WAM Leaders (ASX: WLE) Investment Portfolio Update and Q&A Webinar Transcript

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Speakers:

Geoff Wilson AO – Chairman and Chief Investment Officer

Matthew Haupt – Lead Portfolio Manager

John Ayoub – Portfolio Manager

April Lowis – Investor Relations

Geoff Wilson AO:

Portfolio update webinar today. My name is Geoff Wilson and I'm chairman of WAM Leaders. Thank you very much for dialling in. We've yeah, we've had a really good acceptance. A number of people that have registered and have logged into the webinar. I'll be giving a little bit of an update at the start and then I'll be passing to Matt helped by John Ayoub, part of the team that manage the WAM Leaders pool of capital.

And also we've got April who is from our Investor Relations team and she will be running the question and answer (Q&A). And thank you very much for everyone who sent the questions in. As you know, this is your company and if you have any questions, ideas, suggestions now, please feed them back now. The reason why we're doing this webinar now, a number of reasons. One is we've been speaking to a number of shareholders and we thought it just made sense to call this webinar to give them a good update and also to look forward to 2025.

Now there's a lot of uncertainty in the world and just to give you a perspective of how the team is looking forward. Also, I think it's worth noting I've recently been buying some WAM Leaders shares. Leaders about a year ago was trading at a little over a year ago about 10% premium to the value of the assets and now it's trading closer to a 10% discount of the value of the assets. Now I enjoy or I like buying into companies that are trading below what they're worth.

And to me it's a good time for me to be buying because at the start of January the boards might decide to announce a dividend early, et cetera, et cetera. And also, you tend to find that when listed investment companies (LICs) go ex dividend, when they announce the dividend and then the run up to the dividend payment, they usually outperform the market. And when they go ex dividend a lot of instances you get a situation where real value presents itself and that's I think where we're sitting at the moment with WAM Leaders.

What I'll do is let me pass over to Matt, our Lead Portfolio Manager and Matt can give you a bit of a snapshot of what he's seeing ahead.

Matthew Haupt:

Great. And thanks Geoff, and thanks for all the shareholders joining us on the call today. I thought it'd be a good chance, like Geoff mentioned, around having a look into 2025.

Obviously, a lot's been going on, and there's a lot to happen in 2025 which will shape how the investment landscape looks. So, I thought it'd be a good opportunity on this webinar to walk you through some of our thoughts.

Matthew Haupt:

Obviously, as things come to light, our views may change. So this is how we see the world as we speak. But first of all, it's probably a good chance to reflect on valuations. You know, when you look forward, you've really got to work out what starting point are you coming from. And the starting point, when we look at valuations, they are extreme. So they're extreme. When we look at price-earnings (PE) ratios, they're in the 98th percentile over the last.

From really the last 40 years. So, we are starting at an extreme valuation starting point. So you have to take that into account when you're looking forward. But I'd say what we see in the first quarter is going to be a lot of volatility. And why do I say that? It's really around Trump coming into power in the U.S. so what we've seen previously and what we're likely to see, almost guaranteed to see, is the start of a global trade war.

So Trump has said in the past that tariffs are effective policy tool. So what we're going to see is announcements in January around tariffs on the rest of the world. Predominantly China will be the target, but the rest of the world will not come unscathed. So we're likely to see a lot of volatility come into the market in January and February, and the market is not positioned for this volatility. What the market is positioned for at the moment is a soft-landing scenario with a interest rate cutting cycle factored in and a very solid earnings outlook. So we're going to the start of the year rather cautious, and we've wound our cash up to around 5 to 6% on the back of this expectation of volatility coming in.

But what we will see is interest rates moving back from restrictive levels back to accommodative or neutral levels. All central banks have been on the battle of targeting and inflation. So what we're seeing is interest rate hiking cycles and the commencement of cutting cycles. There's about 125 to 150 basis points, or 1.25 to 1.5% of interest rate cuts that will come back in, and that is just to move us back to a neutral position rather than a restrictive position.

So we think that will come into the market, which, again, the market is already factoring in this. So that's why valuations are extreme and that's why we think the interest rate cycle is largely in market at the moment. What we will expect to see as well is in March, more stimulus measures from China. So China has obviously been a big underperformer for, you know, ever since COVID really. And there's been talk of stimulus a few times and nothing was really delivered in any meaningful manner.

What we see now though is the government are acutely aware of how bad the economy got. The property market was a deliberate attempt by the government to slow down speculation and that's been part of a five year plan. But they've come to the end of this five year plan. The local governments no longer have control over spending. So the central government is effectively in control of these local governments now.

And the development market in property in China is very much state owned enterprises. So mission accomplished. And now moving on now. And what happened in China was in the third quarter of this year there was a huge slowdown in consumption, so the government had to pivot. So what we expect in March is a pretty big stimulus announcement around the party congress meeting which will happen in March. So we're beginning to implement more resource positions in our portfolio, cognisant of a trade war which will throw up a lot of volatility. But that creates opportunity. So, we actually don't mind volatility.

And if we look at the markets, what's going to break the markets at the moment and we can't identify anything in the short term, valuation alone is not enough to break the momentum we're seeing in the market at the moment. So, what we think will happen is it's just going to be around sub will probably sub historical returns for the equity market. But that doesn't mean we can't outperform in that market. We actually quite like those markets, the full-blown momentum markets we find harder to keep up with. Rather, the market we're moving back into in 2025, 2025 looks a lot more attractive for us. There'll be a lot more volatility and a lot more opportunities to utilise our approach, which is more on that nimble approach, swinging between different factors, between the macro, the fundamentals and positioning.

I've characterised this market as all positioning, all flow driven. It's a very peculiar market. It's like the last three months in particular have become extremely overextended in a few names. So, we think this reverses and once that reverses, that same upward momentum we saw will happen on the downside. So that performance we lost with let's say the banks. We think we'll get all that back and more on the way down because from a fundamental point of view they look extremely overvalued. So, we are actually pretty excited about 2025. We think the market will move back towards an environment where we can really add value.

We think there'll be a lot of opportunities and like we said with China, you probably the way we view China at the moment is you trade the optimism or you sell the optimism and buy the pessimism. That's the correct way to play China this year. And on the tariff front it is quite negative for global growth. So global growth will decelerate in 2025. We were talking earlier and we probably characterised 2025 as the year of moderation.

We think all things will moderate equity returns, inflation, interest rates. You could really characterise it as a year of moderation, 2025 and, and for us that presents great opportunities. So I'll probably stop there and I'll hand over to Geoff to talk.

Geoff Wilson AO:

Yeah, I think, well, I think we sneak back to me for a minute then we'll go to no problems. I mean that was sort of the big picture and because I think we're coming back to me for a couple of things. The disclaimer, the disclaimer which I skipped over, this is just general advice. Are we putting this up on the screen there, April or. Yeah, so we're giving you general advice. Please read the disclaimer.

And also I just on the slides that we'll announce to the ASX and we'll send out to the shareholders to me it's, you know, just, just to focus on some of the high level points. Now

obviously the, you know, the, the share price now, you know, as I said a year ago was trading at a premium to net tangible assets (NTA). I mean since it's been listed, you know, WAM Leaders traded at premiums and discounts on average over that period of time it's, it's traded an average 2% premium to NTA.

So you know, this is the biggest discount it's been to a while and we think we understand that ex dividend the boys have been taking a conservative positioning on the portfolio where it's been a momentum market. As Matt said, some of these valuations on the banks trading like the bank's trading on four times their asset backing in my lifetime, I haven't seen it. Unfortunately, when you haven't seen things in your lifetime they tend to revert at some point in time to what you have seen.

So, the boys are focusing on making sure they're looking after your capital and so we'll go through that. And also, it's worthwhile pointing out the current yield that the guys can deliver on the portfolio from the profit they've made over time. And the continued profit is nearly seven and a half. It's 7.4% and that's fully frank. So, if you gross it up, you're getting a performance, you're getting close to that 10%.

I think a little over 10% on a grossed-up basis. And also to me it's interesting, Matt's talking about the period today and there's another slide that we've got that goes through the 2019, 2020, 2021, 2022, 2023 and 2024 performance numbers and you'll see how the 2024 performance, underperformed by 9 and a bit percent and 2023 is smaller underperformance by 1% or 2%. But back in 2022 was a 16.2% outperformance. 2021 a 9.2% outperformance and 2020 at 10.4% outperformance. So as Matt alluded to, in a market that's, you know, that is more challenging rather than momentum based and pushed by the, you know, the sort of the. Well, I was going to say the dumb money, but I probably, yeah, it's probably, I probably shouldn't say that. It's the, the money that's just going into the index funds and you know, the momentum traders, you know that that always reverts at some point in time.

To me I think they were the main points also, I mean we put, I think we put a little comment, you know, we've added a slide in terms of. They're just showing you. Some people with listed investment companies don't fully understand the other. We have to make money to pay these dividends in terms of how do we make money, the value of the portfolio goes up. And because we're paying such a high dividend relative to the market, we've included a slide which just adds the dividends that we've paid out to the share price.

So that's if you'd stayed effectively gone to the dividend reinvestment plan. Well, actually we haven't assumed you got into the dividend reinvestment plan because you're getting another benefit of two and a half percent. Yeah, because it's the discount. But we've shown you that figure. I think it that's depending on what period of time 70 odd cents to the share price of dividends paid out over time. Now I think now I'll pass back to Johnny and you're going to drill in a little bit more on the companies aren't you, John?

John Ayoub:

Yeah talk about the portfolio a little bit more so thanks Geoff. Thank you everyone for joining us at this time of the year so hopefully we haven't pried anyone away from a Christmas party or anything like that maybe just on the portfolio and the way that we've shaped the portfolio recently as always we've been working very busily in the background rotating the portfolio and trying to find some opportunities.

The main areas that we've changed positioning is for the first time in a very long time we were underweight the oil space we decided to do that over the last couple of months and the key characteristics of the portfolio today are very much around that China thematic that Matt was talking about. How do we get access to the China consumer in particular because what we do think is when that stimulus does come it's going to be very much focused on consumption and driving Chinese consumption and for us the main themes to play are Treasury Wine Estates (ASX: TWE) and A2 Milk (ASX: A2M). A2 Milk has had some impacts around birth rates but what we do see is potential for some stimulus to drive and regenerate the birth rate in China which should lead to some positivity phase two in the short term equally Treasury Wine after a hiatus out of that market for some time early indications have shown that demand for Penfolds product in particular is very strong leading to first, second, even third reorders of products in a very short period of time.

For us we think those two have some great runway ahead of them from an individual stock perspective but even and with the backdrop of thematic that doubles our conviction around that positioning and then from the resources perspective we think naturally they should bode well as China stimulus starts to take hold. In particular we're focused on those commodity driven consumer facing commodities and they primarily being aluminium and copper. The ways that we get exposure to that in Australia particularly South32 (ASX: S32), Rio Tinto (ASX: RIO), Capstone (ASX: CSC), Sandfire Resources (ASX: SFR), they're the main names that we're focusing on equally and we've just started to initiate some small positions back in lithium after not owning lithium for quite a while.

