WAM Capital, WAM Microcap, WAM Research, WAM Active FY2024 Interim Results Q&A Webinar
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Speakers:
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OSCAR OBERG: I'd like to welcome everyone for dialling into today's call. On the call you have myself, Oscar Oberg, and Tobias Yao, we are the portfolio managers of the small cap products that we run at Wilson Asset Management, being four funds called WAM Capital, WAM Microcap, WAM Research and WAM Active.

Now in terms of how the call will go today, I'll talk about our outlook for small cap companies. I'll then pass it over to Tobias to talk about how he saw things through reporting season in February. We'll then talk about some key stock ideas that we quite like at the moment and then we'll jump into the question and answer session that will be run by Camilla.

We've had a great start to the financial year and in particular in the first half of the financial year that you've seen that we've released to the market across all funds. The highlight being WAM Capital which has actually managed to outperform the market by just over 5% in this period.

You will be able to see on the presentation that we've released from the ASX today that we've given our performance figures up to January. Our net tangible asset announcement will come out on Thursday in a couple of days' time across the four funds and we'll actually put an updated presentation there in terms of how we're going for up to February. We had a very good reporting season across all four funds. Very happy with how we're going. It's the best reporting season that we've seen really since over the last four years since around August 2020 coming out of COVID.

To give a summary of how we're seeing things, overall, we're very, very positive - probably the most positive we've been in a long time. And I think it's fair to say over the last two and a half years on these conference calls we've talked pretty consistently about how small cap companies have underperformed the broader market and that's the All Ordinaries Index which is effectively our benchmark across WAM Capital, WAM Active and WAM Research.

The best example I can give you here is in the 2023 financial year, the team managed to outperform the Small Ordinaries Index or the Small Cap Index by close to 10%, but we only just outperformed the All Ordinaries Index by over 3%. So, in other words, there was a 7% headwind in our performance numbers in 2023.

Now as a reminder it's worth noting that close to 50% of the All Ordinaries Index consists of six companies being the four major banks and also Rio Tinto and BHP Iron ORE and these are companies consistently that we haven't held across the funds as we prefer to focus on growth companies in the small cap sector.

We think the pausing of interest rate rises that we first saw in the United States in December of last year, and what we do expect to see in Australia as we go through 2024, is going to be very positive for small cap companies and we think this will actually reverse the underperformance that we've seen over the last years and in fact it could be a very positive period for small caps where we actually outperform the broader market over the medium term.

We've provided a very simple slide or chart in the presentation and all this is showing is the Small Ordinaries Index and the All Ordinaries Index, and very simply, what you can see there is that the Small Ordinaries Index is trading at a level 15% below it's all time high which was in 2021 and the All Ordinaries Index which is obviously largely dominated by large cap companies, is just surpassed its all time high through December and January.

Basically, what we're saying here is it's been a very positive period for small cap companies since around December when that changes when a macro economic environment occurred, and it's been very positive through February. All that chart tells you is there's still a long way to go for that underperformance to be recaptured.

As I said before sitting here today, we are the most bullish we've been in small and micro cap companies for some time and this largely reflects the fact that there are some sectors out there which are trading at multi decade lows in terms of their valuation. In smaller micro-cap companies over the last 12 months, we've seen extensive takeover activity, and in fact in the last 12 months we've seen 18 billion dollars of takeovers in this period which is over 50% higher than the 5 year average.

We've been very lucky in our portfolio over that period. We've had takeovers in SILK Laser, SGI Health, Ansarada, Healthia, what else Tobias?

TOBIAS YAO: Genex.

OSCAR OBERG: Genex, Superloop – so it's probably the most we've seen to be blunt, so we've been very lucky along the way, but when we look at the portfolio today, we expect it to continue. There are just so many companies out there that are trading below what they should be, and I think in public markets, bizarrely, you're seeing valuations actually lower than what they are in private markets. So, you know we think private equity's going to be very active in the small cap space over the next few years.

More importantly we see a very positive environment ahead of us in capital raisings and initial public offerings and this is a part of the market that's really been dead for the last 2 years, and as an example I saw a company today, I think it was about 6 months ago, and it's probably going to come on as an initial company on the ASX at a 50% discount than when we initially saw it 6-12 months ago. They're the opportunities that we're seeing here at the moment.

While all funds will benefit from this, it's WAM Microcap really that is the big beneficiary and this is largely because the companies we invest in, WAM Microcap are below a $300 mil market cap so they're very small companies and they need capital for growth. Capital raising's been a dirty word over the last 2 and a half years, we actually think it was in 2020/2021 it was very positive for a number of companies we own, we're seeing a very strong outlook for that going forward.

I'll leave it at that, while everyone's on the call I'd like to thank everyone for their support. We really appreciate the calls and the emails that come through, but look I'll pass it over to Tobias who will talk about reporting season.

TOBIAS YAO: Yes, thanks Oscar. So as Oscar said, you know we are very pleased with the February reporting season. It's actually the first typical reporting season we've seen in over 2 years, and by typical, in our definition, is that companies that reported good news went up. So, what did that tell us? It tells us that the market is now focusing back on the fundamentals of the business, rather than getting impacted by macro's sentiment which you've seen over the last 2 years.

Over the last 6-12 months we've rotated materially into tech and growth companies and our view was that over the last 2 years many of these high-quality tech companies were actually winning market share while at the same time cutting their cost base and optimising their cost base. And given the macro sentiment, many of these companies were trading significantly below their intrinsic values. We increased holdings and bought positions in companies like NEXTDC, Megaport, Temple & Webster, Life 360 – just to name a few – and those have done well during the

February reporting season when they came out and reported an accelerated growth which led to more investors looking at these businesses and going back and buying these businesses.

In addition to technology companies, we also took a contrarian view over the last 6-12 months in increasing our exposure in retail and our consumer discretionary spend. Our view was the fact that we believe over the next 12 months consensus or sell side analysts on the street, their focus for many of these retail and consumer discretionary ones were very bearish and very long and we thought it was unwarranted. So, we increased positions in Harvey Norman - you may have seen Oscar talk about Harvey Norman on the last Webinar – Nick Scarli, Premier and Myer. And so, when many of these companies reported in February, you know the world's margin was a lot better for many of these businesses and the outlook wasn't as bad as what people were expecting so many of these businesses actually did pretty well.

So, technology and retail companies that we had in the portfolio really helped us over the February reporting season and the reason why we are bullish in small caps over the next 12 months, is the fact that typically when you have momentum and when you have upgrades in many of these businesses, they continue to keep going over the next few halves. So, we feel very well having positioned appropriately for what is potentially going to be a very good 12 months.

Now today I also have to provide two stock picks so I choose one from WAM Capital and one from WAM Microcap. The first one of WAM Capital is a company called A2 Milk. It's a milk and infant formula company that sells in Australia, in China and also in the US. Now for those shareholders that have been with us for a while you may have heard about us talk about A2 Milk you know 6 or 7 years ago when you know we had a lot of A2 Milk, we had a lot of Blackmore's. They were exposed to the China trade.

Now the reason why we are back in A2 in quite a large position, we started buying around December and January, is the fact that over the last 2 years there have been seismic changes in China, a key customer in market play too and a lot of regulatory change and A2 thanks to the execution of the management team have been able to come through this a lot stronger with a much higher market share.

So, you know the birth rate declining has been key negatively and this year we believe the birth rate could actually increase. So A2 was able to grow revenue even when the overall market was shrinking, our view that when the market is now growing, the revenue could accelerate.

Now A2 reminds us a little bit like NEXTDC this time last year. Now it's very different businesses, but like NEXTDC and Harvey Norman, these are large businesses that are often overlooked by large cap managers and too large for small cap managers. So, they're sort of in that middle area. They have high short interests and the negative views or the bearish views were predicated on macro concerns which we think you know are unwarranted and therefore as the fundamentals come through, in this case various upgrades, potential EPS accrual of acquisitions, the share price will rerate.

