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FY2021 Interim Results Webinar
WAM Capital, WAM Microcap, WAM Research, WAM Active
Tuesday, 2 February 2021

Geoff Wilson: Good afternoon. We are presenting to you, as shareholders, on the period so far this financial year, from June last year for WAM Capital (ASX: WAM), WAM Microcap (ASX: WMI), WAM Research (ASX: WAX) and WAM Active (ASX: WAA), to give you a thumbnail sketch of the interim results. I am joined by those that are doing all the hard work and delivering these returns: Lead Portfolio Manager Oscar Oberg, Portfolio Manager Tobias Yao and Equity Analyst Sam Koch will be here to take any questions and give you an idea of what they are looking at in the year ahead.

Thank you very much for ringing in. This is your company, and we can only do what we enjoy doing because you give us the opportunity to do that. In terms of the various companies from the largest to the smallest, WAM Capital had a very eventful year. Not only was it a very solid performance, and as I said undertaken by Oscar, Tobias, Sam and Shaun on the portfolio management and research side, but in terms of the underlying performance of the portfolio, it was up a little over 22%. That was a strong outperformance over the six month period. In terms of the interim result it, we were able to maintain that at 7.75 cents per share fully franked, giving shareholders quite a high annualised return. Obviously, we need to continue to perform to continue to deliver those type of returns to shareholders.

Not only was the performance of the portfolio solid, but the total shareholder return, the movement in the share price and the dividends, was solid at a little over 26%. Whether the shares trade at a premium or discount will impact the total shareholder return.

It was a very active year for WAM Capital. There were a number of takeovers over that six month period because of opportunities presenting themselves, such as Concentrated Leaders Fund (ASX: CLF), Contango Income Generator (ASX: CIE) and more recently a takeover announced and which actually opens officially today for amaysim Australia (ASX: AYS). All these bids are net tangible asset (NTA) accretive for shareholders. Just to give you a bit of flavor,with Contango we are in the process of exiting our position and for shareholders it looks like we will make a little under $11 million. With Concentrated Leaders, we are still in the process of receiving acceptances there but it looks like we have made close to $8 million for shareholders.

With amaysim, it is a cracking deal for WAM Capital shareholders. I think it is a cracking deal for the amaysim shareholders as well. It gives them an opportunity to invest in WAM Capital at a very good price. And for WAM Capital shareholders, what do they get? amaysim, even though people think of it as a telecommunications operating company, they have sold all their businesses, they are effectively a cashbox. We are using WAM Capital scrip which is trading at a premium, and by issuing that scrip at a premium we will get an annualised return as we get the money back from amaysim of around the 12% per annum. So that is obviously significantly better than what we could get with our cash at the moment. And also for every dollar that people accept into the takeover bid then effectively WAM Capital shareholders receive the ability to get 37.1 cents of fully franked dividend paid back to them. So to me, it is just a cracking deal, a very good deal for shareholders. And that is why we are taking these opportunities as they present themselves.

Going through the other entities, WAM Microcap has had a stunning result and I cannot thank the team that I introduced earlier enough for all the hard work in that area. Really a solid result for the six month period, up 36.4%, that was the actual portfolio, which led to nearly a $70 million pre-tax profit. That allowed the dividend which we announced earlier today to be increased to 4 cents per share fully franked. We have a lot of profit reserve up our sleeve there, so the annual dividend is well and truly covered for the next four plus years. And the total shareholder return for the six month period to June, because the share price was trading at a bit of a discount and then it has gone to a premium, it was actually over 60% for that six month period.

WAM Research again we have announced a very solid result. This morning, the portfolio was up a little over 27% leading to a pre-tax profit of about $44 million, and that allowed us to increase our dividend. We are already paying a very high fully franked dividend here so the Board announced just a fractional increase, because we have nearly four years of profit reserve up our sleeve. And the total shareholder return, because WAM Research is trading at a very high premium to NTA, the total shareholder return was a little under 22% for that six month period.

WAM Active, the fourth of the LICs that we are going to be talking about today before we open up for any questions, had a solid six month period. The portfolio is up a little over 18% over that period. WAM Active is a lot smaller than the others, a little over $50 million, so that led to a pre-tax profit of about $6 million. The interim dividend was maintained, the same interim dividend was paid twelve months ago, and that really was a function of the fact that we have just two years profit reserve up our sleeve and as the profit reserve grows, assuming we can perform going forward, then the plan will be to if we can gently increase that dividend over time. That is a little bit of a summary.