We did have a small dally on some Mineral Resources (ASX: MIN) back in September we traded it quite well but we got out but we're back in there in a small way now and Pilbara Minerals (ASX: PLS). Both seem to be attractive from a valuation perspective. We think we've seen probably the bottom of the lithium market, not to say or run away, but we've probably seen the bottom. The rest of the portfolio, I guess the way we can characterise these around defensive attributes, good quality, fundamental companies that most shareholders would know.

Those names would be Telstra (ASX: TLS), QBE Insurance Group (ASX: QBE), Coles (ASX: COL), Insurance Australia Group (ASX: IAG), Sonic Healthcare (ASX: SHL), household names. Cheap valuations relative to other pockets of the market, that have some earnings tailwinds as well. So, we're really attracted to those stocks right now. They represent some really good value and attractive opportunities. Then the last sector or the last thing I'll talk about is just the discounted space. Things that we think have been unduly struck down have some good NTA support, asset backed have been flow impacted and those names that I'll call out would be Dexus (ASX: DXS), Challenger (ASX: CGF) and Spark New Zealand (ASX: SPK), which is a New Zealand Telco.

They're the names that we're really attracted to in the portfolio. It's also probably worth highlighting the names that we have taken what we call underweight positions that we've taken somewhat of a negative bias toward and those are predominantly the banks. Matt will probably give more detail on the banks individually a little bit later. But at the current juncture, at the forefront of everything we do is capital preservation and where we see the banks, they, albeit they are wonderful, wonderful businesses. In particular Commonwealth Bank (ASX: CBA), as Geoff was pointing out and as Matt will point out later, the valuations just don't lend to us having a material position in those particularly given they make up about 25% of the index.

CBA makes up around 10% of our investment universe and trading above four times book value in a yield sub three, that just doesn't represent value for us. Whilst we prefer to own a Telstra, which has a lot more positive attributes, growing strong with stronger growth characteristics, we prefer to hold there. So that's probably the way that I characterise the portfolio. Another stock I'll call out and obviously it's one of the controversial ones that we've had in our portfolio Star Entertainment Group (ASX: SGR), we've managed that position down to sub 1%.

John Ayoub:

We've taken a number of learnings from that one and implemented across the portfolio it has saved us some money in not owning things like Endeavour (ASX: EDV) and Woolworths Group (ASX: WOW). So from those bad calls there have been some positives that we have taken and we've taken those lessons and implement them into the portfolio. So, we're very pleased with the way the portfolio is positioned today. We think there's a lot of opportunities even if we see a sell off or rotation and we think a rotation in the market is more likely in the short to medium term. And we're very pleased with the way the portfolio is positioned today.

Matthew Haupt:

Yeah, I'll just add as well, I think we both characterise this market as dysfunctional at the moment. The way the money has been allocated and the way valuations and stocks even within the sector is very distorted. So, the flow of money is very, very direct on a few names. We'd actually welcome more volatility into the market because we think that would be a catalyst for the market to return to more sensible application of where funds are flowing and we think that will happen in January.

The market is not positioned for any type of sell off. And the way we judge that is we look at volatility. The measure we look at on equities is the Cboe Volatility Index (VIX) and also for bonds is the Merrill Lynch Option Volatility Estimate (MOVE) Index. Both are really, really low. So there's the market is not positioned for volatility which we think and we're almost 100% sure will happen in January. We think that will be the circuit breaker for this craziness to end.

And I would describe it like Geoff talked about never seeing in his career. I mean I wouldn't even dream of seeing a bank at four times book value. They're writing loans at the cost of capital which you should only pay one times book value for. We love the banks, the CEOs. We think they're great, great businesses like John described. But from a valuation point of view it just does not make sense, we'd actually welcome that.

From the portfolio construction year, we've moved it more defensive. The reason why we moved it more defensive is if we look at these indicators like the Citigroup Surprise Index indicator, which judges the economic data being market expectations and it has been for the last year. So I characterise this market as being incredibly resilient and there has been positive economic surprises. What we think will happen now is we'll start to get some negative economic surprises and that will help with this rotation out of these names. So, we think earnings growth will be lower, global growth will be lower.

We believe valuations, even if they hold the earnings won't grow fast enough to make them more sensible. So, we think we've got all the ingredients here for a, a classic stock picking market rather than I won't use dumb money, but I'm not sure what the right term is, but maybe it's just momentum following market. It's probably the most polite way to say that and there's nothing wrong with that strategy. That strategy works in particular markets and we do follow that sometimes. But when the fundamentals move too far and are stretched, that's when we step out of the market. And that's what we really did at the back end of this year.

From a fundamental point of view, you can't invest in these companies. I characterise it as 100% being flow driven and the way our investment process work is around we look at the macroeconomic environment, the fundamentals and positioning flow. So, we do look at it, but I'd characterise it as almost 100% sensitivity to flow rather than the macro and the fundamentals. When you have that divorce from those factors, that isn't an anomaly and it will revert. The greatest lesson in markets is you always return back to the mean in most situations. What we'll see next year is some of these anomalies we are seeing in the market will return

John Ayoub:

It's probably worth also highlighting that the market always gives us a clue to the way that other funds are positioned. And early this week when there was the surprise announcement around further Chinese stimulus, our portfolio made 50 basis points in a day. Shows how sensitive our portfolio and is geared to a certain direction of the market. When CBA was down 1% or 2%, we're generating some really quick returns in that portfolio. And to demonstrate the last time that happened was when the currency issues were happening in Japan and CBA fell 6%.

We were making 100 to 150 basis points in a day. So, the market is very sensitive to any sort of directional change. We've already made that change in the portfolio. We've pivoted early, somewhat too early, many of you would say. But when it does turn, and as Matt was saying, we are confident the market will rotate, we will make a lot of performance very quickly. The other thing to also stress and highlight is when we talk about momentum markets just to kind of provide a bit of perspective on that.

Typically, in markets you're trying to look a year ahead, you're trying to identify where a company will be, where valuations will be, where earnings will be one to two years ahead. The market isn't concerned about that right now. They're so fixated with the next announcement, the next announcement being the earnings update or whatever it might be. As long as the beats or misses that, that's all the market is fixated on right now.

So it doesn't really care about the valuation from one to two to three year perspective. It's only really focused on the short-term. For us, when the market pivots to that, that's when surprises and shocks can take place. And we're really cautious, as we said earlier, about capital preservation and we're not going to chase that really, really short-term gain because the consequences of that on the other side are dramatic. So that's the way we're feeling at the moment.

Matthew Haupt:

It's quite an important point as well. The market will give you signals around when a change is coming. You'll start to see days where the old trades start to fall apart and we're getting that probably once every three or four days now. You'll see a day where that momentum just dies and you're seeing some decent drawdowns, and the market often gives you these clues ahead of time. You'll start to see it slowly creep into the market, then all of a sudden it happens. And these inflection points, historically, where we make a lot of outperformance on these inflection points and we think we are at the right on the cusp of an inflection point in the next month or so. So we're actually quite excited about that chapter ending actually on momentum.

Geoff Wilson AO:

And thanks for that, both Matt and John. I know we'll go to April now from the investor relations team for Q&A, shortly, but just a couple of things. John, I know you were talking about 100 basis points, to turn that into English, that's 1% or 150 basis points, 1.5%. And Matt, just, just there you were saying you think we're on the cusp, was that just a move from the passive money, just effectively following the herd effect.

Matthew Haupt:

Yeah, correct. And normally, like you need to see a specific catalyst to change it, but we're starting to see it fall apart already. The catalyst we are expecting is the launch of tariff theatre in January, when Trump's obviously going to come in. So we've got a clear catalyst for this trait to unwind. So we're actually very confident of that because normally you hope just through the passage of time will work, but that is a much lower conviction that it will happen. But We've got a clear catalyst and that's what I should have gone into the detail.

Matthew Haupt:

The cusp is Trump coming in, global trade war, disrupting all the flows. So that's where we think we're heading.

Geoff Wilson AO:

And what does that, like, what does that do for Australia or is that for the Australian equity market?

Matthew Haupt:

Well, the first thing, the way we're looking, at the moment, we think the first thing is a stronger US dollar will happen. So we've got to look at the sensitivity of their portfolio to the US dollar. We got to look at, commodities are generally negative when you got a rising US dollar. So we have to take that into account. And the target is likely China. So we're quite positive on some of the resource names, but they're probably going to get hit, so we will reduce those into that.

Matthew Haupt:

What does it mean for Australia? We probably won't target Australia with explicit tariffs, but obviously the impact of global trade is fairly large. You can talk around. It might hit the global growth by 0.5 of 1%. So it's actually quite meaningful. And also consumption in the US. Effectively a tariff is a consumption tax anyway. So as much as Trump says the rest of the world are going to pay our tariffs, it's the US consumer that pays it. So we're going to look at the impact on Australian companies over in the US and counter that with a stronger US dollar. So the impact's quite limited on Australia.

The Australian dollar probably falls as well as the Australian currency is a proxy for China. So we'd expect Aussie dollar to fall and again we'd look for. We've got all the sensitivities. How does a lower Aussie dollar affect our investment companies? So there's a whole range of how power will pass through.

The only comment I'll add to that is just that China and the rest of the world have a glimpse into the Trump playbook. They've seen it before, so potentially we're better prepared for it this time. In particular, China. I think when you look at the stimulus that they have been announcing, it feels like they've been rather reserved and held back on that. And I think they're waiting for some of the finality around what the trade wars potentially and what the tariffs look like before they pull their gun out of the holster, so to speak.

John Ayoub:

So for us, we're trying to work out the size of the gun. Do they pull out the pea shooter early, then pull out the bazooka, then pull out the real big cannon? We're trying to work out how they, how they Step through it. And there are potential for Trump to actually find other parts of the world to get those tariffs. And you know, he's invited, he's invited the premier to go to the inauguration. So that's, it's a step in the right direction. So, you know, we need to be conscious that we know what the playbook is and potentially there are different directions that could take place. So we're sitting here and managing and looking at it every single day.

Matthew Haupt:

Yeah. But I guess the takeaway is it's bad for global growth and the volatility will be bad for equities in the very short term. And that's why we think that's going to be the catalyst to interrupt this flow.

Geoff Wilson AO:

Gotcha. Thanks for that. And I know we've already had a lot of questions that have come in. Why don't I pass over to April who can allocate the questions out between us.

April Lowis:

Thanks, Geoff. I'll start by running through the questions that were provided ahead of time. So we'll start with Geoffrey and Tony have both asked questions on gold. They've asked what is the gold exposure in the portfolio and are you long gold stocks? And that's one for Matt and John.

Matthew Haupt:

Yeah, great. I'll kick off. So gold was reduced. We were actually quite heavily overweight gold throughout the start of the year and mid-year. So we had a, we were running about, almost close to 4% of the funding gold and obviously gold had a great run. We've reduced that down to sub 1%. So we do have some Newcrest (ASX: NCM), Northern Star (ASX: NST), Vault Minerals (ASX: VAU) and Gold Road Resources (ASX: GOR). That's what's left, and it's sub 1%. Our view on gold is not as positive as it was. And predominantly we think the interest rate cutting cycle, the real rates have probably done all their movements now. So for a catalyst to go long gold from here, we need to see something else which we can't see in the market at the moment. So what will get us positive on gold? Probably if the US deficit were to blow out again, what was happening was US is running like 7% deficits, flooding the world with US dollars. Scott Bessent came in, the treasury appointee. He said we're going to wind back the deficits and that killed the gold trade. So we need to see US deficits blow out again to get positive on gold and we're not likely to see that in the very short term. So for us, we'll run a little bit of gold in the portfolio because we talk about low volatility that might spike but we can't see a clear catalyst from a macro perspective to go long gold at the moment.