A stock idea in the WAM Microcap portfolio is a company called GenusPlus. It's a founder led business with the founder David Riches owning over 50% of the business. Now GenusPlus is a construction company which effectively build transmission lines in Australia. You know one of the reasons we like this story, we think it's a long-term structural growth story, is because of the rewiring the nation initiative by the government to spend over $20 billion on turning the current transmission network to be more fit for purpose. Effectively with all the renewable hubs, energy hubs coming online, the transmission network is a little bit antiquated and need service providers like GenusPlus to effectively build these transmission lines. And so, we believe Genus could win more contracts. They've had a massive pipeline, they've upgraded recently in February, and we believe these contracts could lead to further earnings, upgrades.

So, these are my two stock ideas, now I'll pass it over to Oscar for his two stock ideas.

OSCAR OBERG: Thanks Tobias. Well, my two ideas, the first one is a company called SG Fleet which we own in WAM Microcap, we also own it in WAM Capital. SG Fleet is a fleet novated leasing company in the automotive industry. So, we've owned this company for quite some time and it's been a frustrating stock for us. We've owned it for I think 4 years and it has upgraded earnings consistently over that period of time. The only problem has been is that the large source of the upgrades has been elevated used car prices coming out of COVID. So, in terms of our peers that don't own the company, they've been worried about this moment when used car prices will fall and then what that impact will have on the SG Fleet earnings.

Now we actually saw used car prices fall quite considerably in the first half of this financial year for the company, and that part of their business I think fell about 20-25%. However, through new car deliveries and the strength of novated leasing and prudent cost control, SG Fleet actually grew earnings through that period, actually grew earnings through that major headwind.

So, we think the business has now found a new base. We think the business can keep growing through here. They're also integrating a large acquisition that they made in 2021 and a lot of the synergies from that acquisition will occur in the next 12 months and what's even more attractive is the valuation. Now SG Fleet is trading on a price to earnings multiple valuation of 9 x earnings and its closest peer McMillan Shakespeare is trading on a multiple of 15 x earnings so we're very bullish for this company. We think it's definitely turned the corner and we think it can double.

Now my final stock we'll talk about G8 Education which is the largest child operator in Australia. Now this company has been a dog full stop. Like it's been a shocking company for a number of years for a variety of reasons. However, our major catalyst to buy the company was meeting G8's new CEO, I think just over a year ago, and G8's new CEO has a background in retail, very good at rationalising their footprint. In other words, getting rid of their loss making or stores at his job at child care centres, handing back unprofitable leases or selling them which we believe is a great tailwind for growth as we look going forward.

Now coupled with that through COVID, occupancy has fallen so it's 3% below what it was at COVID. It's currently at around 76% versus pre COVID at 79% and we think due to what they're doing internally in the business, that occupancy can increase 1% a year really over the next 3-4 years.

So, in terms of how the business or how we're looking at the business over the next 3 or 4 years, we see a quite conservative pathway to around 15% per annum earnings per share growth. The company has effectively a net cash balance with very low levels of debt, so we think there is ability for capital management. So potentially that could increase closer to 20% and we see a very attractive valuation. The company's trading on a price setting multiple valuation of 12. We've seen it as high as 20 x over the journey when it was doing well. So again, we see, call it 50-70% upside in the share price in this name.

So, look that's I guess the formal part of our presentation. I'll pass it on to Camilla for the question and answer session. Now we're happy to go to the death like we always do, but you know if we do forget a question that comes through, look we'll contact you personally after the call. So yeah, thanks again but yeah, I'll pass it over to you Camilla.

CAMILLA COX: Thanks Oscar, thanks Tobias, that was a great update. Before we open up for questions, I just wanted to touch on a few things with you both that come through quite regularly from investors. So, we recently announced our interim results and WAM Research and WAM Capital partially franked. Can you speak to the franking levels and the dividends across the four funds that you manage?

OSCAR OBERG: Yeah, sure so I'll start off with the easy ones, so that's WAM Research, WAM Active and WAM Microcap. So, for those 3 funds we held the level of franking and the dividend consistent with that we did with the final dividend to the interim dividend. Now for WAM Microcap, it's worth noting that that's the first time we've maintained the dividend. You know really since the 2017 initial public offering. Now we are conscious that the profit reserve is very high, but if you look at the dividend yield on the WAM Microcap share price at the moment, it's very high at 77%. What really matters is the yield on the net tangible assets per share. That's even higher at 8% and that's before we even consider franking.

So, we've had a lot of feedback and I assume this will come up with some questions in the call around why is the WAM Capital share price fallen so much? Well, it's a similar dynamic with WAM Microcap because we're paying out so much in a dividend, we need the market and our performance to grow quite considerably to offset that dividend and to grow the net tangible assets and affect the share price, effectively the share price. So that is one of the reasons why the Board held the dividend. You know it's worth knowing that nothing's changed with WAM Microcap. If we have good years, there is the potential for a special dividend.

Now on WAM Capital, you know I think it was interesting going to the October Board meeting which I went into, I think it's fair to say myself, Geoff and the Board thought there was probably 0% chance that we were going to hold the April dividend at 7.75 cents a share. While we've been outperforming the market, the market was down at that point in time, we're only just up a very small amount and so hadn't generated enough profit in the profit reserve.

Now since December, the market has obviously gone up a lot, but we've gone up more than the market so as it stands today, we're able to pay the 7.75 cent dividend in April and we actually have further visibility as we look into 2025 across the October 24 dividend and the April 25 dividend. So again, have a look at the net tangible assets released on Thursday and you can see the level of profit reserve and how much coverage that we have for the 7.75 cents.

Now in relation to franking, okay so very similar to WAM Research. So, with franking you can only pay franking from your realised profits and all that means is it's a fancy word for saying when I sell the shares and they convert to cash. With dividends, you can pay dividends from your unrealised profits, right so that's when the share price goes from $100 to $120, I haven't sold the shares but, in my portfolio, it's gone up 20%. That's an unrealised profit. And your realised profit which is when I actually physically sell the shares.

Now because we had the sell off in 2022, and 23 the market went up but not too much, we actually haven't sold much in the portfolio in a relative sense then what we have historically. And so, what that means is we haven't generated enough franking credits over that period and we were short, as the Board was looking at it, it's a Board decision, and it was very similar to WAM Research. We potentially could have paid 100% but we would have had nothing in the tank for the future dividend. So, the Board has chosen 60% as the number. There is some visibility over 60% into the next dividend so how about I leave it at that. I have tried to make that as simple as possible but I've been talking too much so I'll leave it to you Camilla for the next question.

CAMILLA COX: Thanks Oscar and you actually just covered off a couple of the questions with the answer. So, thanks for the detail. You both spoke to reporting season. Sounds like you had a lot of good runs but let's talk about some losses. Can you name a few stocks?

OSCAR OBERG: Yeah, we also have some stinkers and you know we were having a laugh the other day about there's a portion of the portfolio, across all the funds really that you'd almost just like to carve off and forget about, but there was one company in particular – all my fault – I think we talked about it on the conference call probably a year ago, the company's called NextEd. It's in the international education sector. It was a great stock for us in the 2023 financial year. I think we first bought shares at about 70 or 80 cents and it doubled and doubled and then it came crashing down and the reason is effectively cost of living pressures, full employment, there's been an influx of immigration come in and the government said enough's enough, we're cutting immigration, we're cutting those really high levels of immigration back to where it was pre-COVID. These guys do English language schools and vocational courses for international students so you couldn't get a worse sector really or a business that's leveraged to immigration. the revenue has fallen really quickly and it hasn't given the management team enough time to cut costs. We still own a lot of the company, we're about 10% of the company but we had a big swing at it a year or so ago. It came off in 23, it hasn't come off in 24 and unfortunately when a company falls that much and it's illiquid, for a big fund like us it's tough to get out. So, you know we haven't sold a share, but unfortunately, we're sitting there at 10% of the company. So that's probably my gift to the portfolio Tobias, what's yours?

TOBIAS YAO: Another one that probably hasn't performed as well as we thought is a company called the Reject Shop which…

OSCAR OBERG: This wasn't your stock.

TOBIAS YAO: Well but just in terms of one that hasn't performed. You know they saw an issue with shrinkage which is effectively people stealing and we thought it would do pretty well in an environment where consumers are sort of pulling back purse strings and trying to spend better, but it hasn't really occurred and you know obviously management's trying to optimise business right now but you know compared to say something like K-Mart which has done incredibly well, it has really underperformed you know to some of its peers. So that's one that probably hasn't done as well.