There is a lot of information there. Some of those results have only been announced this morning so as people digest it, please when we get to Q& A later on today, come back to us or feel free to ring the office or email us. We are very open to communicate with you. As I mentioned earlier, you own the company, so we are here because of you allowing us to do what we really enjoy doing. And just on that, I will throw to Oscar, who is the Lead Portfolio Manager for those four companies I mentioned and the mid and small capital undervalued growth company strategy. And as you know what we are trying to do, we are trying to buy under valued growth companies when we can see a catalyst that is going to change the valuation, otherwise we will sit in cash, and that is trying to get you the maximum return for taking the minimum amount of risk. But let me now throw to Oscar who will just take us through what has happened in the last six months. Then, Oscar, I do not know how clear your crystal ball is, can you take us forward for the next six months and share what you are focusing on? Thank you.

Oscar Oberg: Thanks Geoff and good afternoon everyone. We started at the half fairly well \ had the best reporting season we have had in the last twenty years. That was largely driven by sectors such as discretionary retail and also the e-commerce sector with companies such as Temple &

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Webster Group (ASX: TPW), Redbubble (ASX: RBL) and Adairs (ASX: ADH) performing very strongly as we saw the structural shift to online and also a redirection of consumer budgets from international tourism into the retail sector. And then through September and October we began selling these companies, largely due to our anticipation that we thought that the vaccine announcement was coming and it would actually be a good one.

Now, as isn't always the case in these situations, your gut feel is generally right. But of course, we did not sell enough and when the vaccine announcement came in early November it was a lot better than what we had thought, clearly the efficacy levels of the Pfizer vaccine. For these reasons we saw a number of the stay at home beneficiaries in sectors such as retail, healthcare and agriculture underperform some of the more value and cheaper stocks in the market in sectors, such as resources and financials. These are companies that we largely did not own in the portfolio. So it was a tough month for us in November.

Now despite the fact that value companies have performed very strongly over the last few months I think it is worth pointing out that the difference or the valuation gap between value and growth is still the highest it has been in the last 50 years, so we do think this trend towards value in cyclical companies will continue over the coming months and over this year as well. The team has been really busy over the last months repositioning the portfolio into reporting season, and Tobias will give you sort of a summary of how we are thinking of things going into 2021.

We are feeling very bullish around the market. Our cash is quite low relative to history. We are sitting at around 6.5%, that is after you exclude the acquisitions or the takeovers that we are doing for CLF and CIE. But it is worth pointing out that our liquidity is very high and we have done that on purpose. We are investing in much larger companies than what we are used to given the volatility that we are seeing in the market. So if things do weaken, as we saw last year with coronavirus through February and March, we can liquidate the portfolio. We can actually sell around 80% of the portfolio within ten days if we need to. At the end of January 2021, we are very happy with how the portfolio is going. We are outperforming in WAM Capital by around 7%, in WAM Microcap it is a tad over 19%, but we are certainly not resting on our laurels. Things can change pretty quickly in this market as we have seen.

The last thing I will say is we have made a promotion through this period. Cooper Rogers who was our Equities Dealer has been promoted to Senior Equities Dealer, and this is a reflection of Cooper's performance ever since he started with us about four years ago, but in particular over the last twelve months. And I think it is fair to say, Geoff, it has probably been some of the most turbulent times we have seen in the share market, certainly in our careers, and I think Cooper as our Dealer has done a fantastic job. And supporting Cooper, we have made a new hire, Will Thompson. Will comes on as an Assistant Dealer and Analyst assisting the wider team. We are very happy with firstly Cooper's promotion and Will coming into the team. I will leave it at that. While I'm speaking I would like to thank everyone online and also all our shareholders for their support over the period, we really appreciate it. But I will hand it back over to you Geoff and we will get on to how we are seeing things and some interesting stocks.

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Geoff Wilson: Thank you very much Osar and on behalf of all the shareholders, and obviously I am a shareholder of those entities, well done guys, great job. In terms of looking forward, where do you see the opportunities? I know it is a very difficult question. The tough thing about being in funds management, your job is to identify trends, create opportunities and as we talked about earlier, buy those undervalued growth companies. Now what areas do you think we will be seeing them in over the next twelve months?