John Ayoub:

From a stock perspective as well. It's been challenging time for all the producers. We've seen cost overruns and mining issues and grade issues and it's been challenging to get the leverage that you've wanted from a number of the stocks. And our default position for a long time was Northern Star. When Newmont Corporation (ASX: NEM) got sold off, we rotated to Newmont so hence why we got the Newmont position. We took a basket approach to a number of the mid cap names and that included De Grey (ASX: DEG) before the takeover and, and Vault and Gold Road because there needed to be a catch up trade and we've seen that now. So from a stock perspective, if we had to, the one that we're happy to hold now is Newmont given they're catalysts rich from an asset sale perspective.

April Lowis:

Thanks. We have a question from David who's asked, would you consider converting WAM Leaders to an exchange-traded fund (ETF) so it trades consistently at an NTA? If not, why not? And I think that's for Geoff.

Geoff Wilson AO:

Yeah, thanks David for the question. And like the board looks at capital management each time it meets the, I mean one of the negatives. Well, to me one of the holy grails of listed investment

companies is the fact that they do trade at discounts and they do trade at premiums. I mentioned earlier on, I think the average premium for WAM Leaders since being listed, you know, not quite a decade, has, has been about 2%.

It has, yeah, well, I think it was September last year. It was trading at about a 10% premium. So if, if you turned into ETF. Yeah. The best you'd get. Well, the best and the worst you'd get was it was NTA. So it's, it's an option that we have, we haven't decided to at this point in time and yeah, I, I wouldn't be that keen on it. And yeah, I was talking to one of the other WAM team members earlier today and they said they were talking to a shareholder that, they're making some calls, just, you know, touching base with shareholders and the one they called was a little bit upset. They were calling because he said, I actually don't want you to call because then the discount, you know, that means, yeah, you'll be explaining to people what's going on and that I'm trying to buy some more and I prefer the discount to be there. To me it's like you've got to understand you're buying a listed investment company. One of the things that a lot of people don't spend a lot of time on is one of the reasons we started with this structure. You know, we also have an open-ended structure if you want, if you prefer to invest in something where you can get in at NTA and out at NTA. WAM Leaders does have that. Yeah. So just send an email into the, into the team and they can, they can help you there.

April Lowis:

Thanks, Geoff. And another question for Matt and John from Tony. What sectors do you think will benefit from Trump and what sectors will be affected negatively?

Matthew Haupt:

That's a great question and one we ask ourselves every day. I characterise it between short term and medium term, long term as well. So it's going to be, I'll try and flesh it out a little bit more. So in the very short term we think Trump is very US dollar positive and US economy and US company positive. So I think in the short term sectors, like the way we look at it on the ASX is we look at our companies which are exposed predominantly to the US dollar and US economy and you know, some of, some of the big ones, you know that like people will know would be like, like Aristocrat (ASX: ALL), James Hardie Industries (ASX: JHX), Brambles (ASX: BXB), Amcor (ASX: AMC), you know, companies like that, they appeal to us.

Then we obviously got to go down to the fundamental view of the companies and do all the analysis on that front. But instead of like, because our exposure, we can't really go through a sector-based approach with Trump if obviously if we're operating in the US we could. So, we don't look at it from a sector perspective at per se, but more of a company opportunity and where do they earn their money and their geography exposure. So, I characterised it as that on the medium to long term I think what will happen is effectively Europe is going to be a big loser in the short term from Trump.

Matthew Haupt:

So I think that's going to create a lot of opportunities for again not from a sector perspective but from company perspective for us within Europe. So, companies with big European

exposures and companies again like Brambles have got a big European business. You know, there's other companies which we own like Reliance Worldwide (ASX: RWC) and a few others that have European exposure. I think that will happen. But ultimately in the short term from a market perspective, I think being defensive in January is probably going to be your best bet. We think the low beta names and what I mean by that is stocks that don't move as much as the market. So, you know, more resilient.

You know, consumer staples are probably not the area at the moment with Australian Competition & Consumer Commission (ACCC) focus and Woolworths having their issues. But, you know, things like Coles looks okay. Telstra again looks really good to us. You know, Spark New Zealand is another one. So I think that defensive part of the market is where you want to look. And then as we roll forward, then you want to roll maybe into a bit more cyclical, consumer discretionary. Even at the back end of the year when tax cuts are always going to kick in. Both in Australia, we're going to get more of the tax benefits rolling through, and the US you're going to get more tax benefits rolling through. So, then you'd probably want to pivot later in the year to more of the even manufacturing cyclicals, more stuff that will pick up at the back end of the year from a sector perspective.

April Lowis:

Thanks, Matt. And I think that also covers the next question that was from John on companies that would benefit from a Trump presidency. So we'll move on to a question from Tony. So Tony's asked for your views on a few companies, including Clearview Wealth (ASX: CVW) Perpetual (ASX: PPT) and New Hope Corporation (ASX: NHC).

John Ayoub:

Thank you, April. Tony, good to hear from you, as always. Clearview will park that one because it's not really in our wheelhouse. It's outside the 200. It's not something we spend a lot of time on. Perpetual is an absolute battleground stock right now. And following that tax ruling that came out yesterday, it's throwing a lot of balls up in the air and primarily does the deal that was announced with KKR Private Equity complete?

John Ayoub:

So, you got really two big questions around deal completion and equally, can they resolve the tax consequences of that deal? From a fundamental perspective, the company is doing a lot of good things. It's one of the few that's actually winning. Flow performance has been good. The main issue they have in their asset base is J O Hambro, which is the UK fund manager. But the rest of the business is doing well. The new management team we met recently, they've got some clear plans around costs and opportunities around that. So we think from a fundamental perspective, they're doing really well.

Perversely, we wouldn't mind the deal not completing because I think if they could leverage that Perpetual brand, there's potential takeovers that they could participate within. So we think it's decently positioned. We have a very, very small holding in that just a little foothold so to speak. So we don' mind it but there's a lot of water to pass under the bridge. And New Hope

simply, you know, you take your view on thermal coal with that one versus metallurgical (met) coal. Our preference right now is met coal and we prefer Whitehaven Coal (ASX: WHC). We think there's a lot of opportunity in the Whitehaven portfolio to get hold, to potentially get hold of more BHP (ASX: BHP) assets. But we think New Hope, yes, it's a pretty safe place. You're going to get your yield out of it. But our preference is Whitehaven.

April Lowis:

Thank you. And then Tony's also asked for the best defense stocks and which stocks are most vulnerable to a takeover.

John Ayoub:

I think if we frame takeover first, I think there's going to be a lot of mergers and acquisitions in this market with the divergence of valuations in the market with the haves and the have nots, if we can characterise it like that. A lot of the haves are going to use their expensive script to make acquisitions and we think that will ramp up very much so in the first and second quarters of next year. You know, companies like Seven Group (ASX: SVW) or Wesfarmers (ASX: WES), they've got some very valuable script right now which could be utilised to acquire things which would be highly accretive for their shareholders. So we think those companies will be more on the acquisitive path.

John Ayoub:

The names that we think potentially are vulnerable, some of these held back industrials which are high quality, like a Reliance, even a Spark for parts of its portfolio and maybe a Mineral Resources. We've already seen a propensity for Gina Rinehardt to buy the oil and gas business. The assets undeniably are very good within that business. So potentially it's a takeover target as well. And that's the means to an end for Chris Ellison there. And from a defensive characteristic stocks, I think we've mentioned those. It's the Coles, it's the Telstras, it's the Sparks. They're the names that we're really attracted to.

April Lowis:

Thanks, John. We have a question from Doug. He's asked do you believe that WAM Leaders is underweight technology stocks? And have you considered Technology One (ASX: TNE)?

John Ayoub:

Thanks, Doug. We actually, you know, we got, we had a pre. A glimpse of the questions earlier, some of these questions and we are actually overweight the technology space. Very selective and you, if you look beyond that top 20 where you kind of see those big overweights, we have a Lot of incubator positions. What we call in the tech space, we use the volatility in WiseTech (ASX: WTC) to go overweight in that name.

John Ayoub:

In reference to Technology One, we did buy it, we bought it around $14 and we thought we were quite clever in selling it at $20 and it just kept on going. So, it's a great business, but I think the valuation is a bit too stretched for us. We think there's other pockets within the technology space like Square now known as Block (ASX: SQ2), like a WiseTech, which we think have more internal inertia to drive more growth. So we do. We are overweight technology in a smaller way, but TNE just doesn't fit in that bucket for us right now.

April Lowis:

We have a question from Alan. Why did you take an underweight position in BHP compared to an overweight position in Rio? And what consideration is given to investing in a company with a moat rating versus no moat.

Matthew Haupt:

BHP and Rio Tinto. It's a good question. We often switch between the two, so you might get a glimpse at an NTA where we're overweight, underweight, a BHP or Rio. And the reason why recently we were overweight Rio predominantly was around fundamental positioning on aluminium and Alumina (ASX: AWC). We are much more positive on those names and we really wanted the exposure through Rio Tinto. And then on the flip side is the, from BHP point of view, they are available to or have the option to make a takeover on Anglo Australian Resources (ASX: AAR) again. So, we're a little bit concerned that they would come back. We like both companies, but with the banks and with the miners, we often switch between the two or the four at different points of the time throughout the year. So, at the moment, you know, BHP and Rio are about even. Like our weightings in the portfolio now, because that last Friday was the time when BHP could come back for Anglo and they haven't. And I did catch up with Anglo this week, actually, and I think they've done enough to defend themselves from a takeover. And I don't think BHP will pay what they need to pay to make it happen. So I think it's a low probability, famous last words, that Anglo and BHP get together. So for us now it's much more even. So now we're holding equal weights between Rio and BHP and again every day we're looking for opportunities. If we get new information, then we'll adjust to our portfolio waiting. So at the moment they're just about even.

April Lowis:

Next question comes from John. Will your view on banks be altered if Trump reduces bank regulation in the US, as he is threatening to do following Biden's heavier bank capital regulation.

Matthew Haupt:

I mean it's very much a US specific regulation change. It will have no impact. I mean the only impact it possibly could have is if all the world walked away from the bail global regulations. Because if US don't go down that path, will the rest of the world walk away? Potentially, but it's a very low probability for the Aussie banks. Very different scenario. The Australian Prudential Regulation Authority (APRA) have a framework in place, unlikely to change. Very, very low probability of that happening or very low probability of going to a looser regulations on the

Australian banks at this point in time. But like maybe from a Macquarie Group (ASX: MQG) point of view there's some potential for that and the only way it will benefit is from increased capital flows and deal flows and opportunities. So, it might be beneficial for Macquarie in a sort of a second derivative way rather than they'll benefit from the environment it creates rather than the actual the framework. So, it could be beneficial for Macquarie but definitely very to no impact for Aussie banks.