OSCAR OBERG: Well, I think with that one as well, it's got $100 mil of cash and I think the market capitalisation's what $160… $170 or something like that so we've got a good backstop in the cash balance but yeah it has been a disappointing stock that one, yep.

CAMILLA COX: Great thanks. The next question is from Paul. It's a bit of a long one so I've just broken it down slightly. He says that you said WAM Capital shares have returned 15.1%, the share price has decreased 12% in the last quarter, so where are you getting the 15% from? He's down 29% in his portfolio so are you being honest with investors?

OSCAR OBERG: Yeah, look thanks for the question Paul. Look obviously we're always honest with our investors. So, what you've got to understand here is when we're saying 15% that's the portfolio, that's our portfolio return. Now in a perfect world, the share price really should follow that portfolio return.

Now you're investing in a listed investment company, right? And one of the positives and also the negatives of a listed investment company is that when you first list on the ASX, your share price has a life of its own. So various points in time your share price could be at a premium to what the assets are worth, which is the assets being the portfolio that we run. At other periods of time, you could be at a discount. Now Geoff, obviously our founder and Chairman, who everyone knows from the call, always likes talking about how he likes buying a $1 of assets at 80 cents. Now that occurs when a listed investment company effectively is trading at a discount to what the portfolio is actually worth – which is effectively our net tangible asset.

Now we are shareholders and WAM we're frustrated as well. However, I think it's worth knowing, an unfortunate occurrence let's call it, is that at the end of 2021 WAM Capital was trading at I think about a 30% premium to its net tangible assets and we've talked many times on this call when the sell off happened in 2022 the share price stayed pretty flat and there was a big lag between the share price falling and the market falling, right?

Now the portfolio went up around 18% I think it was last year. It's up 20% now. Just given the way the math's works, we're only just starting to cycle through that period and actually being able to grow the net tangible assets. But the main one is that when it was trading at a 30% premium, right, effectively now it's trading I think at around an 8-10% premium, so that is 20% that you've lost just purely because of the share price. In terms of our performance, that is what it is. But the share price itself, the premium has contracted.

Now the other thing as well that you need to include when you look at that analysis is the total shareholder return. Now through that period yes, the share price has fallen a lot. We acknowledge that. We've actually continued paying out and the Board has continued to choose to payout quite a high level of dividends.

Now that 7.75 cents a share twice a year, if you call it 15 cents, that's on net tangible assets of I think today I'm guessing I think about $1.50 - $1.55 let's call it – so effectively you're getting a 10% yield on our net tangible asset and that's even before we consider franking. So just to stand still we need to effectively generate positive performance of over 15 or 16% just to keep the net tangible assets standing still because we're paying out so many dividends.

So, look in summary, like it's a long way to answer the question, obviously we're shareholders too in WAM Capital and we're frustrated with the performance but the big reason why the shares have fallen is because it was trading at a 30% premium and today it's trading close to 10% so you've lost 20%. You need to add in dividends that we've paid you over this journey. The dividend yield is extremely high, some may argue it's unsustainably high, but that will actually improve your total shareholder return because you've received dividends, and as well the 22 sell off was quite sharp and we've only just started to cycle through that now in this current financial year. So hopefully that gave you a good summary, but always happy to have a phone call if you need some more information.

CAMILLA COX: Thanks Oscar, thanks for the detail. The next question is from Andrew Irwin. He said could you please comment on whether you're still invested in MMA Offshore and what you consider fair value in its share price.

OSCAR OBERG: Yeah, I knew you'd point to me because Tobias was telling me fair value was about $3 a share and I thought it was $2 so I was selling it, and Tobias was telling me to hold on. Look no we're still in the company. We own around 4% of the company. We did own a lot, we owned 10%. I made the great decision of selling some at I think it was at about $1.20/$1.30 which was when we went below 5%. It was a mistake. I should have held on because the earnings that the company's has produced was much higher than what we thought it would be. Also, it's gone into the small cap index so that's created more passive or call it ETF buying which has meant the shares have gone up quite a lot.

So, to answer your question, yeah if you asked me 6 months ago, I would have said probably around $2 was fair value. I think you'd get well over $3 quite easily. It's got a great management team, they're doing all the right things, plenty of cash, capital management's coming, potential acquisitions so it's got lots of catalysts so yeah unfortunately I still would have liked to have 10% of the company today but we did sell some, but you know it's been probably our best stock since Afterpay.

TOBIAS YAO: Second best.

OSCAR OBERG: Oh yeah second best. Tuas, TPG Singapore and this one, MMA.

CAMILLA COX: Thanks guys. The next one is from Peter. He said, when will you pay quarterly dividends or at least spread the dividend pay dates over a few months?

OSCAR OBERG: I'll start off with the quarterly dividend. I think all our investors who have been there for a long time know the volatility that you see in the share price through the ex-dividend dates in particular. I think if you added, and this is probably one for Geoff to be frank, but my view is if you're adding another two dates, so you're having four ex dividend dates instead of two, it's going to create a whole heap of unnecessary volatility in the share price. So that would be my answer there. On the dates I think that's probably one for Geoff, sorry.

CAMILLA COX: Thanks Oscar. I'm going to skip down the list just because you just mentioned this company as being one of your best, Ashalt has asked have you completely sold out from your holding in Tuas Limited?

TOBIAS YAO: The short answer is no. We sold out a little bit which sort of led to the cease of substantial. We're still very, very positive in Tuas given you know they're sort of just starting to gain traction in Singapore. They own about 10-11% of the market share in Singapore and if you look at TPG Telecom over the many years their business in Australia they went to 25% of Australia. We're looking out for in the upcoming result is their broadband strategy which they've just started and how quickly they can gain share in broadband. So unfortunately, it's done really well for us so though we had to sell but given it was a very large position in the fund. Just to link it back to cease the subs, it doesn't, you know when we cease subs it doesn't mean we've sold out of a company, we're just adjusting the size of the position.

OSCAR OBERG: Yes, so what it is when you see it on the ASX it'll say WAM Capital ceases substantial in a company. Now all that means is that we've gone, you know we might have gone from 5 ½% of a company to 4 ½% of a company and you know it doesn't mean that we go to zero. You know a company like that would take six months to get to zero and we're certainly very, very positive on the company so we're not doing that, but if you have a look when we became a substantial shareholder, I think it was, what was it a $1.80?

TOBIAS YAO: Yep.

OSCAR OBERG: I think I told you at a $1.00.

TOBIAS YAO: Yes.

OSCAR OBERG: We're talking about 50 cents. No but look you know we were taking profits in the company. It's been a tremendous performance. Tobias, you know it was all his work and he's done an amazing job on it so yeah just remember that. So, if you cease substantial it doesn't mean we're going to zero.

CAMILLA COX: Thanks guys. The next one is from Michael. It says do you think undervalued growth companies and small to medium size businesses like the ones that you hold in WAM Cap stand to gain from the forecast interest rate cuts?

TOBIAS YAO: I'll say yes and sort of this is our typical hunting ground, so in our view that's going to be additionally positive, but in terms of what we're trying to figure out, we're trying to figure out the fundamentals of these businesses 'coz you know let's say we're picking tech companies, not all tech companies can exhibit high levels of organic growth and so we're trying to differentiate the ones that we believe can continue to take market share from their peers versus everyone else. So, we spend a lot of time trying to understand that as well.

So overall the macro sentiment we'll benefit. We're also seeing takeovers in this space, like LTM which is a $10 billion company got acquired and you know and that's $10 billion of sort of capital invested or tied in growth that should cascade down to you know many of the other tech companies on the ASX over time and so we're seeing a few, you know quite a few green shoots in the space and we think that's going to help tech and growth companies in general but we're still trying to pick the best stock out of the bunch.

OSCAR OBERG: You know the hardest thing that's been over the last two years with the rising interest rate environment is that our stock picking, we've talked about this on the call numerous times, it's actually been pretty good and unfortunately the index, how the composition looks, as I said earlier in my presentation, a substantial amount of the ASX is the 4 banks and the 2 large resource companies, BHP and Rio. We don't own them, we never have. So, when they're going up, that can be a significant headwind for us which a number of our listeners will know, you know they've done tremendously well. Commonwealth Bank I think hit $121 the other day. I think that's 10% of the market and we don't own a share. So that's been the hardest bit. We've been calling the stocks, it's just the weight of money is going to large cap companies, right? Because interest rates have been going up, there's uncertainty around future earnings. Now we're not even looking for interest rates to fall, we just want them to be flat. If they're flat then that's all really we think we need because the stock picking should get us there and then investors will just have more confidence to invest in small cap companies again.