Tobias Yao: Thanks Geoff and good afternoon everyone. We have positioned our portfolios to take advantage of three themes which we believe will outperform over the next six to twelve months. The first theme is around companies exposed to the pick-up in construction activity in sectors such as building materials, civil engineering and mining services. If we look at the building materials sector first, the record low interest rates in addition to the accommodative policies, such as the Home Builder's Grant, we believe will drive new housing starts. To put it into context, the $60,000.00 Home Builder's Grant is equivalent to about six months of new housing starts in Australia and we have actually seen some of the stats coming through now with the latest ABS stats showing a 130% increase in terms of loans for new housing construction. So companies exposed in the building materials sector that we have in the portfolios include Fletcher Building (ASX: FBU), Brickworks (ASX: BKW) and Australian Finance Group (ASX: AFG), which is a mortgage aggregator.

Moving to civil engineering, over the next four to five years there will be an unprecedented amount of infrastructure spending by both Federal and State Governments which will flow through to suppliers and contractors. So our exposure there includes Downer EDI (ASX: DOW), Maas Group (ASX: MGH), which is a recent IPO, and Seven Group (ASX: SVW), which has the Coates Hire Division.

And finally in mining services the elevated commodity prices particularly with iron ore and gold will drive a pick-up in mining activities. Greenfield ground field projects will come online. And in terms of our mining services exposure we have Perenti (ASX: PRN), Imdex (ASX: IMD) and in the WAM Microcap Fund MACA (ASX: MLD).

The other theme which we really like is what we believe are going to be the outperformance of companies exposed to the UK. Now the United Kingdom has been one of the most coronavirus impacted countries. I think the latest stat I saw is 18% of the population has had coronavirus. So companies that had operations in the UK have been disrupted and have underperformed. Our view, given the fact that the UK now has one of the most aggressive vaccine roll out plans with over 10% of its population already receiving a dose of vaccine, in fact the government wants to vaccinate 45% of its population by March, and if you couple that with very accommodative fiscal and monetary policies, and finally a resolution around Brexit, we believe many of these UK exposed companies will rebound out of coronavirus a lot faster. So companies we have in the portfolio includes Virgin Money UK (ASX: VUK), Link Administration (ASX: LNK) and Ramsay Health Care (ASX: RHC).

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And finally the last theme which we like is around companies that are poised to make acquisitions. So typically we like companies with either a net cash balance sheet or quite a lot of debt head room, and we believe right now is the perfect time for these companies to leap frog their competitors through acquisitions and super charge their earnings growth. Companies we have include Infomedia (ASX: IFM), Viva Leisure (ASX: VVA) and Healius (ASX: HLS), which is the old Primary Health Care. To summarise, these are three themes we are playing and to what Osar was saying earlier, we think the value names and cyclical names will outperform the growth names given the much lower expectations in the market.

Geoff Wilson: Thanks Tobias, we appreciate that. So those are the areas you are focusing on, if you want to drill down a bit further, are there any particular stocks? I know when investors come to our six monthly presentation, they get a little showbag, an idea of what's going to happen to the market, and then one or two stocks they should follow or potentially buy. Now I know we cannot give advice and any advice we give is general and not specific. But are there any specific stocks that you guys are confident enough to mention?

Sam Koch: Definitely, thanks Geoff. Our first high conviction stock idea is Fletcher Building. Its ticker is FBU. Fletcher Building manufactures building products such as cement, but it also builds homes, commercial buildings and infrastructure. Now Fletcher Building has been plagued by a number of issues over the last couple of years, margin pressures in Australia but also legacy construction contract issues in New Zealand. As a result, it is not well held or liked by the institutional community, and that is where we see the opportunity. The catalyst for us to invest in Fletcher Building was the belief that analysts' estimates of 10-15% are too low and should increase over time. Fletcher Building has done an incredible job at taking costs out of the business but also benefitting from an increasing housing market as Tobias mentioned earlier. And in our belief, we should see supercharged earnings growth as a result over the short to medium term. Now Fletcher Building is at a 30% discount to its Australian listed peers. We believe that valuation gap should close over time, as long as they continue to deliver sustainable growth and margin improvement.

Geoff Wilson: Tobias have you got anything up your sleeve or Oscar?

