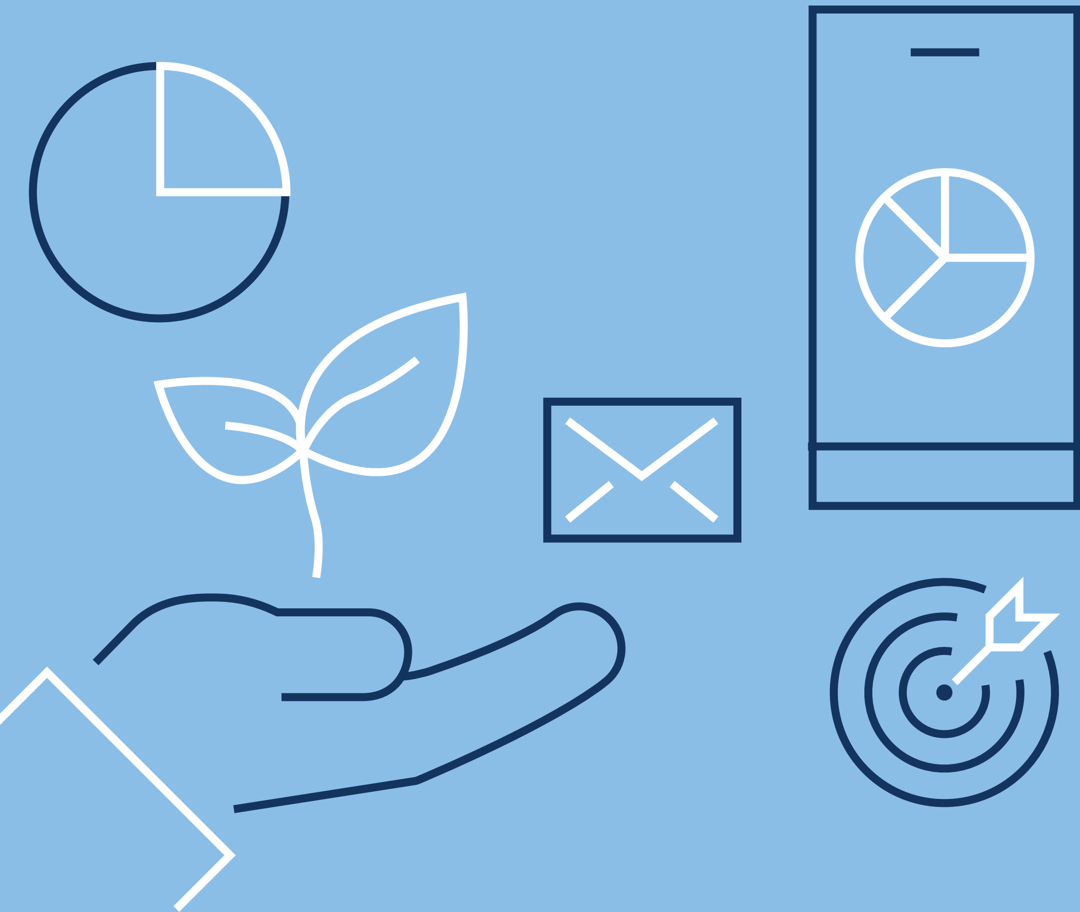

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