CAMILLA COX: Great, thank you. This next one is from Alex. He said you mentioned you're the most bullish on small caps then you have been in a while, so do you see the Small Ords testing it record highs this year like the ASX 200 and Ords have done?

OSCAR OBERG: We think it can. I think on the last conference call back in, when would it have been? Early September. We talked about our bet on consumer discretionary as an example which is retail, automotive, housing stocks etcetera, and you know that has really played out. That's been you know one of the team's great calls really. But there's still more to go. We're looking at say like Nick Scali as an example which has probably more than doubled since we owned it. Mostly analysts are still quite pessimistic on the company, it's done well but it's still trading on a price that is multiple 13 times. It's net cash, it looks like it might want to do an acquisition. So, we've seen that trade as high as 16 and 17 when it's through an upgrade cycle.

Now Harvey Norman as an example is currently trading on I think about 12 times earnings and most of the market capitalisation is in property. It's net cash. We've seen it trade as high as 16 and 17 times in an upgrade cycle. And why that's important to talk about is those stocks are around 30% of the small cap index. So yes, there's some tech companies that have gone really, really well over this period, a number of companies have done really, really well but it's that 30% that we see effectively just getting a high valuation, call it a 20% higher valuation in time, right which could happen if interest rates start falling and people start getting more bullish and more positive on retail, that really should get you there to the all time high that I was referring to before.

So yeah, we are bullish. We think it will happen at some point because the under performances as you saw on those charts, it's been quite savage really and it's been one of the highest periods of underperformance we've seen over the last 25 years.

CAMILLA COX: Great, thank you. This next one is from George. He's looking for your comments on stock. Are you still positive on Cettire given the speed ticket recent issued to them by the ASX and the company's response?

OSCAR OBERG: Yeah, what a topical stock. The answer is yes, we are. Look one of the beauties of the WAM investment process is that we are an active fund manager so we had quite a large position in Cettire at the result. The stock I think went from $3.30 to almost $5.00. We halved our position through that period. I mean it's been one of our best performing stocks really through that February. We own half our position that we did when we went into that and you always do things like that for companies like this that are quite topical, they're new to the market. People could try and get their heads around it. There's a bit of noise around it and this stock certainly has this. It's no different from Afterpay when it first came out.

And so yeah when the article came, we saw it… what was it Monday morning last week, we knew the stock was going to fall a lot. But the reality was our weight was quite low and we know the stock really well. We've met management numerous times. We've spoken to competitors in the US and Europe. We've done a lot of work on the industry. Will Thompson who works with us has done a tremendous job on it. So, we took the liberty on situations like that to buy more stock and we've been buying more stock every day since.

So, I guess in summary, yes, we're still very confident on the company. It's largest competitor in the US fell over in December. It was actually through that December period it had a great result Cettire, but it was actually a very tough quarter because their competitor was heavily discounting to stay alive and so now that competitor has gone. So, these guys could end up being the largest player in the space.

So, we actually, just fundamentally on the numbers, we still like the stock. Is there going to be more noise on the stock? Yeah, probably but you know it's very similar to Afterpay in the early days so yeah, we're still positive on it.

CAMILLA COX: Thanks Oscar. This next question, I know you can't really answer it but maybe you can speak to the profits reserve. It's from Michael and he said do you think the next advance for WAM Capital will be 7.75?

OSCAR OBERG: It is a board decision, Michael and I'm not on the Board but how about look at Thursday's net tangible asset release.

CAMILLA COX: Great. Roger says is WAM Microcap planning on acquiring any other small caps LICs?

OSCAR OBERG: No, never say never but no we are trading at a premium so you know if there was a listed investment company trading at a discount, we can make it accretive and beneficial to shareholders through an uplift in the net tangible assets then potentially that's something we could do, but that's not on the radar at the moment.

What I will say in WAM Microcap though is right now we think is the best opportunity we've probably ever seen in that space. It is like a hunting ground. There are just so many companies there at the moment and why is that the case? Effectively we've had a very uncertain period with interest rates and war and everything like that – inflation etcetera – you've seen a whole gravitation in the market towards the large cap companies, right? We think at the moment what we're seeing hopefully is a period where all that weight of money starts flowing down to the mids and smalls which WAM Capital focuses on. At the moment, microcap companies are dead. They're atrocious. Like we saw them in February. You know their upgrading earning expectations and going down 10%.

Now we're looking at okay woah! Like there's so many opportunities here to invest. And look to be perfectly honest to all the listeners, I said to the Board I think it was in July, I said I thought there was a high chance of us underperforming this year in WAM Microcap if we were right that interest rates would stabilise or fall because we thought the weight of money would go into small caps, not microcaps.

Now we are outperforming in microcap but that is largely due to the fact that we've had quite a number of takeovers and we've been very lucky in that sense, in that regard. Most of our portfolio is just static and doesn't move. We've had our misses as well, but I'd say over the most part, we've got probably 30% of the portfolio that just doesn't move. Market goes up, it sometimes goes down.

So, I guess what we're saying is that that space if we're right on small caps doing well in the next 12 months, we should start seeing investors starting to come down into microcaps and this is what we saw in 2020 and 2021 and that will be very positive for the WAM Microcap Fund. So, a long way to answer the question but, and we also haven't seen any capital market activity which WAM Microcap's a massive beneficiary of that, so yeah definitely seeing a lot of opportunities in that space.

CAMILLA COX: Thanks Oscar. An interesting time for microcaps. Next one we'll go back to a stock pick from Graham, what is your view of Bubs?

TOBIAS YAO: So probably no view at the moment. I think we were positive Bubs, it would have been 2 years ago when they first entered into the US. The reason we got it wrong was the fact that the management just couldn't execute. It was a very large market and required a lot of capital to do it well in the US and so for sort of a microcap Aussie company it obviously with sales, in Australia in sales, in China and having to take on effectively a very large market in the US during that period of time was very difficult and you know we got it wrong, we lost money on the investment. And so, they've had a change of management since. I think we need to see more sort of runs on the board just to understand how they're actually going to take advantage of the current temporary licence they have to selling some formula into the US. Now obviously we're bullish A2 Milk they have a US business as well and they're looking at forming a base in the US as well. So that's probably where we're playing the infant formula space and so I definitely prefer A2 Milk of Bubs.

CAMILLA COX: Thanks Tobias. Another one. Trevor is asking about NEXTDC. Do you think they'll ever pay a dividend?

TOBIAS YAO: The answer is not in the short term. I think NEXTDC are…

OSCAR OBERG: Oh, I'd say never.

TOBIAS YAO: They'll probably never? Not in the short term.

OSCAR OBERG: You don't want to be in NEXTDC for a dividend. No way.

TOBIAS YAO: Yeah so, we first bought NEXTDC I think around $9 this time last year. At the time the catalyst we had for NEXTDC was just winning contracts and these were cloud contracts, contracts you know with the likes of Amazon, Microsoft, Google after effectively 2 years of COVID where effectively all the contracts are you know were very hard to come to, due to supply chain issues. And what's actually happened since is with the TVN with the AI effectively taking off in earnest. You know some of the contracts they're talking to now are significantly larger to contracts they've ever won in the history of NEXTDC. NEXTDC is a growth company. They are a beneficiary of AI now and they're a beneficially of AI because a lot of the hyper scale guys need data sender capacity to be able to compute for a lot of the large language models for AI and so you know we have an investment in NEXTDC for growth so we're not there looking for dividend. And I think the business has effectively positioned that way effectively to grow as quickly as they can.

CAMILLA COX: Thanks Tobias. Joseph has asked, will you place a small amount in small pharma and biological stocks?

OSCAR OBERG: Look we're very much generalist investors and we focus it on all sectors really in the industrial space and biotech is one of them. Now I think it's fair to say over the years, and it still is, it's still something we find difficult. It's not really, if you're ranking all the sectors up against each other within the industrial space it's probably the lowest in terms of our expertise.