Tobias Yao: There is another mid-cap one. My high conviction pick is Link Administration. It is a superannuation administration business and there are really two-fold reasons why we like this business. Firstly, it has the core business which has faced headwinds from both a regulatory perspective and coronavirus more recently. Now we think that is coming to an end, so growth will come back over the next two to three years. On the other hand we believe the PEXA business, which it owns 44% of, is currently undervalued by the market. Now PEXA is the electronic land title transfer company with over 80% market share in Australia. Currently we believe its 44% is being valued by the market at around $500 million. It is on the balance sheet at $700 million and we believe it could sell this business or partially sell or either demerge the business for over a billion dollars. If we put the two together, we think there is at least a 30% upside to the share price of Link Administration over the next six months.

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Oscar Oberg: I have two because unfortunately Shaun is not with us today because he has a stomach bug. We have a 'no sniffle policy' at the office so he cannot be here. But have two, what I call, spicier ones. The first one is Inghams Chicken (ASX: ING) which is quite topical at the moment given what we have seen overseas with GameStop (NYSE: GME) and what has been happening with the hedge funds and shorters alike, because Inghams Chicken is not only the largest chicken processor in Australia, but it is also one of the most heavily shorted stocks in Australia. It has got about 10% of its register short and it is the third most shorted stock in the ASX. That was not the reason why we bought it initially. We bought it initially because we did a heap of industry feedback over the last six months, and all the feedback has been telling us that volumes of or demand for chicken is actually increasing very strongly, and that is largely because red meat has become so expensive. You might notice that when you go to your local supermarket. And then the other benefit that we see with Inghams is, and we have talked previously about GrainCorp (ASX: GNC) and Elders (ASX: ELD) on these calls, and as we have seen there has been a record crop in Australia. We are going to see a huge amount of volume of grain that will bring feed costs down, which will benefit Inghams. We think Inghams is going to generate quite substantial earning upgrades over the next twelve months and the fact that it is shorted as well is a nice little bonus too. We think there is about a 30% upside to that one Geoff.

And I might give one more. This is a good one. This is in WAM Capital and WAM Microcap. Seven West Media (ASX: SWM), the ticker is SWM. We are quite bullish on this one. Seven West Media, as I am sure the listeners will know, is the owner of Seven Network, the largest newspaper in Western Australia and also owns production studios that does Home and Away and the like. We own this stock for three catalysts. The first one is that Seven West has a new CEO, James Warburton who was previously CEO of APN Outdoor (ASX: APO), which we actually made a lot of money out of because it was taken over by the largest outdoor media player in the world. We rate James quite highly. The second reason is it took out a lot of costs at the worst of coronavirus back in April and May and what we have seen since then is that TV advertising budgets have improved quite a lot, and that is empathised by its competitor, Channel Nine, upgrading earnings over the last few months. Lastly, Seven West has too much leverage on its balance sheet, so it is looking to make asset sales or divestments, and the first one it will be looking to do is AirTasker, which is looking, as it was in the press today, to IPO in the next couple of months. But if we put that all together, the most attractive part of Seven West Media is its valuation. It is currently trading on a price earnings multiple of 7 times, and that compares to Nine Network which is trading on a price earnings multiple of 19 times. So if we get this one right, we do see considerable upside here.

Geoff Wilson: Well, as all shareholders are going to say, we hope you get them all right!

Oscar Oberg: I think we got three out of four right last time.

Geoff Wilson: Well done. Thanks guys. Thanks for that. Why don't we now go over to **James McNamara**, our Head of Corporate Affairs, who will take us through any questions. The questions that have been sent in and any questions that shareholders would like to ask us now. James can we flip over to you now?

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James McNamara: Thank you. Thanks Geoff and thanks guys. A good place to start is aquestion from Phil who has asked if we can cover off on the companies that were listed last time. To refresh memories that's Healius, Infomedia, SeaLink (ASX: SLK), Tyro (ASX: TYR), Bega (ASX: BGA), AMA Group (ASX: AMA) and the Buy Now Pay Later names. Could you provide an update on those? Oscar do you want to kick that off?