April Lowis:

Thanks. And we have a question from Peter for Geoff. Why is the WAM Leaders share price 10% lower than last year when Australian Foundation Investment Company (AFIC) is the same despite being 11% below NTA?

Geoff Wilson AO:

Yeah, look, thanks Peter. And this I know there's another question that came that I was glancing at before the meeting and this might answer both and this. The other question was about the fact that we created the WAM Leaders Trust. Has that had an impact on the NTAs? When we announced, we were going to create the WAM Leaders Trust and why did we do that? Because we had some, you know, like probably one of the questions of the gentleman earlier, we had some actually financial planners that wanted to, wanted us to manage some money but didn't want to have to, you know, work out if you're trading at a premium or discount, NTA, et cetera, et cetera.

So, we created the trust. Yeah, it's a small pool of capital. Yeah. And it's managed identical to WAM Leaders. But when we went on the road show to talk about that, we're trading about a 4% premium and the interesting thing is pretty much all the people that are listed in the invested in the listed investment company are there because they prefer listed investment companies for their dividend stream, et cetera, et cetera and the various other reasons.

So when we were doing that roadshow we actually went from a 4% premium and this is a year and a bit ago, we went from a 4% premium to a 10% premium because we're going around speaking to people and instead of, and telling them what we're doing, instead of them saying hey look, we want to sell WAM Leaders and put it into the trust, they're actually buying more WAM Leaders. And to me that's one of the reasons I think why in a very short period of time we rallied to that 10% premium about it a year ago. So that talks about the trust part and then what was the other part of the question?

April Lowis:

It was compared to AFIC.

Geoff Wilson AO:

Yeah, I mean in terms of where WAM Leaders compared to African and Argo. Now WAM Leaders is an active managed portfolio. Very active managed portfolio. I think the guys turn over the portfolio three or four times a year. That's the whole portfolio. So, trying to make every dollar they can wherever they can. So, it's very active. Over the last five years has had

some exceptional outperformance years. The last year or two has been a lot more challenging. And I think one of the reasons it's gone to a discount is there has been there was one shareholder that had a very large shareholder that purchased, you know, had a property purchase and had been selling. I think that's been put a bit of pressure on a short-term Peter. And with WAM Leaders, I think being able to deliver over time performance better than the AFIC's and the Argo's and also to provide a fully frank dividend that's higher than the AFIC's and the Argo's that you'll see. Even though at the moment our discounts may be similar that you'll see WAM Leaders go back to NTA if not a premium. So, to me, I take your point. Yeah, I don't think it's, it's only a short term situation, not a long term situation.

April Lowis:

We have a follow-on question from Daniel on that. He says it seems the launch of the unlisted fund killed the premium to NTA in the WAM Leaders share price. Am I correct to assume that having a listed or unlisted fund will reduce the likelihood of WAM Leaders trading at a premium again?

Geoff Wilson AO:

No, and that's, that's not the case at all. Yeah. If you know when we, when we announced that we were doing WAM Leaders, we're at a 4% premium. We actually went to a 10% premium over the following two or three months and there's been, people haven't been selling leaders to go into the trust and you've seen that with other, other players in the market. Say Plato Investment Management has a listed at an unlisted trust Sorry. A listed entity and an unlisted trust. You can get in and out of the listed trust at NTA and the listed one trades at a premium. So there's no correlation between that. It tends to be a different group of investors that want that type of product.

April Lowis:

Another question for you, Geoff, from Steve. Why can't you highlight each of your LIC's performance net of fees without reinvestment of dividends, but including franking credits to allow direct comparisons with other investments that I hold that provide this information?

Geoff Wilson AO:

Yeah, that's all possible. We can give you any of it. The tough thing is it's how everyone slices and dices the information. A listed investment company is investing in a number of companies it's a fund manager. And as distinct from a trust where there's no tax paid, a listed investment company pays 30% tax. So, I know you're saying can we adjust for the tax, take out the management fees and performance fees and any other costs and then gross up the dividend so you can work out your performance. We can do that for you.

To me, there's a whole lot of different measures. We've been talking to the ASX about trying to get a more consistent measure for all listed investment companies. Because you've got to remember if you're investing in an ETF, they don't pay tax. So, in theory your performance is going to be the profit it makes each year. In listed investment companies, 30% tax has been

taken out. So, it's very hard to do apples with apples. What we try to do on a six-monthly basis is in our full year and half yearly result, we give you the gross performance that's before all fees. So, you can see how we're performing versus the market because there's no fees on the market and you can make it. You know, we've got a 1% management fee and a 20% performance fee.

And the performance fee is, has to be. It's only when we outperform the market and that's, you know, with a high-water mark. So, you know what the fee structure is. Yeah, so we do that. We do the total shareholder return and we do the NTA performance over a six-month period.

April Lowis:

Thanks, Geoff. And the next question comes from Peter and it's for Matt and John. It's what is the 2025 plan to generate investment returns?

Matthew Haupt:

Great question. You know, that's what we do every day. We're working out where to position the portfolio and I think we touched on it where I think in the first quarter it's really going to be around the defensive characteristics and then looking to deploy into the more cyclical components maybe towards the middle of the year. And I think speak for both of us, there's a huge amount of latent potential in a lot of the names we have in the portfolio currently. So, it's not like we have to search for them, we've actually got them ready to go. So, I mean it's really around positioning and around like I said, with the China stimulus will probably be sellers of the optimism and buyers of the pessimism as that trade happens probably about 10 times throughout next year because that's generally how the stimulus works. Everyone gets excited about the opportunity and then you know, reality comes and misses expectations. Then the market sells off and then you know, we, we buy when it gets too pessimistic and then the, the expectations start building up again and you know, that's very much how China trades. So, we think that's going to be a clear thematic we can trade throughout the year. And yeah, the latent potential in the current holdings, you know, we've identified those opportunities already, arguably a little bit early, but when we look at the investment case, they remain very, very solid and actually improving every day as we speak. So, I think the unloved stocks is really where you got to hunt in 2025, but also be cognisant of a little bit of momentum will continue.

April Lowis:

Thanks, Matt. And we've got a question from Gordon. With the market already pricing in the current underperformance, what is your forward-looking strategy to regain investor confidence and create sustainable alpha? What actions have been taken to reposition the portfolio? And lastly, how do you plan to communicate tangible progress to shareholders to avoid further erosion of trust?

Geoff Wilson AO:

Can I start on that? As you know. Yeah, when, yeah, I'm sure. I'm sure you know, with yourself when you're managing your pool of capital, you have periods where you, you know, you know,

you can see things. Well, as I know another, a futures trader I knew well or know well, he used to say sometimes you can see things in 3D where you, where you're incredibly confident on the investments you're making in the market and sometimes you're less confident and there are periods and we'll announce this to the ASX, just the last 5 years performance looking at each year and there was, I remember go back four or five years ago when Matt and Johnny I think when they outperformed the market by 10%. Now when you're focusing on the ASX 200, to outperform the market by 10% is exceptional. To me the probability of them doing that again I thought was very, very low. Then the next year I think it was by more than that and the third year was by about that. So to me there's, and then there's just a little bit of mean reversion. You know, the guys have been a bit too conservative. They've talked about, you know, they had a position, you know, one position that hasn't worked for them and that's cost them, you know, X percent.

There's been lessons learned and now that's, that's how we all evolved. So to me, I don't necessarily think the market is, you know, having a view on the relative performance, I'm sure because if you go back 12 months ago, the performance and we're trading at a 10% premium, I mean the performance for the little period before that hadn't been anywhere near as strong as the period two years ago, three years ago, four years ago.

So that's just a little caveat on it. Like one of the drivers for listed investment companies. Yeah, it's supply demand. And I'm sure, you know, some people have decided, oh well look, yeah, the, I'm going to move on. But yeah, that's, that's, that just creates an opportunity for another group of people now that are buying at a discount. But that was just a preface of this start. I'll pass it over to Matt and Johnny to go through the risk.

John Ayoub:

Gordon, we appreciate and can recognise your concerns but for us, if you look at our track record on a 3, 5, 7, 8 year basis, we think it holds up against everyone else and absolutely we made some bad choices in the last 12 months, but we haven't changed what we do. We've taken the lessons of the last 12 months, and we've implemented them in the portfolio. Our process we believe is proven and as Matt said, we got a lot of latent potential within the portfolio and hopefully over the next three to six months as we start to generate those returns that we're optimistic that we will generate, we can prove it to yourselves and the rest of the shareholder base that the process is still solid and sound and we don't need to go and change everything. So for us we're happy, we're content, we've recognised the mistakes over the last year and we're moving forward.

Geoff Wilson AO:

And what are the lessons, Johnny? What are the lessons?

John Ayoub:

So, I think firstly around recognising the market cycle that we're in, we probably went too contrarian, too conservative around valuation and being so steadfast in looking at the valuation, particularly in the banking sector when there is a thematic out there around the rate

cutting environment. Valuation sensitivities were out the window. So people just bought and bought and bought momentum and we probably should have participated in that a little bit longer.

John Ayoub:

So, we've made some adjustments in the portfolio to keep up, not to, not to replicate but to keep up. And then around stock selection, Star positioning our size is too big for the risk that it demonstrated. Government risk in the reach of government around earnings. That's something we definitely learned the lesson of very quickly and it's helped our evaluation and our focus around stocks like Endeavour and Woolworths and the like.

And I guess Star was one of the things where I think we said in the September call there was probably a little bias from the success that we had with Crown Resorts (ASX: CWN) and the returns that we generated from our Crown position. So, I think we needed to take a step back, evaluate the risks to earnings. We did misinterpret the risks to the earnings that was coming from the regulation that they faced and just the sheer level of complexity and issues that the company faced. We may as well deal with a couple of the questions that we've had on Star right now we've managed that size down the portfolio, we've taken the pain.

Right now we see it as option value in the portfolio. It won't hurt us too much and if something were to come to fruition, we would recoup some of those losses, but not all. We've accept that we've taken that hit. There are a number of challenges the company continues to face and I think at the AGM, Steve McCann acknowledged that it's not going to be a quick journey. I think we said the same thing back in September. This is a multi-year turnaround for a corporation that had significant issues.

John Ayoub:

But what we do know today is probably got the most robust and sound compliance regime of all corporations in Australia that's gone through that much change and still going to go through a hell of a lot more change. But that doesn't mean the earnings are going to rebound anytime soon. So, from that we've had to accept it, move on from it and now our focus is recouping those losses in another way.

April Lowis:

Thanks. I'll just ask a few, a handful of questions related To Star. Now then, just to cover them off, have we removed ourselves from Star? I think you mentioned it's around 1% of the portfolio.

John Ayoub:

Yeah, just conscious there's always journalists on this call and last time we got picked up. I think with Star, we've managed that position down to a sub 1% holding now within the portfolio. So, I think we'll leave it at that.

April Lowis:

Thanks. Okay, so now the next question comes from Bob and this is for Geoff. The decision to remove the current top 20 holdings is a major concern. Can management add this back to the monthly report? Every LIC and ETF I hold, except WAM Leaders, publishes at least their top 20 holdings. And now most ETFs publish what they hold at least monthly.