Now in saying that, you never say never and we've done very well out of Neuren over the last 12 months. We actually exited the stock. We just thought a lot of the catalyst had played out and there was a bit of risk emerging in the company. You know Telix as well. We haven't owned it for about 6 months but we did quite well out of it, you know particularly in that recovery phase in 2022. But we're always looking at these companies. I mean what we've learnt over the journey is you know once they start executing, there's no limit to where the share price can go so, they can be very, very good stocks if you get them right. If you don't get them right, they can be a disaster.

So, look there's always part of the portfolio that's open to biotechs. I think at the moment I don't think we have one. Neuren was quite large but we did exit so yeah so, we're actually we're nude at the moment. We don't have any in the portfolio.

CAMILLA COX: Thanks Oscar. Ryan's asked what was your reason for selling Select Harvests?

OSCAR OBERG: Well, I picked the low on that one, that's for sure. Look again we have ceased substantial in that one but it's still a position and effectively we've gone from call it 6 ½% of the company to about 4% of the company. Now why did I sell? Well as I said I probably picked the lows in the almond price – that day probably. Oh, look concerns around their balance sheet really. We did talk about the stock a few months earlier. Conditions got worse and in Australia they had a shocking harvest, this is last year in 2023, and so I think the noise around, or the feeling was particularly after that November result that they probably needed to raise equity. A different market back then as well so our view was geez if they're going to raise, it was just at the time when Helius had just done a discounted capital raise and it performed poorly and so on the data I effectively took the opportunity to sell some stock. I think we sold in the high 3's and then the stock fell quite considerably afterwards and then honestly from that point, I probably picked it by a day, the almond price starting rallying hard, the market started rallying hard, and you know we actually bought back a lot of the stock that we sold at around $3.20/$3.30 so we actually haven't done too badly out of that selling. And the almond price continued to go up so and it feels like, touch wood, it's going to be a good Australian harvest and you know if that all plays out, it should generate a whole heap of cash that can pay off the debt. So, you know the stock is still trading at a discount to their tangible assets. We still like it fundamentally and as I said it's still a very decent position in the portfolio.

CAMILLA COX: Great, thank you. This next one is from Ian who says he understands why you like MMA activity, but he's asked if you're concerned that ASX is disappearing. He notes that we have lost many good dividend paying companies by acquisition. What are your thoughts on that?

OSCAR OBERG: Oh absolutely, a huge concern. I mean from a dividend paying perspective like probably Matt and John and the large cap portfolio with the WAM Leaders to speak to there, but just if we look at really good, good companies, growth companies in small and mid-cap companies, in the small/mid cap sector yeah, we've lost CSR, we're losing Adelaide Brighton, Altium, you know Virgin Money UK like there's a whole heap. You know the building material's sector as an example has been fascinating. You know we've seen Boral, Adelaide Brighton and CSR in a space of a few weeks which sort of gives you the indication how people overseas are feeling about Australia. I think it's not a bad place to invest in.

So yeah, I would agree and it's hard to get initial public offerings away so you know the universe in small caps is just getting smaller and at the same time, superannuation funds you know are growing quite a lot. So it makes our job a lot harder. It would be great to see some more IPOs, they've just got to be priced appropriately.

TOBIAS YAO: And I think too actually what Oscar's saying is the Aussie dollar's very low so if you're an overseas acquirer it's probably as cheap as it's ever been in terms of acquiring a business in Australia. So, we think the MMA activity will continue over the next 12 months.

OSCAR OBERG: So as an example, we owned a company called Healthia and I would have said it was one of the mistakes in the portfolio and that was all me, but I got a phone call, when was it? The last day of August. And I was down the south coast and I think I'd cracked open a beer and it was about six o'clock, got this random number and it was an investment banker and he's oh you own some shares in Healthia? I go yeah, I own 10% of it and it's terrible by the way. He goes oh we've just had a takeover bid, a private equity at 90% premium. 90! I've never seen that before in my career. So that just shows you how undervalued, particularly in that microcap space some of the numbers of the companies are. I mean there was a company yesterday, a tech company, it's called TARK. What was it 110% premium.

TOBIAS YAO: 110, yeah.

OSCAR OBERG: So that's what we're seeing in the microcap space right now. That's why we're really excited about it because you just see some bargains like that right now that if they're not going to go up in the Aussie market, they're just going to get taken out. So yeah, that's hence why we're quite bullish in the microcap portfolio.

CAMILLA COX: This next one is from Alan and you have touched on it earlier, Oscar, but if we could just revisit. He said his investments in WAM Capital and WAM Research in April 2021 have reduced in value while at the same time the ASX recorded record highs. Can you please explain why small caps have performed so poorly?

OSCAR OBERG: Yes, so as I said before the biggest dynamic as to why that happened, if you go back to April 2021, very positive time in the market, right? And you know small caps were doing well – everyone was doing well. WAM Capital was trading at, well I'm guessing probably between a 25-30% premium to its net tangible asset, right? So that would mean if we liquidated every company, sold every company in the portfolio today, you would have gotten 25-30% less, right because the share price is trading much higher than what the actual assets are worth. And this is why all people on the call should be monitoring really closely what funds are trading at a premium, what funds are trading at a discount. Geoff would only buy funds that are trading at a discount, right?

So, when you say the 30% - and obviously we feel terrible about that – but 20% of that 30% is effectively the premium in WAM Capital shrinking. It's gone from a 30% premium to a 10% premium. Small caps have under-performed over that time so within that 10% I'd say, you know, probably half of that relates to that. And then what you've got to add back and it's hard without seeing your portfolio is the dividends you have received through that period. It's actually quite a lot of dividends. So, it shouldn't be as bad as the 30%. Yes, the share price might be down that much, but if you add back dividends that you've received, it would be a bit better.

So, look again Alan very happy if you want to call in to discuss, but yeah unfortunately a lot of our newer shareholders in that 2020/2021/2022 period, before the sell off happened, bought shares at quite a high premium and the premium of the WAM Capital share price has shrunk. It's gone to about 10% today.

CAMILLA COX: Thanks Oscar. We've had a few people join the call a little bit late and we've got a few questions on how WAM Capital will be able to maintain its high dividends? Can you talk to this?

OSCAR OBERG: So, the simple fact is, is if the market, if we were in the same position in October the dividend was getting cut, right? Straight out it was getting cut and I think it's worth understanding, we've talked a few times like how do we pay dividends? How does it occur, right? It occurs from making unrealised gain and realised gain that unrealises – that example I gave before – share price goes from $100 to $120. I've made an unrealised gain of $20. The realised gain is when it goes from $100 to $120 and I sell at $120. So, I make $20 in profit and receive that money in cash, right? So effectively we need the market to keep going up. When the market is going up, we're generating what's called profit which we add to a reserve. In periods when the market goes down, say the market goes down 20% and our portfolio goes down 5%, as a fund manager I'm really happy because I think we've done a good job. We've outperformed the market by 15%, a really bad market. But as a shareholder you're not happy because I've generated a loss, right? So, if you generate a loss, you can't add profit.

So, when COVID occurred back in 2020, we had a huge sell off in the market from January to June and then the market started recovering. Now because we had a period like that when the market fell a lot, we weren't generating any profit, we were generating losses, yet we were still paying the same rate of dividends, right so we ate into our profit reserve.

Now that dynamic has been in play really to the last five years and you know when we came out of COVID, I remember a Board meeting in July 2020 where the Board thought we were going to cut the dividend and then the market just shot up. Same thing has happened this time. In October last year, going into that Board meeting we were talking about you know potentially cutting the dividend. And the market from December has gone like that and our portfolio has increased a lot relative to the market which has been great. So, we've been able to add more profit reserve which you'll see on Thursday. Hopefully that will give you a little bit more confidence in the next few dividends, but I think you've just got to take a step back and you've just going to say okay, WAM Capital right now is paying a 7.75 cent dividend which is great, but it is a 10% fully franked dividend yield. It's very, very high. Very high. And we need the market, so our performance will be in line with the market, to be up 15 or 16% a year just to stand still, just to keep funding that dividend, right? So, in periods where the market falls, you know we're not adding to that profit reserve, and you've got to remember that. So, this is the reason why, we'll talk about unfortunately the premium going from 30% to say 10% today, right? It could go to a discount one day if we can't pay the dividend or we have to reduce the dividend. So that's potentially where you know obviously the frustration for shareholders will come through even more, 10 times more than what it has come through today because you know your share price will fall, go to a discount and we'll cut the dividend as well. So that could happen. And potentially it was going to happen but the market really rallied in December/January/February.