Oscar Oberg: I made a joke before saying that we got three out of the four right but unfortunately I got one of them badly wrong. But I will quickly touch on each of those. So firstly Healius, Tobias touched on it briefly as well before, the old Primary Health Care, very positive on this name. The balance sheet is very strong. It is actually benefiting from a whole heap of the coronavirus testing that it is being undertaken across Australia at the moment. So we actually think there is room for the business to make acquisitions going forward.

Infomedia. We think the outlook for Infomedia has gotten a lot stronger over the last few months. The issues that it had previously was getting access in the United States and Europe to selling new work. We think this has been solved and we actually see a very strong balance sheet for acquisitions going forward. SeaLink, we like this company. We think it is misunderstood by the market. It has a very defensive bus business and has done very well, but it has come off in the last couple of months because of its tourism business. We actually think it is much more an interstate business, so it runs ferries and buses and so forth, but we think it will have a very strong result.

Unfortunately, we got Tyro wrong. One of the joys of fund management, particularly investing in small caps, is random things can happen and unfortunately it has never had an issue in 18 years, but around 10% of its terminals, the tap and go terminals that you use for EFTPOS, broke down in early January. We sold out of Tyro since them. The next one was Bega, very positive on this brand. It has made an earnings accretive acquisition, and also the commodity prices around skim milk have actually improved the business. So we have seen more synergies come through for the acquisition as well so we like that one. AMA, never short of an issue AMA, and we have seen some issues in the press around their CEO who is having a bit of a bust up with the Board. It was a small position, and we have actually exited AMA. And then maybe do you want to touch on Buy Now Pay Later, Tobias?

Tobias Yao: The Buy Now Pay Later names, Afterpay (ASX: APT), Sezzle (ASX: SZL) and Laybuy (ASX: LBY), we still have in the portfolios. There are obviously quite a few more other Buy Now Pay Later names. They have generally done pretty well given the growth has been maintained over the last few months. And we continue to hold these names in the current portfolios.

James McNamara: And the next question is from Mark. Given the elevated status of the market, what are the price to earnings (P/E) across the portfolio?

Oscar Oberg: The question is around the price to earnings ratio. It might be a good idea to explain a price to earnings ratio because I can imagine a number of our shareholders get frustrated

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when we talk around acronyms like P/Es and EBITDA and so forth. A price earnings ratio is what we always look at as fund managers. Effectively, we look at the share price, and divide it by the net profit after tax per share. And we are looking at the net profit after tax per share in the next 12 months. So as an example, if we see a price earnings multiple ratio of ten times earnings but this business is growing at 20%, that is a good business for us. If you look at our current portfolio at the moment, I am just referring here to WAM Capital, it is trading at around 20 times on a price to earnings ratio. Now that would be expensive compared to history. I am comparing that to the ASX small industrials which is the type of companies that we invest in and that's currently trading at 23 times earnings. So we are cheaper than what the small cap companies invest in, or our peers. Why is that? Coronavirus has depressed earnings across a lot of companies that we see. So as an example we own shares in Corporate Travel (ASX: CTD) or Flight Centre (ASX: FLT), and these businesses are losing money this year, and will not be profitable for some time given what we have seen with border closures and international travel. So the share market is looking forward for companies like that. So that' i why we are seeing price earnings multiple ratios that are quite high at the moment.

James McNamara: That's great, thanks very much. I will stay with you Oscar. From Ken, "what is your view on the road ahead for Australia, and the Australian economy looking forward?"

Oscar Oberg: Thanks for the question Ken. Bullish is my answer. I think iron ore prices well over a $150.00 a tonne is just a huge boost to the Australian economy. And then coupled with that, as Tobias and Sam have been talking about, we have a very buoyant housing market as well which should be a good environment for the banks. What has taken us by surprise since March and in April, when the worst of coronavirus occurred, is just how much spare cash there is around from consumers alike. There was a lot of money that was spent on international travel and that is all ploughing into the economy. Our view is that once we get the vaccine rolled out, borders are no longer closed, at some point hopefully later in the year, it is going to be a very positive environment for the Australian economy and it is great to see that given where we were almost twelve months ago.

James McNamara: Thank you very much Oscar. In the last briefing we also covered off some of the pre-IPO opportunities you were seeing and participating in through the WAM Microcap LIC. Can you give an update on some of those, and perhaps the outlook for that segment as well?