Geoff Wilson AO:

That's probably more for Matt and Johnny.

Matthew Haupt:

Well, I don't think matters from our perspective whether we publish the top 20. So where we're open to the idea if we want to have a discussion internally. I think, I think from memory the thought process was to do underweight, the top five, underweight and overweight to give a more perspective around the active positions in the portfolio. But I don't mind if we go to a top 20. I mean, we can table that 100%.

You'll find that in today's presentation that the top 20 holdings is, are included equally the top five overweights and top five underweights. And look, if we've made a mistake in not including it, we'll absolutely address it and we'll deal with it internally.

Geoff Wilson AO:

Yeah, I think it might have been when we were putting together the new structure for the, for the NTA's. But hey, look, thanks for the feedback. Yeah, we'll look at it.

April Lowis:

And the next question comes from Roger. LICs that I own. Pay quarterly dividends, are less volatile and trade closer to their NTA than those that pay dividends half yearly. Would you consider quarterly dividends, perhaps? That's for you, Geoff.

Geoff Wilson AO:

Yeah, I mean, look, that's, that's a question for the board. Pretty much half the LICs, or they call listed investment trusts in the UK do quarterly dividends. Yeah, it's been a trend that we are, we've been aware of for a long time. We haven't done that here. I'd be interested to know which LICs that he's referring to because I've seen no correlation between moving from half yearly to quarterly dividends and the reduction of NTA discount or the premium to NTA. And just on that, we actually are potentially you know, there's a few things happening and there's been a bit of demand and we're looking at potentially a new structure which would have more frequent dividend payments. Not in the WAM Leaders structure, but in a totally different structure. But that'll become. Yeah, we'll keep you all informed on that.

April Lowis:

Thanks, Geoff. The next question comes from Ken. I've been in the market since 1963 and it appears to me the market is overheated. If the market did correct, would WAM Leaders come back to shareholders with a cash raising?

Matthew Haupt:

Yeah, that's, That's a cash raising would be one for the board. Yeah, I mean, we agree with. The market is overheated, like 100%. It's overheated. I think I touched on this in the. When you look at percentiles, it's. It's off the charts heated. The equity risk premium, which is another thing we look at to judge the market cycle, is effectively zero. So you're not being compensated for extra risk. So, yeah, 100% it's overheated. What will trigger that to change? And again and again, I'll point to January. We think that's a likely possibility. Again, it's not 100% probability that it will disrupt this, but we'd put it as a high probability. And for the cash raising, I mean, that's up to the boredom. I don't think we'd ever.

Geoff Wilson AO:

And probably like, if the market adjusted, it's probably not the right. Even though it might be the right time from an investment perspective to raise the capital, it's probably not the right time for shareholders to raise the capital because usually we see. Well, since 1963, you've seen the early 70s, you've seen, you know, the 87, you've seen the Asian crisis, you've seen them all. And even though it's the logical time to put more money to work in those periods that unfortunately the bulk of the investors are running for the door.

April Lowis:

And Cam and Peter have asked, how would you describe the performance over the past two years and what have been the main lessons learned over that period?

Matthew Haupt:

Well, I think, I think John touched on that before on the previous questions. But yeah, I mean, the main learnings, I guess, when. Yeah, we just go back to position size and risk management and making sure I go back to quality of management too. I think we dismissed that on the learnings from Star. But, you know, you've got to have the right management in place to get you through tough times and, you know, like it's just a good reminder to go back to the real, you know, getting under the hood and making sure you're ticking all those boxes again because you know, management is crucial as they are, you know, agents for our money, your money and they've got large workforces, they have to motivate and guide through regulatory issues. So you need the right people in place. And I guess that was very specific learning from a stock. From a market perspective, I mean the momentum in the market we positioned for a lot of stocks which were deeply undervalued and we thought when interest rates would fall they would come up. But what happened was the market went to the first derivative which is discount rates fell and then momentum stocks went up and long duration stocks went up and the deep value got left behind. So it was a little bit of a tilt but again that's in the wisdom of hindsight you can call that. But you know, the ingredients did really marry up for that trade to work and it just didn't work.

We found money was very much targeted towards anything with earnings momentum and also the long duration trades just took off. Despite interest rate cuts being priced into the market. When they actually came to reality the stocks took on another level which was again quite

surprising to us. So, I think it was a combination of the market was very uncertain around how the cycle was progressing so it got really crowded in a few names. So I guess in hindsight we probably should have looked through the what the market was interpreting and they didn't have enough confidence to deploy money into these stocks. I just crowded and once that we saw that trend and neural sustainable, probably should have followed that trend for a bit longer, we, we did get into that trend and managed to keep up with the market for a period of time. So yeah, I mean they're the biggest learnings. In addition, because John's already covered that off but just a few additional thanks.

April Lowis:

And the next question comes from George and Paul in a recent video WAM Leaders was positive on Spark New Zealand. This was after a first earnings downgrade but soon after Spark issued a second earnings downgrade. Do you still believe this is a short term issue due to the current subdued outlook for New Zealand's economy and consumer spending or is it a more serious issue given the company is losing market share in New Zealand and are you still positive?

John Ayoub:

George, great question. I think you've nailed a few of the main points there. And for us we had a small position at the first downgrade and we've increased that since because fundamentally we believe that the assets that this company own are materially undervalued. And we've done some significant research and we think at the valuation where it is in the economic cycle, where it is in New Zealand, they being a year ahead of where we are, we will start to realise a return to normality and Spark should kind of rebase from where it is. It's had a confluence of issues including the removal from the MSCI Index which led to some 10% of the company being sold in late November.

That again provides us an opportunity to get fully positioned where we are now today. One of the things that we do expect Spark to do is to divest a number of their non-core assets. And today was a prime example of them being able to do that by getting rid of their towers business and realising some $300 million plus for the remaining part of that portfolio well ahead of where the market expectations were. We think it's an asset rich business. It has data centres, it has subsea cables, it's number one telco provider in New Zealand.

The New Zealand government spending is absolutely an issue but we think that is a temporary phenomena, just part of a normal market cycle and it's been sold off from a confluence of things being flow and the downgrades. And we think if they go down the path of asset sales which they're embarking upon now, the value in this company will be quickly realised. And yeah, our entry price isn't far north of where the share price is today. And we think we can certainly get material upside from where it is.

Matthew Haupt:

And probably the big one as well is around the dividend. It was really bought as a dividend stock and then people got scared that they couldn't maintain their dividend. This asset sale

demonstrates they can actually divest. But there's also on the bottom of the announcement today about a capital partner process for their data centres which is why there's been a little pressure on the stock too because people think this data centre is going to cost a lot of money to fund. They get the dividends at risk. So, we think once they announce the capital partner it'll be a real clear cause for this stock to rewrite.

If you pull up the chart you can see the potential of this stock. But yeah, the market share is a very interesting one too. You're 100% right there. It's got more competitive. But we think the size of this business and the New Zealand economy has been so rough and it's been hit by the downgrades predominantly from the government enterprise part of the business. So, they've identified this and they're pulling out a couple hundred, well, $120 million of costs to offset this. So yeah, from our perspective, I think a lot of the damage has been done.

Matthew Haupt:

Competition is always competitive. It's probably a little bit more competitive, but we think there's significant upside. Just to return back to historical valuations on this name.

April Lowis:

The next question comes from Chris, who's asked, if China deliberately devalues its currency to accommodate US tariffs, what will be the effect on our market, especially BHP?

Matthew Haupt:

Yeah, I mean that's what they did last time actually. It's a good point. They effectively let the currency devalue by the quantum of the tariffs. So, I mean it's largely expected to happen again, but probably not in the same quantum. We think more domestic focused stimulus. I mean, I was up in China a couple of weeks ago and that was the consensus that once Trump got in, if he got in, then tariffs would be implemented and then they would do more domestic focused stimulus to prop up the economy. So, from a BHP perspective, again, iron ore is probably not the greatest trade because it looks like 2025 there'll be a little bit of an oversupply in the iron ore market. Again, the steel market's been running pretty solid in China and there might be some export issues given there's some anti-dumping measures in place on China exports. So, iron ore is going to be tough because it's not really going to be.

They're not going to stoke the property market up again in any grave manner because there's still about three to four years of inventory out there. But the expectation is the property market will start to bottom in the end of 2025. There is potential for some shantytown redevelopments like in the tier 3, tier 4. So, although we said iron also oversupply, there is a path where there could be some property investment through shantytown developments which would be positive for BHP, but I think the domestic focus stimulus would be more positive than the currency impacts for the BHP.

April Lowis:

On China. Simon has asked if there is to be more trade war concerns in 2025, do you see that leading to higher or lower gold and crypto like assets?

Matthew Haupt:

You'd have to take a view on a whole lot of other aspects which aren't totally related to gold and bitcoin. So for bitcoin, I mean, bitcoin's just rallied because Trump's embraced it and said there's going to be a tsar of cryptocurrency. So, all of a sudden bitcoin's going on speculative run. Normally bitcoin and gold go on a run if there is excess US dollars being printed, like through fiscal deficits or if there's negative real rates. So you need that environment to get really positive on gold or bitcoin. So just look for anything that will impact those two factors.

John Ayoub:

The other comment around the strength of the US dollar from Matt earlier, that typically correlates with a weaker gold price. And then equally, if Elon Musk and the Department of Government Efficiency come through, we might see some fiscal discipline coming through in the U.S. so, you know, there's a lot of factors to go into it. So it's something we're, you know, trying to work out ourselves.

Matthew Haupt:

Well, yeah, if Elon comes in and takes out $2 trillion, that's very negative gold. So that's something to watch as well.

Geoff Wilson AO:

I just, yeah, just a little bit of feedback about that. I caught up with a very senior executive, a U.S. senior executive who's chair of two large companies in the U.S. about a few weeks ago and he was saying the probability of Elon being able to take those costs out. He said if he can keep them neutral, not increasing, he's done an exceptional job. He thought it's highly, highly improbable.

Matthew Haupt:

Yeah, that's the feedback I got as well, Geoff, with Scott Bessent. He thinks those, the 3% deficit, 3% GDP growth and 3 million of extra oil is highly unlikely as well. But I think they've been emboldened by Argentina. What the presidency has done there, like he's gone back to surplus, which is, I think you will start to see that. But there's a great. We could share the link with. I think it was a podcast with Elon talking about what he could do. It's actually a really good listen to if everyone, anyone wants to listen to it, you can find that or we could post it up later. But yeah, you're right. I mean it seems astronomical. Like $2 trillion. Yeah, I know they said drain the swamp, but I'm not sure the swamp's got $2 trillion in it to drain.

April Lowis:

A few more portfolio questions. Peter asks why is the portfolio underweight CSL (ASX: CSL).

John Ayoub:

Yeah, thanks, Peter. That's probably the one stock that faces some headwinds under Trump. The dependence on migration from Mexico and collection. We had some sort of concern

around their ability to procure product and lack of other crude terms and equally around the appointment of Robert Kennedy Jr. Just some minor concerns around the growth of the vaccine business, which is one of the pillars of CSL. So there were probably some, what we call flesh wounds that were going to impact CSL.