So, look again, a long way to answer the question but you really need to be monitoring every net tangible asset announcement, what our profit reserve is in each fund and comparing that to our interim dividend. In other words, what is the ability for our profits within the fund to keep funding that dividend over the next few years.

CAMILLA COX: Perfect. Thank you, Oscar. This next one is back to stocks and it's Joseph. He says will you or do you invest in Megaport?

OSCAR OBERG: That's a very timely question.

TOBIAS YAO: Yeah, we do. Megaport is probably one of our top ideas as exposed to the AI theme. You know when we first invested in Megaport it was on the back of effectively the new CEO starting, one of Oscar's close contacts knew Megaport's new CEO Michael Reid really well and gave us you know the two thumbs up that this guy has had an incredible track record when he was running ThousandEyes which was a subsidiary of Cisco and effectively what Michael's done and Tish the CFO - and they have a new Chairman over the last 12 months - in terms of turning around the business is nothing short of amazing. You know they have an incredible product. Effectively a connectively product that links companies with data centres around the world, bypassing effectively the traditional telco provisioning process which is much shorter and much cheaper and we believe that they are very well positioned for the future where there's going to be a lot of data getting transferred between companies and data centres and you know AI models around the world and Megaport is a key beneficiary. So, we believe over the next 2-3 years the revenue growth could accelerate and the good thing is the management's done an incredible job cutting costs as well so they're now in sort of a very profitable position so they're getting strong growth in the top line over the next few years and at the same time very healthy in margins. So Megaport is one of our key ideas.

CAMILLA COX: Great, thanks Tobias. This next one is from Ashok. He says do you think the IPO market will become more active soon?

OSCAR OBERG: Yes, I do. As I said we saw one this morning that looked really interesting and was on almost half the valuation that they thought it was going to be a year earlier, potentially, so it could be yeah. Like I mean and that would be great. But you know vendors and private equity need to be realistic around what their valuations are, and unfortunately the terrible IPOs that occurred at the end of 2022 still – sorry 2021 – they're still in the back of everyone's minds. You know there were some good companies that IPO'd in that period but the valuations are just way too high. So hopefully we'll see you know some positivity around that market because as I said before, it's generally very good from the active side, or the market driven side parts of our portfolios.

CAMILLA COX: Thanks Oscar. Kristen has written in and she said, why should we buy more WAM Microcap when the share price is more than the NTA?

OSCAR OBERG: That's a great question. Well, look I mean okay so how about I say this? Why do the shares trade at a premium? Why have they consistently traded at a premium, right? Two reasons. The dividend, right? And you know the longevity of the dividend. Like yes, we're short on the profit reserve but WAM has paid a decent dividend for a very long period now. WAM Microcap's pretty similar. Like the dividends have gone up quite a lot over the years. And so, when you see the share price and look at it, you know it looks attractive relative to its dividend yield and I think look the track record, particularly in WAM Microcap is that we've outperformed you know every year really since we IPO'd. There is a lot of goodwill just to Wilson Asset Management as a whole.

So, I'd say just generally, that's potentially one of the reasons why it trades at a premium. Yeah, I mean every individual is different in terms of what their risk profit is and so forth. I mean the only thing I'll say is that you know Geoff, well I mean I'll go the other view. Why do some funds trade at a discount? Well, you know it could be management team's done some poor decisions over the years, you know maybe they've under-performed consistently etcetera etcetera. Are they doing things to fix it? Like that's a generally an opportunity and that's when our WAM Strategic Fund will come in when they can see an outcome where you know something was trading at a discount of say 20% and they think close that gap and go back to NTA so look I think it's just every individual's preference and risk profile really and you've got to make up that decision, but as I said earlier to the last question, just whenever you look at a listed investment company, you've got to look at is it trading at a premium or a discount to its net tangible asset? What are they investing in and what is their profit reserve? What is their ability to keep funding the current interim dividend? They're the 3 questions really you sort of need to ask yourself.

CAMILLA COX: Thanks for that detail. This next one's a good one. It's from David for both of you. What is your highest conviction holding across the four portfolios?

OSCAR OBERG: A great question. What's his time horizon?

CAMILLA COX: David has not given a time horizon.

OSCAR OBERG: I think it's five, five years, I think.

TOBIAS YAO: Yeah, a five year time horizon, some of the ones that you know it's a pretty high conviction for us like TUA is obviously one. Templer & Webster. I'd say Megaport. Regis Healthcare – are probably the four that come to mind.

OSCAR OBERG: What am I going to do then? You've just chosen the four or five, the other ones I'm trying to think. Why don't you talk some growth ones while I say some value ones. It's going through a tough spot now but I really like Wriggley. I think that's a really good business. I actually think it's such an underestimated business by the market. It generates good cashflow, really run by a good management team, taking out costs and investing in the top line. There's good things happening in that business. Car Sales. We've been talking about that. That's a fabulous business, done incredibly well. But any of those classified businesses really are a great business. News Corp that's a good one. News Corp is a good one to own over the next 5 years. You know there's potential, you know who knows what happens when Rupert finally passes away but you know there's some hidden businesses, particularly that news and media business, Dow Jones business sorry, in News Corp that's materially undervalued by the market that can release a lot of value in time if the family wants to do it. So that would be a good one. You obviously said Tuas, TPG Singapore. Light & Wonder I think is a really good business as they become the number 2 player in the world in terms of gaming. What else? Gentrack. You didn't say Gentrack.

TOBIAS YAO: Gentrack. I think maybe we love founder led businesses as well so companies where founders have you know a lot of shares, probably over 20% in the underlying business you know its founder run, you know they look at the long term and then not afraid to invest for growth and these businesses typically outperform. And so, any company that you know has a really good founder that's proven to have delivered value for shareholders but are not minority shareholders we'll back them and we have a lot of these founder led businesses in our portfolio. So, I guess as investors that's looking at sort of 5/10 year's time of say back, back the founder led businesses and pretty much coinvest with them.

OSCAR OBERG: But hang on, we've said about 15 companies. We've got to say 1 each.

TOBIAS YAO: All right. I'll say TUA…

OSCAR OBERG: I knew you were going to say that one.

TOBIAS YAO: TUAs Limited over the next 5 years.

OSCAR OBERG: I'm going to say … oh it's a tough one. I'm going to say Car Sales. I think Car Sales is a great business. I still think it's underestimated by the market. So, I'm going to say Car Sales.

CAMILLA COX: Thank you, that was heaps. You both over delivered there.

CAMILLA COX: From Greg, do you have a view on Archer? The ticker is AXE.

OSCAR OBERG: I've seen it on the wires but no we haven't seen it. Sorry Greg. Sounds like we should.

CAMILLA COX: Another one, Peter, what is your view on Drone Shield?

OSCAR OBERG: It's done really well. We had some about a few years ago, but I mean look we own Codan in WAM Capital which is very much a defence business these days and has been growing extremely well in that part of the market. In the microcap fund we own ELS. You know we bought Shaun actually one of our colleagues bought you know at a really good price. I mean it's doubled since he bought it. And these businesses, clearly there's a war going on in the Middle East and also in Ukraine/Russia so you've got to be careful around that and these businesses are benefiting from that. So, look you've got to, you know that conflict doesn't seem to be ending any time soon, but these guys are going well so we do need to take that into account.

Look I'd say for Drone Shield, you know met them before, liked the technology. It was lost over that period of time. We've had a look at the numbers, it does look like it's turning. It's had some great orders as well but I think for us, we own ELS so it was either one or the other and so we've chosen ELS.

CAMILLA COX: Cool thanks Oscar. The next one is from Ian. You might not have the exact figures, but how much cash are you holding across the four funds?

OSCAR OBERG: I wonder if this is Ian my father-in-law, but in the four funds we are 13% cash in WAM which is actually quite high over the last 12 months and it was lower in January so we have taken some profits in a number of companies that have done well. WAM Research about 10. I think WAM Active is about 8 or 9 and Microcap is 8. Pretty standard and hasn't really changed much really for years around those sort of levels.