Oscar Oberg: I will give you an update on the stocks and then I will pass it on to Tobias to talk about what we are seeing in the pre-IPO market. At the time when we raised capital for WAM Microcap in July, a big portion of what we were raising the money for was for pre-IPO opportunities. So far we have had two that have come to market. The first one was Laybuy which is a Buy Now Pater Later provider. It hs done very very well. I think it's up about 40% since we invested in it. And then there's Sovereign Cloud (ASX: SOV), which listed just before Christmas and is up around 60 or 70% or so. We have two other companies in the portfolio, one is a company that is a trading platform for carbon credits, and the other is a company that is very similar to Temple & Webster, which we know very well. I will pass over to Tobias to talk about what we are seeing in the pre-IPO market at the moment.

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Tobias Yao: We have seen quite a lot of opportunities come through to us and, I think we have spoken about this in the past, we are extremely selective in terms of the companies we are backing in the pre-IPO space. These companies are ones we intend, if they deliver on their targets, to participate in the IPO when there is a large liquidity event. In terms of how those pre-IPO deals are structured, typically there is quite a bit of downside protection and given many of those deals are in the form of convertible bonds which effectively gives us the opportunity to participate in these companies at a discount to the eventual IPO. So we do get a nice uplift if they do go through to the IPO, but otherwise there are quite a lot of things coming through and we are just assessing all of these opportunities individually.

Oscar Oberg: I might add as well, for instance last week we caught up with a two guys from a private equity fund that invests in WAM Alternative Assets (ASX: WMA), so we have been getting a lot of intel with private companies with Dania Zinurova, Portfolio Manager of the Alternative Assets fund. So we do see a real opportunity to get greater access to information and perhaps future deals that are in the pipeline through the Alternative Assets fund which is fantastic.

Geoff Wilson: Just on that, we have taken over the management of an entity which has $210 million of assets. It is WAM Alternative Assets, and Dania who is the Portfolio Manager there, looks at investing in private equity, unlisted opportunities. Effectively, each time we have added another interesting area, we have tended to do it so it adds value to the reset of the business. And it is interesting already, as Oscar said, that we are getting some good value out of that.

James McNamara: Thanks Geoff. We will stay with you. Quite a few shareholders have actually asked if WAM Active is too small.

Geoff Wilson: What is too small? It is a $50 million company. It has actually performed exceptionally well over a long period of time. We would like to grow it. It was a year or so ago we looked at doing a Share Purchase Plan (SPP). WAM Active could easily be $200-$250 million. We have had discussions at Board level whether we do another share purchase plan, whether we do an option issue, all these things are on the table. We would like to continue to grow it. We think it is a logical strategy. It is on the trading side. We are looking at that. It is interesting on that trading side, a few people have been asking, does it make sense that we actually, everyone would be aware that we like buying other LICs with our cash, if we have got excess cash then we are happy for something that's worth a dollar we are happy to pay 80 cents and try to sell them when they're worth a dollar again or be part of the catalyst to get that dollar back. And one of the things that a few people have mentioned to us and that we have been floating the idea of is whether we have that as a standalone vehicle which just invests in other LICs, so it is a more pure play. And then we don't necessarily do it in WAM Capital and WAM Active, in WAM Capital and WAM Active on the trading side, we just look at more those trading opportunities. So if anyone has got any thoughts please email us in or feed us back. To me, it's a good strategy, it's performing, it's small. It still gets the same amount of love as the larger ones from our perspective. So it makes sense at this point in time.

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James McNamara: Thank you Geoff. We have also had a question on the difference between WAM Capital, WAM Research and WAM Active. If you could just briefly cover on that.

Geoff Wilson: Okay the simplest way, in terms of the investment philosophy, is we are sitting in cash until we find undervalued growth companies, companies that are going to grow for a period of time, and then buy them when we can see a catalyst is going to change the valuation. And those catalysts could be, we could be doing research on the company, we have talked to a competitor or some other people in the industry, we are pretty convinced there is going to be an earnings upgrade or there will be some positive catalyst that we believe will change the market's view of that stock and the share price will go up. That's what we are focusing on doing and we call that our research driven investment strategy.