Currency is a little bit of a headwind. So around that $300 mark, we decided to go underweight. We've closed some of that underweight out now in the $270s. The market does have a fair bit of growth coming through over the next couple of years in the mid-teens. We think maybe that's a bit optimistic and we think potentially more saleable and sustainable growth rates around that 8% to 10%. But it's something, we're absolutely doing a lot of work and as it falls it's, you know, we will pick up some more stock here. But it's just that confluence of issues that we just pointed out that makes us a little bit concerned.

Matthew Haupt:

Yeah, I guess the point is If Bobby Kennedy Jr. Doesn't get passed or nominated like or into the Senate, then we'd actually might flip back to be more positive. But I think Trump, last time he was really hard on drug pricing and now CSL was largely immune to that. And now, but now they have the V4 business which is going to have more exposure to potential drug price hits. So yeah, it just makes us, we just became a little bit more cautious and you know, we just got to walk through the risk now.

John Ayoub:

And a lot of what I point out may not actually come to fruition, but the sentiment had turned. And again, lessons of the last year is don't fight the sentiment until you need to.

April Lowis:

The next question comes From Bill on South32. He says, I note that you're overweight. South32. How do you evaluate the risks with its large Mozambique operation, given huge government impulse on an Australian miner to do business in West Africa?

John Ayoub:

I'll answer this quickly and then Matt can give you the detail. But Matt's currently tracking port movements in the port of Mozambique to see activity measures over there. So, it's something that's on our screens every single day just from a size of that asset. It's around about 4% to 5% of revenues. It doesn't make generate a lot of profit. It's about a $1.2 billion asset value, which is relatively small in the overall context of South32. But Matt can talk about a few more thematics.

Matthew Haupt:

Yeah, so very good question. And like John was saying, we've been monitoring port activity. The issue is they can't get alumina from the port to their smelter. So, it's about a 15 kilometre stretch. So it's not far. But given the, the protests since the election, I think it was. The election was in October from memory, but it's been challenged and the, the person that lost the

election is call for these rights to have. Well, not rights but protests. So the international community is looking into it now. Like obviously more focus.

South32 asking for government assistance to, you know, have a convoy of trucks to be escorted to the. The smelter because it's about two and a half thousand jobs there. So, it's a big part of the local economy.

John Ayoub:

So it's more important to Mozambique than it is to South32.

Matthew Haupt:

But on the flip side, South32 can sell the alumina that would normally go to Mozambique into the spot market and get a higher price for it. So, they cannot actually offset a lot of this. They've got about 10 to 14 days of inventory of alumina. So, I don't know where they sit now. Maybe it's six to eight days. So, they've got a little bit of a buffer. The real damage will. Will happen if they have to move the smelter to care and maintenance. And that's when you start to get all issues because these things are really hard to turn off and really costly to turn back on. So, we're watching that very closely. We'll be continuing to watch the port movements to make sure that ships are actually getting there. And we are hoping for some more clarity around the situation. But worst-case scenario, it might cost $200 million to ramp it back up. That's absolute worst case and the market cap's already moved by more than that. And but for South32 also, we'll probably get a decision from the WA government before the end of the year, which will be incredibly positive if it goes in their favour. So it's, it's an overweight.

We are watching it. Didn't think it would end up like this having like. Because it's only 15km from port to the smelter. We thought that you pretty well have safe passage at all times. But it's really escalated. It's quite a sad situation in Mozambique. There's been a couple hundred people killed in the protests and we hope for everyone's sake it gets sorted out quickly.

April Lowis:

The next question comes from Michael and it's on the bank sector. The Big four have closed many branches recently to save costs. What's your opinion as to how the banks can grow their business and could you also please comment about the banking dividends going forward?

Matthew Haupt:

Yeah, I mean, for the banks, it's an incredibly competitive market. You know, the bank net interest margins, which is a driver of earnings, have been deteriorating quite fast. So they have been closing branches, but quite ironically, we were talking to Westpac about closing branches and they actually might start increasing the branch count. So, they've almost come full circle where they've probably gone too far.

But from a banking perspective, incredibly competitive market, writing loans at cost of capital, which means effectively you're not really generating returns to add to your book value. For us, it's just a really, really tough sector to get positive on it. You'd almost want an interest rate

hiking cycle. That's when you can really get net interest margin expansion. But we're probably going to go the other way too, which is why this setup is incredible. Because next year, you know, we had a strong jobs report today, so maybe the cuts are maybe pushed out a bit, but next year looks really bad because you've got potential for interest rate cuts and net interest margins to decline if the competition stays where it is. It's very intense on the dividends. Dividends are very safe. They've got excess capital, they've been doing buybacks, you know, they still have excess capital. The only potential is if we went into a bad credit cycle, which is highly unlikely. The credit cycles for banks are a lot different than the early 1990s, where banks normally go under from commercial loans. They've hardly got any commercial loans, so big residential mortgage books now. The likelihood of dividends being cut or not, you know, effectively stopped is highly unlikely. But the excess capital puts them in a great position to keep paying dividends. The banking sector is very healthy but extremely competitive and net interest margins are really, really low. It's not a great sector for us, from a fundamental point of view, to be invested in a meaningful manner.

April Lowis:

The next question comes from Usman, who's asked, do you see more capital flowing towards REITs post the phase out of the bank hybrids?

Matthew Haupt:

Not at the moment. The driver of REITs at the moment, we can see it like even today when you had the strong jobs report come out and then our short-term rates went up, the REITs got sold. I'd say discount rates and short-term rates are the main driver of REITs at the moment. But we haven't started to see maybe next year when the redemptions start coming in for the hybrids, you might start to get a flow. But we think again, going Back to the WAM Leaders share price and LICs. We think the removal of hybrids is going to be an incredible opportunity for listed investment companies that pay fully frank yields. I mean that's why we think this is an anomaly with discounts. We think the attractiveness of Licks is going to go up over the next period as hybrids are removed and yields will probably be a beneficiary of this as well the rate sector. For us we're not seeing it yet but we would expect it to happen over a period as well.

Geoff Wilson AO:

And just backing up what Matt said is, and we've sort of tried to be as vocal as we could, you know, put its submissions into APRA, you know, when they were asking for them. Unfortunately, they still came out last week and, and confirmed they were going to get rid of the hybrids. We still think it's illogical and it's negative for the Australian capital formation, the Australian markets and for investors.

As Matt said is obviously people will be looking for, you know, fully frank yield and you know, listed investment companies will be a beneficiary and you've got $21 billion or $22 billion dollars over the next few years looking for a home. I mean we also will be next year, you know, we'll be creating, I mentioned, alluded to a little earlier, a more of an income product which is,

will be paying monthly income which will fit into that, into that space. So we'll keep you fully informed on that.

April Lowis:

Thanks Geoff. And a few questions for Geoff regarding takeovers. Did taking over other leaks using WAM Leaders premium and profits reserve as a hook to new investors contribute to the NTA decline and has WAM Leaders taken over?

Geoff Wilson AO:

The answer is no. You know, we didn't use WAM Leaders Profit reserve with, you know, when we bid, if it's WAMs traded at a premium then obviously the ratio works in our favour. If you look at the last one we did QV Equities (QVE), I think it added, you know, one of the secondary benefits was picking up the franking and it added I think a year and a half or it allowed us to pay enough franking for, for those additional shelves for a year and a half. You look at the announcement, it's in there. It was one, one and a bit cents of franking we picked up. So that's that part. So that that hasn't had had a negative impact. And if Anything, you know, there's been the secondary benefits of picking up the franking.

April Lowis:

The next question was, has WAM Leaders taken over anything that has resulted in the issue of further shares?

Geoff Wilson AO:

Well, each time, you know, WAM Leaders made a takeover and all WAM Leaders takeovers have been reasonably small. Then, you know, we've been, we tend to give them a cash alternate or share alternate and it tends to be issued shares when we've taken them over.

April Lowis:

Thank you. And we have a question from Nicholas. He asked, what are your thoughts on allowing the fund manager more flexibility and instead of returning capital to shareholders, instead reinvest some of the retained profits reserve to try and grow the asset base again and help to close the discount to NTA.

Geoff Wilson AO:

Yeah. And you'll see when we, when we, you know, when we announce the slides, just how much we paid out in terms of dividends. Now, why we paid those dividends, it's because we've had franking. Franking is a lot better in your hands than in the company's hands. You know, the profit reserve is an accounting thing that, an accounting number that gives you some comfort that there's profit that can be paid out.

To have those profits fully franked, then we've got to either pay tax or receive fully frank dividends. So, yeah, like to me it's, it's, you know, the Warren Buffett philosophy of never, never paying a dividend is because they've got a different tax regime in the US. Our tax regime

here is encourages to companies that have paid tax and have fully frank dividends to return them to investors because they can get a benefit by getting money back from the tax office.

April Lowis:

On this topic, Rob said he would like to see an increase in the NTA, but it seems that the dividend policy is paying out too much. By retaining more earnings, the NTA will increase and future dividends will increase. What are your thoughts on this?

Geoff Wilson AO:

And he's 100% correct. You can do that yourself. Yeah, what we're doing is we think we're doing the best thing for shareholders because the tax we've paid, we're better off paying it out to you as a fully franked dividend. We could have not paid a dividend. Unfortunately, we still would have had to pay the tax if we've had trading profits and then the share price or the NTA would be 40 or 50 cents higher.

That's not including the tax we've paid, which allows you to frank it up. What you've got to do is you've got to understand that, well, what you may do, if you just want the capital growth, not the income, then you just go into the dividend reinvestment plan so you get more shares. Obviously, there's tax paid, which allows us to pay the fully frank dividend out to you. But the reason that tax has been paid so, and it's paid because we've made a trading profit. So yeah, what you've got to look at is as an investor, your returns, and I mentioned earlier, like at the moment you're getting a 7% after tax return, that's more than 10%. The portfolio we charge a 1% management fee and a 20% performance fee. That's about performance now. So, forget the performance fee. We've got to do 11.2% per annum to break even. Now historically the guys have done, you know, have outperformed by more than that. So, you know, so pretty much the size of the dividend we're paying is the bulk of your return. Because if over time we do 11 or 12% per annum, you're getting it mainly as a fully frank dividend.

April Lowis:

A few more questions on dividends. One from a Garth why don't you pay your dividends earlier by say four to six weeks?

Geoff Wilson AO:

Yeah, we could, but I mean the classic example is most of the people on the call probably watch the market closely and you would have seen platinum, you know, the fund manager come out with a few days ago and announce paying a special fully frank dividend. To me it was perplexing why they paid that dividend very quickly. And the reason I say that is if what you tend to find, and I mentioned earlier in the call that one of the reasons I'm buying at the moment is because we've got an ex-dividend. And so therefore you tend to find when you come dividend and if you come dividend for two or three days or you come dividend for two or three months, you tend to find people, buyers into that come dividend period.

So to me you meant if I had a choice, I would like the shares to become dividend all year round. But now the board is of the view that keep it cum dividend for a period of time and then pay it

around the same time that we pay it each year. And what you tend to find is you get outperformance during the cum dividend period and on the ex-dividend period you get underperformance and that's just how people are looking for franking and that's how the market works.