CAMILLA COX: Okay, thanks. The next one is Brian, do you regard businesses in transition industries such as Ampol as a sound investment with growth potential?

OSCAR OBERG: Yes. I think they're great opportunities really. I mean Ampol, we don't own Ampol. I think the WAM's leader's guys do but the company we own a lot of is Viva Energy which we've owned for some time. But they were fantastic buys around 3 or 4 years ago where you know the EB transition was taking over the world and petrol cars were going to be non-existent in 5 years or whatever and lo and behold I think it's fair to say it's going to take a lot longer than what people think and this is giving the petrol station operators time to think how they reposition their business and that's what Viva Energy has done so it's bought a company called On the Run which is the largest service station operator in South Australia. It's a very good business and they're converting their Coles Express Service Stations which is around 700 of them to On the Run across Australia over the next decade.

Now On The Run why it's a good business is it's a retailer. It's not your standard Coles Express Servo that you jump in, buy a packet of chips, some Eclipse Mints, do your petrol and leave, it's a destination. So, for those callers in South Australia, they'll know it well. You know there's coffee there and fast food. You can actually sit there. They've got a lot of their own brands in the servos. They've got their own app which none of the other, I don't think I've ever used an app from another petrol station operator so that's something that Viva can leverage as they roll it out. So, it's just a different retail experience and that's how they're transforming their business is they're going to become more of a retailer, in other words trying to increase the volume of people coming to the store, potentially take share away from the supermarkets or probably the corner store as people start refuelling or charging their cars you know in time.

So, the answer to your question is look yeah definitely. We always play on theme so AI's a theme, energy transition's a theme. Some sectors become in vogue, others go out of favour. You know sometimes looking at that out of favour sectors like Ampol and Viva were, you know you can make really good money out of it. Because I think Ampol for instance I think, well both stocks have doubled over the last 3 years and so both look very, very good going forward.

CAMILLA COX: Right, we've had a couple of people ask this next one, so do you own any lithium or uranium?

OSCAR OBERG: We own one uranium company which is Boss Energy which has done very well for us. Lithium we don't own any. The stock that we do like from time to time, we don't own it now, is Pilbara Minerals. It's fascinating this company because I don't think I've ever seen a bigger short interest which is effectively call it hedge funds betting against the company. In other words, the shares will go down. And I think the short interest, last time I looked was like 21 or 22% of the shares on issue which is enormous. I don't think I've ever seen a company as big as that so clearly people are negative out there on the company, but if you look at the fundamentals, it doesn't have any debt, it's got very strong cash, got low costs for their mine. So, you know for us that looks pretty interesting because at some point you know if lithium prices go up, those guys that are short or selling the stock, they're going to have to buy the stock at some point and it could go up a lot. So, we don't own it at the moment but we are sort of looking at Pilbara which is PLS.

But look in generally for both sectors, yeah clearly beneficiaries of the energy transition move away from fossil fuels indicates uranium opening up more in countries such as US and in lithium, longer term, you know still very positive on the space. I think there's just you know been an oversupply generally over the last 12 months and plenty of processing capacity in China. But in time that will free up and you know we're still, you know longer term you've got to be bullish on both those sectors.

CAMILLA COX: Thanks Oscar. This one's from Noel. He said are you expecting WAM Capital and the Small Ords to outperform the All Ords over the next 2 years?

OSCAR OBERG: How can I say this? So, from December the small ords has outperform the all ords I think by about, I reckon about 4 or 5% - something like that - as soon as the Federal Reserve said they were pausing interest rate hikes. Now as I said earlier, our base catch across the team is we're just hoping that interest rates stay flat and the reason why we're hoping it stays flat is it becomes more about the stock picking as opposed to the macro-economic data that comes through and what we view ourselves as is we're not very good on the macro-economic, you know reading what the Federal Reserve's going to do the next CPI print, what the RBA's going to do. Like honestly, we just want to pick stocks that are going to double in the next 3 years. That's what we're trying to do, and it's been very difficult to do that over the last couple of years.

So, look in time we think it will revert. Is it going to happen in the next 2 years? I'm not sure. We're not actually, we don't really care if it does or doesn't, as long as it stays in line with the All Ordinaries Index then we're pretty happy because we think it's more about our stock picking and you know that should in itself you know hopefully bring good performance.

CAMILLA COX: Thanks Oscar. This is one from Chris on the team structure. Can you talk to a potential succession planning for WAM Capital once Geoff hangs up his stock chart. Is there a key amount of risk or is this just perception?

OSCAR OBERG: Well as Geoff's always said so, you know Geoff leads what's called the investing you know to effectively the teams. So, Geoff is always a sounding board, Geoff and I speak a lot of the time. Geoff's obviously done this for a very, very long time but you know I've been at WAM since 2016, Tobias has been there ever since 2015?

TOBIAS YAO: 2014.

OSCAR OBERG: 2014, sorry, and he's been very hands off. So extremely hands off. So, leaves us to do it. He knows we're doing the work. He trusts us and so you know he's more focused on the business in terms of our growth and the Wilson Asset Management brand as such.

So, look yeah obviously Geoff is amazing. Like you know when we talk about succession planning it would be a huge loss to the business when it does occur, however, does the day to day investing change when he steps away? No, not at all. It's exactly the same as what it always was so you know we've got a big team. There's 6 of us in the WAM Capital team. There's 4 in the Leader's team. There's 4 in the Global team, 2 in the WAM Alternative's team so look there's plenty of expertise across the wider Wilson Asset Management investment team and you know we've all been doing this for a very long time.

CAMILLA COX: Thanks Oscar. This one is Dave again and he's curious if Sigma is on any of your radars across the funds, with the reverse takeover of Chemist Warehouse.

OSCAR OBERG: Yeah, it's been probably oh I reckon top three best stocks over the last, you know call it this financial year. So, we first bought shares at the start of 2022 I think and again it was a CEO change. You know it's been a very funny stock. At the same time, we were buying it, Home Co were buying it. We didn't know at the time. And I remember saying to Sam who first came up with the idea, oh let's buy it really, really slowly we've got lots at a time and then just started shooting up and oh geez what's going on here? So, we sort of went with it and got a decent position and then you know fast forward a year and a half time, you know it was interesting we were talking internally I think a couple of days before the deal actually happened about oh who can we speak to? Surely there's an investment banker or someone who's out of the industry, you know something's due to happen because there were rumours at the time something was happening, how would it look? Because Chemist Warehouse is an enormous business and Sigma's such a small you know underperforming distributor that's been in the ASX forever and hasn't really done much. And then I think 2 days later the deal happened. We had no idea.

So, in that process, you know that occurred I think it was in October or November. We spoke to the Chemist Warehouse management team. It's an incredible business. Like it's one of the best businesses we've probably ever seen and you know it's very unusual that you get potentially a $9 billion business where we can invest in that in the small cap space. So normally that's for Matt and John, Anna and Hayley in the WAM Leader's you know portfolio, but you know effectively you know we get a great position in this company and yeah like I mean the thing is, so to answer your question yeah, we are in a big position in Sigma. It's done really well for us. Look we, you know again, like I said with Cettire earlier, we have taken some profits along the way because who knows the ACCC might have an issue with the acquisition which might create some uncertainty in the share price but overall, we do think it will go ahead and once it does go ahead, I think the market will then finally see how good this business is and I think we'll do very well.

CAMILLA COX: Thanks Oscar. Another stock question, Kirsten has asked your view on Metcash please.

OSCAR OBERG: One for John and Matt in the WAM Leader's portfolio. We haven't invested in from our perspective for a while. Why would that be the case? It would be because their hardware business was a bit of a COVID beneficiary, like a number of sectors were, it was doing incredibly well and we thought that would come off at some point. Obviously, their grocery business was a core business. You know it's in a very competitive market where Woolworths and Coles dominate, but in the end, I think it's fair to say we're probably wrong on the hardware business and it does look like the acquisition they did recently looks quite good.

So, look we don't own it in the portfolio. Like we tend to look at the retailers, like a Harvey Norman or Super Retail is an example, but I do know that Matt and John own it and they quite like it. It pays a good dividend, it's quite cheap valuation as well.