That's what WAM Capital started out as doing, but what happened is at various points in time, we had 30%, 40%, 50%, 60% of the portfolio in cash, and because we operate in the market and there's always opportunities, whether it's an IPO or a placement or a block of stock at a discount, or what we have seen in the last week or so in the US, there are always opportunities to make money. And that's not from a research side but from a pure trading perspective, and that could be a placement that we get access to that retail investors do not, and we know we can pick up 3% or 4%. It could be an IPO. It could be a broker selling down a line of stock. It could be a stock that does not rate, but we are pretty sure there will be a short term trading opportunity to make money. It is all those other opportunities that are not researched based. We call that the trading part of the portfolio.

Effectively, if you buy one share in WAM Capital, half of it is research and half of it is trading. And what WAM Research is, that is the research, the pure play on the research investments. And what WAM Active is, that is the pure play on the trading part of our investment philosophy. And so if you own one share in WAM Research and one share in WAM Active in theory that gives you exactly the same end result as owning two shares in WAM Capital. That's how it fits in. And then WAM Microcap is really looking at the same opportunities but at the smaller end, the microcap end of the market.

James McNamara: Thanks for that clarification Geoff. We have also had a few questions on the recent events you mentioned in the US, particularly around recent volatility and GameStop. Oscar can you give your take on that?

Oscar Oberg: It has been crazy, really. It is unprecedented. My view on it is that fundamentals will always win at some point, and clearly the stocks that have gone up quite considerably have their own structural issue. The interesting thing what we have seen in the Australian market over the past week or two is some of those heavily shorted companies, I gave you an example of Inghams, which we quite like going into the reporting season, have actually had a bounce as some people that might be shorting the stock or betting on its demise, thinking the share price will go down and are actually covering their shorts and buying the stock in anticipation of maybe being forced to. So

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there will be a fascinating reporting season in Australia from that perspective. If we get a stock like say Inghams right, it will be fascinating to see how the share prices respond because as I said before, around 10% of the register is short. Tobias and Sam do you guys have anything to add?

Tobias Yao: One of the flow on effects, you would have read, a lot of the hedge funds out there with large short positions are very nervous because the downside isn't losing money on the trade, it's actually potentially having to close down their business. We have seen a few high profile names effectively have to be rescued. So it does change the game a bit. With social media, a lot of these messages or a lot of these movements can become viral very quickly. That is obviously something that we think about. And luckily we haven't had any exposure, obviously, but hopefully that works in our favour with something like Inghams.

Geoff Wilson: To me, the interesting thing is we are operating in a market, so there's always something new. There are always interesting opportunities. For those who have enough grey hair, back in 1987, there was a thing called portfolio insurance where you could insure your portfolio and part of the theory was that led to the 1987 crash. So all these things tend to provide opportunities. From my perspective, it is just being aware. And one of the books I remember enjoying reading is The Smartest Guys in the Room. Everyone has these models. I like simple investing. You go and meet management, you understand how the company makes money, and you work out what a fair value is and you find a catalyst to change the valuation for the company and the catalyst for us could be a significant short on the stock and there is a new factor. All it does is bring a new factor to the market. I know there was quite a bit of volatility, and there is a bit of a hiccup and there is a bit of risk-off trade and that could go on for a week or two. In the end, is it a problem with the system, I don't think it is. Does it provide opportunities for smart investors? I think in the end, all it does is provide opportunities. Because when everyone's running in one direction you usually find there is an opportunity somewhere there. It is incredibly bizarre how it has all occurred. And the great thing is, as investors it is something for us to study and to learn and to work out how we can benefit from it. That's my thoughts James.

James McNamara: Thank you everyone. The next question is from Michael, from Sam. "How are Australian companies positioned to take advantage of the shift to Cloud computing?"

Sam Koch: Thanks Michael and James. Cloud computing is a long term structural growth thematic and it is playing out in a number of listed businesses. We own some shares in Sovereign Cloud. The ticker is SOV. If you look at some of the presentations, you will see that there is a massive ramp up in a demand for Cloud services. So how are companies positioning to take advantage of that? Effectively, corporates and governments can vary their cost base or reduce their costs by taking on these Cloud services, and that is what is really driving the spike in demand for Cloud services. We really like Sovereign Cloud and have it in the portfolio. Other companies that we keep an eye on include NEXTDC (ASX: NXT), Megaport (ASX: MP1) and Data#3 (ASX: DTL). But we are very aware of the growth thematic in Cloud.

James McNamara: Excellent. The next question is from George, for Tobias, on e-commerce. “Have they had their run”?