April Lowis:

We've also had a few questions on what the outlook is for dividends in 2025.

Geoff Wilson AO:

Yeah, well, we've got the profit reserve so, you know, secure, I suppose. You know, obviously the board's got to make their mind up already. There's a, you know, that's a very high dividend payment, you know, so if the dividend was increased, it would be very gently increased or maintained. You know, the plan is to give a. I mean the great thing about. One of the great things about listed investment companies which you don't get about with ETFs is you can, you can pay dividends to investors over time. So very, very powerful for self-managed super funds (SMSFs). I mean 65% of our shareholders, this is the 130,000 shareholders we've got between the eight listed investment companies that we manage on behalf of shareholders. 65%, we estimate our self-managed super funds.

April Lowis:

Thanks, Geoff. And we've got a few more stock specific questions for Matt and John from Gregory. What is your view on the prospects for annuity provider Challenger over the next 12 months?

Matthew Haupt:

Good question there. Challenger have been in an upgrade cycle for the past three results. You'd probably see the share price, it's gone the other way and predominantly due to Apollo selling out of Challenger. So the share price will tell you that it's not doing well, but it's actually doing incredibly well. So what are our, what's the prospects? We think it's got great prospects and why it has is because APRA are pushing super funds and in the broader Australian financial markets to have more annuities on offer and, and going back to hybrids as well. Coming out of it as an option.

We think Challenger is well positioned to fill out that hole and we're starting to see traction now. You know, they've done some big deals with super funds already and we think they're in a great position. They've increased the quality of their book that, you know, cost out at the moment through. I think it's Accenture doing it for them. A multi-year journey of. I think it's around $150 million of costs coming out of the business and efficiency. We think, you know, upgrade cycle costs coming out and the backdrops is huge tailwinds for the annuity sector. So, we think Challenger's well positioned. There's just one more stumbling block is the overhang from Apollo just weighs on the share price. So, you're not being rewarded for the great activity Challenger are doing at the moment, so prospects look incredibly good for them.

April Lowis:

The next question comes from Andrew. John previously said APA Group (ASX: APA) was not attractive due to government regulation. Has that changed with the AER decision on the Queensland pipeline?

John Ayoub:

Short answer. Bingo. You're right on the money there, Andrew. That was the catalyst for us to get back in the stock. We couldn't believe on the day when the announcement was made that the share price was down. So we did take advantage of that. What I will say it is, it is. It's a smaller position than what we would like it to be. We have just some reservation around the company wanting to potentially make more acquisitions. So we're just keeping some of that powder dry just to kind of watch it and see how it plays out.

Matthew Haupt:

Yeah, I think in WA, the opportunity in front of them is $2 billion to $3 billion. So, you know that they will need capital to take advantage of the clarity around WA government as well and Pilbara. So, yeah, John's 100% right. They, they need capital and we just don't know how they're going to do it yet.

April Lowis:

The next question is from Steven. Was your investment into TWE too early?

John Ayoub:

No, we've had positive experience of TWE. Yeah, we've traded that one. Okay. And I think our average price is around that $11 mark. And I think it's trading near on $11.75, $11.80 range today. So, it's been a decent return. No, I wouldn't say it's stellar return, but it's been a decent return. But we think where we are now, the outlook for TWE is particularly robust. And I think the biggest concern that we're facing and similar to the commodity space is the belief in China and the willingness for the Chinese government to stimulate and equally changing that sentiment of investors that China is going to be a good place or a better place or should we say to invest.

If you look at what TWE has been able to achieve, their US portfolio, in the most recent acquisition, and Frank's Family Vineyards, they've done really, really well. But it's the lower quality, more mass market, cheap price point wines. They're commercial, more commercial stuff that is struggling. And they're embarking on a divestment program which should see that exited from the portfolio. And what you'll be left with is this premier prestige wine business which will be highly attractive.

John Ayoub:

And we have, we're of the view and one of Tony's questions earlier around M and A. Well, we feel if treasury stays in the $11 mark and they do clean up that portfolio and are primarily focused on the prestige market, they will be an attractive takeover target. We think the presence of Penfolds and the brand Penfolds in China resonates stronger than any other wine

label in the world. And what they're doing from a strategic standpoint of going in market to China and establishing more vineyards there is a tremendous strategy. So, from that perspective, we think there'll be some surprises around earnings, positive surprises around earnings in February and August next year and they'll be extremely well positioned to capitalise on the return of the Chinese consumer when it does eventuate.

April Lowis:

Thank you. And then we've also got some questions on two other ASX listed companies. Do you have a view on Orthocell (ASX: OCC) and the next company was Ventia Services (ASX: VNT).

John Ayoub:

The first one I'll first one's outside of our investment horizon. But I'll give a plug to the WAM Capital (ASX: WAM) conference call which is happening next week and I'm sure your inboxes will be inundated. So perhaps that's a question for Oscar and the team on Ventia. It's not a stock we've ever owned. Actually, Matt and I were discussing it earlier. It's probably one of the few stocks that has never resided in the portfolio. And given what's happened today and for those callers that haven't seen the news today, the ACCC has taken action against three service providers to the government around collusion and price manipulation, Ventia, Downer EDI (ASX: DOW) and Private Supply being the third one. And Ventia share prices down 20% following the ACCC action. And for us what that is, it's the first time Ventia has ever come in question around their processes and their diligence and their call it their squeaky cleanness in lieu of a better term and then in the past. So it's been a derate for it today, these proceedings. The last time we saw something like this happen to Bluescope Steel (ASX: BSL) and it typically takes two to three years for them to resolve, the remedies are most likely to be fines and more procedural costs around the processes around contracting. So Ventia has been squeaky clean until now. So, what we've seen today is a derate of the stock. It was probably on a multiple which wasn't justified for the type of business that is and it's a service provider.

We don't own it. We're probably not going to own it. Downer, on the other hand, we're having a closer look because it only represents about 7% of its earnings. Just by luck and chance. We're having a meeting with Downer on Monday, so we'll probably be in a better position to have a view on Downer following that meeting. But they're not typically companies that we're attracted to because there's high turnover, razor thin margins and any sort of changes we've seen today typically leads to a lot of negative operating leverage.

April Lowis:

Thanks. The next question comes from George. Is there further upside in Resmed (ASX: RMD) given the good run the last 12 months after the Ozempic panic?

Matthew Haupt:

Great question, George. The thing about Resmed, like, they do have operational momentum going for them and margin improvement. So we think there is some upside still left in Resmed from an operational point of view on the sentiment front, you, you highlighted a point there. It

does get knocked around a bit by, you know, these weight loss drugs and it has potential for short attacks where shoulders come in and they flood the news with, you know, like these weight loss drugs and how they're going to kill the sleep apnoea market. So it's something we watch all the time and always have in our back of the mind. But will it ever get to, will it ever go on a really, really strong run because of this backdrop? And the problem with the weight loss drugs in a few years time is when they, all the patents come off and generics come into the market, the price will come down and you have oral tablets dominating as well. So it is a risk. But in the short-term we think momentum is definitely with Resmed. We think they can continue that and we quite like it. We've got a 1% position in the portfolio and it's got really good earnings momentum with margin upside. So, yeah, we like that one at the moment.

April Lowis:

The next question comes from Alan. He said earlier that you mentioned that valuations are getting extreme. Can you just give a bit more colour on what this means?

Matthew Haupt:

Yeah, I guess when we talk about extreme valuations, go back to equity risk premium. Normally you'd have to have an equity risk premium. It's a theoretical term where you're discounting stock prices and you use it for like a measure of risk. Basically, how much are you paying to take on risk? And you're not getting compensated for at the moment, which tells you that's extreme. Like with equities, there's always risk and you're not getting compensated for that risk. So that tells you extreme.

Matthew Haupt:

And then we look at the PE ratio. So what price for a dollar of earnings are you paying? And that is arguably at extreme levels too, when you look at the percentiles we trade. So when we talk about extreme, they are two things we're looking at, at the moment. Another way you can do the equity risk premium is you look at the yield on bonds and the earnings yield, which is the inverse of a PE on stocks, and you compare the two and you're just not getting compensated for taking equity risk, basically. So that's what we mean when that's extreme. Normally, equities are risky. You expect to be getting a reward for that, but you're not getting it at the moment. So that's what we mean when markets are extreme.

April Lowis:

The next question comes from Paul, who it's also on this topic. With the banks at such high valuations, would you be wary of holding the ASX 200 index currently?

Matthew Haupt:

Yeah, I mean, that is something we think about all the time. Obviously the major banks for us is roughly 23% of the index, so it's something we think about all the time. What would change our view is, I think what will happen next year is you're going to have asset allocation decisions made by big super funds and sovereign wealth funds. And given the run we've had in equities and given where interest rates are and we're potentially on a cutting cycle, I think you'll see a

big switch in asset allocation out of international and domestic equities and into fixed interest and alternative assets. So that will drive some selling. So, like when we think about the banks at the moment, they're obviously a beneficiary of flows. We think that changes next year where they'll be getting hurt by flows as some equity exposure is taken out of the market. So, we think that will reverse in our favour next year.

April Lowis:

The next question comes from Stephen, talking about your investment philosophy and strategy. Is it a combination of fundamentals and momentum to initiate a buy or a sell?

Matthew Haupt:

I mean, the way we look at the market is we sort of have a framework of three pillars. It's the macro environment. Is the macro environment supportive, like a tailwind, or is that a headwind for the company? Then you've got the fundamentals. You look at the valuation, the company management, their earnings growth, earnings potential. Then you look at positioning, and positioning is sort of a function of valuation and also the direction of flows into the market. For us, it's a combination of the three things. So, yeah, it's just not strictly momentum, but that's the momentum is captured on the flow or the positioning dynamic which we look at. We do take it into account. But we probably look at more momentum positioning on commodities rather than futures markets and equities as a whole. You generally look at commodity traded accounts like CTAs, are they buying or selling equities? So it's a very complex subject. We can go into great detail. But effectively we do look at momentum through how market participants are positioned and where they're likely to move funds around. It's a real combination of those factors.

April Lowis:

The next question comes from George. Out of all your holdings, which company do you think has the most upside?

Matthew Haupt:

That's a great question, George. Well, I've got to go with for me the one that's been punished the most. I think Spark has got tremendous upside like in the very short term that's probably got the most latent potential because it's had the combination of fundamentals and the flow. We were just talking about momentum had the most severe negative momentum through an index exclusion. So for me that's got the most short term upside.

John Ayoub:

For me I'm more comfortable seeing half a dozen names go up 20%. That's what I prefer to see. But if I had to go out and limb and pick the one, given our conviction around China stimulus, I think some of the really beaten-up commodity names in the lithium space from a short term perspective, I'm assuming George wants a rather shorter term as opposed to a longer term one. I think something like a Pilbara or Mineral Resources could have a quick short term 30 or 40% in them.

Matthew Haupt:

Oh, you have to throw South 32 in there. I almost left out South 32. If you get the Worsley in Mozambique resolution, I mean that could put on, you know, 15% to 20%, you know, on the announcement. So that, that's another one.