CAMILLA COX: Thanks Oscar and I'll just mention that Matt and John will be hosting Webinar next Tuesday at 3.00 pm and they could dive further into it. The next one is from Tony and Tobias you were commenting on this one a little while ago, what is driving Appin and any thoughts on Ordinate please.

TOBIAS YAO: It's a really good question we're actually asking ourselves today.

OSCAR OBERG: Well, it's in trading hold, isn't it?

TOBIAS YAO: Yes, the time we checked when we came in it wasn't trading so I don't know what sort of announcement has occurred since then. They have a new management team, a new CEO that's, you know, the old CEO left, and then I think the last update they provided was positive in terms of you know giving the market a little bit more visibility that the you know they lost a very large client. That appears to be a one-off case. Potentially some of that has, yeah obviously it was sold down very heavily so potentially some reversion of that so I have to go back to the desk after this and just check, see whether there's been any announcement on Appin since.

In terms of Ordinate, look it's one where I'll say it's a big mistake not investing in Ordinate over the last couple of years. We had a couple of chances. We didn't quite get what we wanted. We didn't quite get enough position or didn't quite get enough conviction. They have a very good IP in terms of the core products and the business they've done incredibly well so it's one which I got wrong personally that's done really well.

CAMILLA COX: Perfect thanks. Peter has asked do you lend shares to short sellers and if you do, why?

TOBIAS YAO: The answer is no. And we agree…

CAMILLA COX: All right thank you. Tony reckons gold is looking good. Do you own any gold at the moment?

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OSCAR OBERG: Gold probably is looking good like given the macro-economic environment so we do, we own two names and they came actually from the Euros – sorry one of them came from the Euros acquisition which was Emerald Resources. That's been a cracker actually. I think that's probably up 150 to 200% since we inherited that portfolio and what was it April 2022? And that business is run by ex-Regis Resources CEO, Morgan Hart, who is fantastic. He's a good fellow and he's delivered everything he said he would do. They own two mines in Cambodia and Cambodia's actually quite a friendly judication in terms of mining and they're the largest operator there and they've actually more interest, the catalyst actually to buy it was they bought a tenement in Australia called Bullseye and by developing that mine, they'll increase the Australian exposure within Emerald which should hopefully drive a rerating of the share price. So, they've done incredibly well for us over time. It's a small position though we have reduced it over the last couple of years. It's sitting at about half a per cent in the portfolio.

And the other company that we own is Bellevue Gold which we took in a placement I think around this time last year, I think. I think. And it traded the stock quite well over the journey. It's in a key risk period right now because the processing mill is fully operational. These guys have quite high-grade gold and I think there's a big debate in the market at the moment as to whether it's sustainable or not. We think it is, and we do think that if they can get through this period, start operating at their full run rate and when that happens as we've seen with Emerald, is you can see quite a large rerating of the share price as the company starts going into various gold industries globally. So yeah, we like those two.

On the mining services side of gold exposure normally we do own Index and ALS Ltd but we don't at the moment for various reasons. I'm trying to think of any of the others. And Codan obviously. Codan which we own quite a lot of. About 40% of that business is in metal detectors and you know that's been a fabulous business for these guys and then they had a very good result. So that's probably, to be fair, that's probably our biggest gold exposure in the portfolio.

CAMILLA COX: Thanks Oscar. Next question from Joseph, would Research and Microcap ever merge?

OSCAR OBERG: That's an interesting question, I've never had that one before. I'd say no, no they wouldn't because effectively you'd be disadvantaging microcap shareholders because you know our size would get so big and the whole point of the WAM Microcap portfolio was to stay relatively nimble. You'd be more than doubling the size if you added WAM Research. From a WAM Microcap perspective as well you would be diluting your profit reserve. Microcap has a profit reserve of 50 cents, Research I think is about 35-40 so you know there's a lower profit reserve in WAM Research so you're disadvantaging the Microcap shareholders there, and also if you're a Microcap shareholder you want to be investing in less than $300 million, in less than $300 million dollar companies whereas WAM Research obviously is the whole market so I'd say no. Never say never as Geoff would say, but you know the question I do get ask is whether Capital and Research would merge or in fact would Active, Research and Capital all merge at some point and look again it is possible, but each fund has, you know sometimes they're trading at a premium and their tangible asset and in Active's case they're at a slight discount. You know there's different levels of profit reserves so you don't want to be disadvantaging you know each of the shareholders that like the specific strategies by merging into one. So yeah, there's my long-winded answer to that question.

CAMILLA COX: Thanks Oscar. Alex has said, what assurances are you able to offer investors in WAM that have ridden the share price downfall so far.

OSCAR OBERG: Obviously I can't give you any assurances, but all I can say is it's been, you know we've come out of a very challenging period. You know like 2022 financial year was extremely hard and it's hard to explain this because we were sitting in it. Like that February 2022 reporting season, like we had a great reporting season and you know we'd get upgrades of earnings, shares would go up 5% and in two days later they're down 20. Like that's what we were fighting against when the war in the Ukraine occurred and interest rates started going up, right?

The 23 financial year, for us to outperform which I've said before in my presentation I think there was a 7% headwind in terms of large cap stocks outperforming small cap stocks and we're still outperformed by just over 3. For me, in terms of the team, that was an amazing achievement. If you'd told me that at the start of the financial year I would have said no chance. So, we feel like we've cycled through the tough times. The start to this financial year was still tough, very tough and we were doing well at that point in time, still outperforming. And we finally had the, call it the macro event that we've been searching for was just, as I said before, rates hopefully flattening out, we've seen the portfolio do well, we've seen small caps do well so look I can't obviously give you assurances, but put it this way, the macro environment right now as it stands, is a million times better than what it was 2 years ago, is that fair? Like it's so much better in terms of our process and how we look at stocks.

CAMILLA COX: Thanks Oscar. The next one is from John and we know you can't give advice, but he's interested in which fund would return the most on capital gain.

OSCAR OBERG: Okay well how about I say this. So, the funds that should with the highest, you would expect the highest risk profile to return the highest capital gain over the longer term which would be WAM Microcap?

TOBIAS YAO: Yep.

OSCAR OBERG: Yep, that would be fair. But obviously you've got to look at a total shareholder return perspective. Microcap's 7% dividend yield I think on the share price. WAM is sort of 9 or 10 so if markets sort of stayed the same way they are now, maybe on a total shareholder return WAM might be better, but I'd say you know looking at sort of an economic textbook, finance textbook, you'd say Microcap should be the one that should do the best but will also do the worst if that makes sense. They've got the highest volatility because it's in, as I've discussed before we're in very speculative stocks there. You know if we get something wrong, we get it really wrong. At least if it's something we get wrong in WAM Capital we can get out of it. If we get something really wrong in WAM Microcap, we can't get out. So that's the risk you take, but over the longer term that should return the best.

CAMILLA COX: Thanks Oscar. Trevor is interested on your take on Sandfire Resources for the long term.

OSCAR OBERG: Geez it's a copper stock, that's tough, isn't it? No, we don't own Sandfire but look longer term I mean you would expect this company, like there's no, Oz Minerals has left the ASX. There are pure play copper companies on the ASX. Good management team but clearly, we don't own it at the moment but you know there's no pure players in copper. It's part of the energy transition so you would expect if the guys do a good job, hit production targets they should do well and you would always expect them, given Oz Minerals got take out at such a you know high valuation, that potentially it's a takeover target at some point.

CAMILLA COX: Thanks Oscar. Ian next. Would you consider Silex Systems as an opportunity?

OSCAR OBERG: Always consider stocks like that as an opportunity. Will, in our team saw them recently, actually, quite liked it. It's not a company I'd say is in our wheelhouse. It's very, you know it's obviously leveraged to uranium. It's sort of tech company sort of. It's sort of hard to know whether…

TOBIAS YAO: Yeah we like, I think our bread and butter is we like easy to understand businesses which is one of the reasons why we typically haven't had a huge exposure in biotech's because they're sort of binary and so for us you know what can we add the most value to, to the portfolio to our shareholders is to finding businesses that we can really understand and investing in dollars and hopefully the margin of safety for us is a bit higher than those types of businesses so we try to pick the best ones and obviously there's opportunity costs. Like if we invest a per cent in a

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