Tobias Yao: The long term thematic is still there. We are still strong believers of it. And in hindsight, the short term valuation got ahead of itself. What we have done in the portfolio, and Oscar mentioned it earlier, during that September period we reduced quite a bit of our exposure. We have become a lot more selective in which e-commerce companies we would invest in. For example, Temple & Webster is one that we still like. It is the leader in homewares and furniture. Wayfair (NYSE: W), for example, does $13 billion of sales in the US and so there is no reason why Australia being 10% of the US market size that Temple & Webster cannot do over $1.3 billion of revenue. However, the journey to getting there is three to five years. Sometimes the short term valuation can get ahead, or it could come back, and that is when we come in and try to buy Temple & Webster, when we think it is being over sold and take profit when we think it is being over bought.

Geoff Wilson: A number of shareholders have asked me about the takeover bid for amaysim, and thinking that we were buying an operating business. Effectively we were taking no risk on the operating business. The only way our takeover bid was going to go forward was once it was agreed that all the operating business had been sold. From our perspective, there is about 70 cents of cash that is going to be given back to shareholders, and then the company was going to be wound up. And the exciting part from us was the fact that 70 cents, a significant part of it, was going to be paid back to shareholders as a fully franked dividend. So it was just a very logical play for us. We are not getting into the telephone business. The business we are in is really investing for our shareholders and getting what we believe is a good return. If some of that is fully franked, then we can pass that onto our investors as fully franked dividends, and then that is a significant bonus. And with amaysim, if 50% of shareholders accept the takeover bid, then we get the ability to pay a $50 million fully franked dividend, which allows us to pay out the the profit reserve as fully franked dividends over time.

James McNamara: Do you want to cover off CIE and CLF in a similar fashion to AYS?

Geoff Wilson: They are exactly the same. Combined, both of them we made as of this point in time about $18.6 million for shareholders, which is one and a bit times the annual management fee. So there have been positive results for us.

James McNamara: The next question is from Melissa. “What have been some of the most notable contributors and detractors in the recent period?”

Oscar Oberg: Thanks Melissa for your question. Let’s start with WAM Capital contributors. The e-commerce space in that first quarter in the September quarter has really helped us. Red Bubble was our best stock but we sold out of Red Bubble back in October. Temple & Webster was also a very good. Adairs is another one. We did very well out of retail and e-commerce. We participated in Nuix (ASX: NXL) IPO that was very good for us, and a number of construction companies such as Fletcher Building that Sam mentioned previously and Maas Group that Tobias talked about.

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We had plenty of detractors. Never short on them really. I talked about Tyro earlier, which was one, along with AMA in January. We got hurt yesterday by Worley Parsons (ASX: WOR). They never cease to amaze us. They are the ones that come to mind really. It's a funny market at the moment because sometimes, our investment process as Geoff talked about, we are looking largely for stocks that fulfil our research process for companies that upgrade earnings. There are plenty of stocks upgrading earnings at the moment but a lot of them are coronavirus beneficiaries as I have talked about before, so retail, agriculture, health care. We actually owned a lot of those companies. They did very very well for us, up to the point in time when the vaccine was announced back in early November. Now those companies have continued to perform well, but their share prices have been sold off. A great example of that was Elders. It was $12.50, goes into the result, it upgraded earnings by 15%, and I think about a week later it was $9.80. That is an example of what hurt us in November. We still own Elders, and a number of these stocks, but at a lower weighting that what we previously had.

James McNamara: Thanks very much Oscar. And thanks to all the shareholders who have taken part in the call and sent in their questions. If you have any questions at any point in time please do not hesitate to get in touch via phone or email. And please join us for WAM Global ASX: WGB) on Thursday at 4.00pm and WAM Leaders (ASX: WLE) on Friday 11.30am.

Geoff Wilson: Thanks James and thanks Oscar, Tobias and Sam. Thanks to you all for your sterling work over a period that has been very challenging for everyone. As we have continually said, this is your company so please, any ideas, feedback, communication, please come back to us. One shareholder was talking about our monthly updates when we were using blue ink and said it is very difficult to read can you try black ink? So we changed to black ink. You own the company so please give us any feedback you can. We want to be proactive in shareholder engagement. Thanks very much. Let's hope that the next twelve months isn't as challenging as the last twelve months. And see you all soon. Thanks.