April Lowis:

The next question comes from Jennifer. She asked, are there companies outside but close to joining the 200 that you think will grow during 2025 and that will break into the ASX 200.

John Ayoub:

Part of our process is that we're allowed to take a view, as Jennifer's expressed, that stocks that can get into the top 200, that we actually bought a couple of days ago is a Toronto listed dual listed copper company called Capstone Copper (ASX: CSC) that's just sitting outside the 200 and we think potentially over the next three to six months it will certainly be included in the ASX 200. It has the copper tailwinds that potentially come from stimulus operationally are doing well. So we've bought a little position in that one and then the other one we've recently seen and I can see there is a question about DigiCo Infrastructure (ASX: DGT) and Guzman Y Gomez (ASX: GYG). One of the things that we're seeing more and more in markets is the impact of index inclusions, particularly when they get included in the global indices like MSCI or FTSE 100 Index. DigiCo is one of those ones that will IPO and there's been a lot written about the asset quality and we'll take a step back from that and just talk about the mechanics of the market. What we will find is that we will likely go straight to the ASX 100 straight after if not long after the IPO. The way that it's been allocated, it feels like most institutions and index funds are going to be underweight, so they're going to be very much forced buyers, similar to the way that Guzman Y Gomez was done. So, yeah, I think, Jennifer, your point around index inclusion is one that is more prevalent than it ever has been before and it's something that we are engaged in spending a lot more time trying to focus on because there is certainly value to be added to the portfolio, not just in index inclusions, but equally index exclusions as we've seen in Spark. It's given us an opportunity to have a more fulsome position in the portfolio.

April Lowis:

Graham's asked for your view on Qantas Airways (ASX: QAN).

John Ayoub:

I still remember when we were at, I think last November in the Perth Roadshow when all the Alan Joyce stuff was taking place and I think we were asked what's one, what was one of our top stock picks, similar to the question George asked a couple minutes ago and we said Qantas and it wasn't well received, let's put it that way. But what they've been able to achieve over the last year is phenomenal, particularly under Vanessa Hudson's stewardship. She's done a tremendous job in changing the psyche and the DNA of the company in a fairly short period of time. They've had a lot of tailwinds, primarily being the reduction in costs from oil price. And that's also led to a number of concerns, primarily being their CAPEX program or their spend on

new planes, in simple terms, to be pushed to the right given the profit they will generate this year, which isn't probably what the government wants to hear, but it's what shareholders are happy to hear. They're going to make a lot more money than the market anticipated. So what we're in a position today is that they're going to be able to pay a dividend, continue down their buybacks and also afford their fleet renewal. So it's almost this perfect storm that we're seeing in the global airline space where demand is holding up, costs are coming down and profitability is unparalleled. All that being said, it's in the price, so we've exited a large proportion of that position. We still hold a small amount, but significantly less than what it was if it got around that $8. The question we have to ask ourselves, is this a material shift in the way that we need to value airlines? Is it a structural shift or has it just been a cyclical shift? We're probably more of the view that it's been a cyclical shift, but if we get more evidence that it's been a structural shift in the way that we need to value an airline, then perhaps it's worth close to $10 or $11 than the $8 that we're thinking.

Matthew Haupt:

Probably worth mentioning Virgin to like being largely handcuffed, I would have thought, like.

John Ayoub:

Yeah, it's been, it's been a cosy duopoly where both, both parties have been focused on profitability. What does, does that change under the Qatar partnership? Probably. I think Geoff's pretty happy about the fact that he can fly someone other than Qantas internationally now, so it does maybe change the game a little bit.

April Lowis:

Richard has asked, are you underweight, oil and gas? And if yes, why?

Matthew Haupt:

Yes, we are underweight, Richard. The reason why, obviously, you see all the industry reports and even the oil energy associations themselves keep downgrading oil demand and there is a lot of supply coming. Non-OPEC (The Organisation of Petroleum Exporting Countries) and OPEC. We think the Ukraine, Russia war gets sorted. There is talk like Trump will go after Iran, which is potentially a good thing for if you're invested in oil. And so, yeah, like, the demand's not there, the supply is coming online, more and more supply. OPEC keep holding back because I know the oil market would fall even further. The one thing that gets us interested is when we talk about positioning. Everyone is negative on oil. So we are. We want to get positive on it just because everyone's negative on it, but we just can't find the reason yet. Once we get that reason, there is a very quick trade in oil, in the energy, and I think, you know, we'll get opportunities throughout 2025. But from a fundamental point of view, the demand supplier, it's really hard to get too positive on energy.

So we have a small holding in Santos (ASX: STO) because again we think it's very undervalued and a bigger holding in Woodside (ASX: WDS), again not near like benchmark or index like, but we, we just think they're so cheap on a relative basis that it's worth holding them in because

once these events happen, political events or geo events happen, it's too late to invest in them before they happen. So we just want to have an exposure because everyone is so negative on them.

John Ayoub:

And quickly when we talk about learnings over the last year, that's a sector we took some learnings from where sentiment had shifted so negatively, even when oil price would rally, the stocks wouldn't rally. We just, that wasn't a battle we needed to pick. So hence why we've reduced that. And you know, we're hoping that there will be an opportunity to get back there where the macro provides a tailwind.

April Lowis:

Colin has asked, when you talk about your copper positioning, does that include BHP?

John Ayoub:

Yep, absolutely. You know, the biggest copper producers in the world, you know, the conversation includes BHP and Rio Tinto. Just the unfortunate aspect of it is they're dwarfed by the iron ore earnings. So yeah, they have material copper, so does Newmont. It's got material copper exposure, but again that's dwarfed by the copper gold exposure. So you find when copper runs, it's the pure play. Copper stocks, be it Sandfire or Capstone, are the ones that have the most immediate leverage versus the BHP Rio or South32.

April Lowis:

Kathy's asked what's been the impact of private equity buyouts on many ASX listed equities on your stock selection?

John Ayoub:

They haven't completed in a few of our sectors, which has been problematic, but undoubtedly, we're going to see more of that take place. Private equity are cashed up, they need to deploy. But what the what prohibited them from being more active than what they are is exits because they need to rotate their own portfolios, and they haven't had traditional tools being IPOs to exit their existing positions.

John Ayoub:

When we see that opening up the IPO market would probably see more and more activity. I think a few of the vintage 23 acquisitions for private equity haven't done as well as they probably hoped. But they again go back to the original premise they are cashed up. And if we do continue to see the divergence in valuations in the ASX, we will expect more of the cheap undervalued. Companies potentially be taken over.

April Lowis:

George has asked, could you please comment on your reasons for buying Sonic Healthcare?

2:00:52 Matthew Haupt:

Yeah, I mean, Sonic's one we've been watching for a while and the reason why we bought into it was we began to see a pickup in their path volumes. So after Covid, we thought that would pick up quicker than it did, and it just didn't. And it lagged for a long period of time. So for us, we were watching Sonic. It's always been on the radar. They've had a couple of profit warnings throughout the last couple of years and it's really off the back of path volumes not returning to levels and also COVID testing rolling off because they got all the benefits of COVID testing during that period. So for us, it was just purely on fundamentals. Path volumes returning and we were very much that wasn't in the Sonic share price and we bought it up. We have been reducing it a little bit, but the fundamentals are still solid and we expect that to continue from now.

April Lowis:

The next question comes from Michael. He says clearly there's this tug of war in the private health insurance and private hospital universe with government restrictions on insurance premium increases at one end and aging population and health needs on the other end. How do you see Ramsay Healthcare's (ASX: RHC) future prognosis in this battle?

John Ayoub:

This is a really, really tough space right now. Yeah, I think the right way to characterise exactly what you said, Michael. It's a tug of war. And how that ends or how it changes is very difficult to see given the government's willingness to come and intervene is very low. If you take the extreme scenarios and that being there, some private hospital operators going bust. And the one that a number of market participants are alluding to is Health Scope, which has some issues that could rebalance the industry because ultimately what it comes down to is volumes.

Volume growth isn't strong enough to offset the cost pressures that the hospital businesses are facing, rightly so, Our nurses need to get paid more and they are getting paid more. And the enterprise bargaining agreements that they're signing lead to 4% to 5% wage increases that the hospitals need to wear. Now, typically, the way that they can absorb that is through efficiency and volume. But given more and more beds have been opened up in the private hospital space, that efficiency isn't leading to the recovery of those costs. So the pushback from the hospital operator is, hey, Mr. Insurance Company, give us more money.

And the equation of profitability has certainly shifted from the hospital provider to the insurance provider. And I think if you go back in time it typically was a 70:30 profitability split that would go to the hospital provider and a 30% profitability would go to the insurance company. That's skewed completely the other way now and it's 90% of the profitability in the industry is going in the insurance space and 10% is going to the hospital operator.

And of that 10% around 5% of it's going to Ramsay whilst the rest of the space is typically non for profit or loss making. So there needs to be, there needs to be something done. What that is going to be, it needs to be something extreme for it to change. Otherwise, we're going to have

this tug of war continue for the next two to three years and the profitability of hospital operators is going to struggle.

April Lowis:

Thanks Matt and John. The last question's come through and it's directed for Geoff. You've been buying WAM Leaders and WAM Capital lately. Can you explain why this is the case?

Geoff Wilson AO:

Yeah, well I like the idea of buying a dollar of assets for less than a dollar. One of the things that I was going to mention earlier, one of the great things about the listed investment company space as distinct from an open-ended trust company space you've actually got a competitive advantage because the people managing the money can take medium long-term views and never force buyers. When the money flows into the open-ended company structure all flows out.

So, for Matt and Johnny and the rest of their team around the corner in the office that it's they've got a pool of capital that they can take medium to long-term views even though they do adjust the portfolio consistently and very regularly. And why have I been buying WAM Leaders? I'm buying some WAM Capital, I'll probably buy some WAM Global (ASX: WGB). I'm just, just the ones that are discount because we went, we've just recently gone ex-dividend and as I mentioned you tend to get outperformance from the announcement of the dividend to when you go ex-dividend and then you get a bit of selling where people or lack of buying and there has been a reasonable size seller that's been weighing on the stock and they've moved as well.

And for me this period, you know from the early January, you know if the boards are confident, if there's a good result or re dividends, you know the quite might, you know what might happen and it has happened historically is the various boards of the various LICs have decided they want to come out early and announce either results in terms of performance or be their dividends. And it's then I like, I can't buy around that period. So, I've got to buy before that.

So that's the logic. And I know that was the last question. There might have been some other questions that have come in that we haven't, we've missed or haven't answered. Look, you know, there was, I think 141 questions I can see on one of the screens. So, thank you very much. If we haven't got to your question, we will come back to you. Thank you for your interest. It is your company.

I know a shareholder said, look, I'd like to see the top 20. And Matt and Johnny mentioned that on the monthly NTA's we change from the top 20 to show where we're overweight or underweight, the top five overweights or the top five underweights. Maybe we expand that to the top 10 overweights and the top 10 underweights and maybe that'll get you the top 20. But I mean, we'll work out how we communicate that to you most effectively.

Yeah, obviously everyone have a great Christmas. Be very safe. And as I said, this is your company. So any questions, thoughts or comments, please email us, call us or give us some feedback and so we can adjust things. Thank you.