<u>WAM Alternative Assets FY2024 Full Year Results Q&A Webinar</u>

Tuesday 17th September 2024

Speakers:
Geoff Wilson AO – Wilson Asset Management Chairman and Chief Investment Officer
Dania Zinurova – Portfolio Manager
Sally Box – Investment Advisory Committee Member
Bridget Thelander – Corporate Affairs Advisor

Geoff Wilson AO:

Hi, good afternoon. My name is Geoff Wilson and I'm one of the board members and also on the Investment Committee of WAM Alternative Assets (ASX: WMA). Thank you very much. I know we've got hundreds of people that have called into this webinar. It is your company, so any ideas, feedback are welcome. We are here to report on, as we always do on a six monthly basis, how we've performed with your capital. In terms of the results, we'll go through the results in detail. We'll open up for a lot of questions. I'm really pleased that not only Dania, who's the Portfolio Manager, will be presenting today and go through a lot of the details, we've also got Sally Box, who's also on the Investment Committee and has a lot of experience in the unlisted space. Then after we've gone through a little bit of the presentation, we'll open up for any questions you've got and Bridget who is one of our senior corporate affairs people will take your questions. Already a number of questions have been sent in, so thanks for that.

If you have any more questions during the afternoon, please do ask us. And also, if you have any more questions after the presentation or after the webinar and you may not have been able to get your question asked or it wasn't answered the way you liked, then please email us or call us because as I said at the start, this is your company and we're here managing this money on your behalf. In terms of the last 12-month period, and that's what we're here to report on. The WAM Alternative Assets investment portfolio went up a little over 5% and Dania will take you through the details of that. To me it was a very solid performance. If you look at the performance since Wilson Asset Management has taken over the vehicle, it's a little under that 10% mark, it's about 9.8% and you've got to remember at the moment, for people that are looking to get exposure to alternative assets, the beautiful thing, which I think Dania coined the phrase, this is democratising investing in private equity.

It's a great way to balance your portfolio. The reason why I was very excited when the opportunity turned up for us to start managing this pool of capital was personally I had very little exposure to alternative assets. I was brought up as an equity man buying shares and to me it's only really the very wealthy who have been able to get access to various private markets. And the great thing is that's what WAM Alternative Assets gives you, the exposure to that market and it's just a very efficient way of doing that. And one of the great things at the moment when we took over the management of it, it was trading, the listed investment company was trading a little over a 40% discount. It has got as low a discount as about seven at the moment. It's still, as I say, oh, I'm excited when I can buy things for a good value, and it's trading about a 13% discount.

So to me, its on a very strong yield, a little over 5% fully franked and grossed up a little over 7%. To me it's a very good investment. In terms of the other parts of the result, I think Dania will take you through that in more detail. The messages I probably want to give to you, if you want exposure to alternative assets, not purely equity, then WMA is a great way of getting that and it's getting it at a discount to NTA. We will trade at NTA if not a premium like our eight listed investment companies. The WAM listed investment companies, I think three or four of them are trading at premiums at the moment and those other ones that are trading at discounts tend to be newer ones or there's some other dynamics at play. And from our perspective, we are very confident that we'll get WMA trading at a premium. We're not a hundred percent sure exactly when that'll be, but we're confident that it will trade at a premium. What I might do is I might pass over to Sally now who will take you through the next part of the presentation.

Sally Box:

Hi everyone. Thank you very much for having me here. So my background has been in private equity (PE) and private markets my whole career and I was asked to talk about why do investors, particularly large institutional investors, like private equity or why is it that they invest into private equity. Private markets give three really important things to a portfolio. First of all, it's a diversifier. So a very significant share of the global economy is in private ownership. Or put another way, a minority is in public ownership and PE funds take majority stakes in these companies who hold it for three to seven years and actively manage the business while they've got that business held or private and sometimes then relist the business. One fund that you might invest in might have seven or eight assets. For somebody who manages a portfolio of assets of private market assets, managers work really hard to make sure that there's not a concentration, that there's a diversification of your cashflow, of your exposure and of your risks. So private equity in a portfolio is a really good diversifier.

The second important thing when it's sitting in a portfolio is it typically provides less volatility. So as I said before, PE funds hold these assets in the private markets for three to five years on average, and they're actively managing those investments in that time and they're focused on building a better business or building more resistant cash flow or changing the management team. But they're focused on executing a business plan. They're not focused on a daily mark to market. And so as the listed market provides, and so valuations are done quarterly and it's very much long-term thinking when these assets are held. And so you tend to see the performance of these assets just being less volatile than the equivalent performance in the public market, and that's really important for a large institutional portfolio.

The most important reason that institutional investors and others invest into private equity is that it outperforms public equity. And at this point in time, there is decades of research that supports this, but the most recent is that private equity has outperformed the S&P over five years, 10 years, 15 years and 20 years and on most 10 year rolling averages, private equity is outperforming the public markets. As investors, as somebody who is in Dania's position as the portfolio manager for this portfolio, it's really important to find managers that can produce alpha, that can outperform that benchmark because you've got an illiquid investment. So what you lose by having a private equity investment is the ability to sell at any time. And what we look for is a manager who can outperform that benchmark to justify what we call an illiquidity premium. So something that you can't be selling every day needs to then do much better than something that can, and that is what private equity does, but it does rely on making very good selection of the managers.

The last thing I wanted to talk about is J Curve. So J Curve is something that is somewhat unique to private equity and what it means is that it takes time for private equity funds to be worth more than the commitment that you make, and that's because private equity managers are deploying the capital to improve the value of the asset overall. And you could think of this perhaps if you were buying an investment property and that investment property needed you to do capital works on it, a renovation or an extension, and you are going to be spending money in the initial years, so that investment's going to be a cost for you in the initial years, but hopefully in the outer years once you've actively managed your investment and you go to sell it, that's where you've made your money. And so J Curve means that there's a period of time that the investment is worth less or has a negative return before it comes up and outperforms overall, and it's an important concept to understand when thinking about investments in the private markets. With that, I'll hand over to Dania who can talk more about the portfolio. Thank you.

Dania Zinurova:

Thank you very much Sally. It's such a good link to my first slide and we call this process since we took over that portfolio investment portfolio revitalisation because we were making so many changes, but what I wanted to talk through first, given how well Sally explained this concept of the J curve effect is to show you the live portfolio by showing some of the examples of those private equity investments in WMA portfolio and how it actually work in practice when we think about the J Curve effect. This is only indicative of what you see on the slides and I'm only using a few examples out of the portfolio, but what I did, I applied a timeline since Wilson Asset Management took over the management of this portfolio and I would call the first two years phase one where we predominantly focused on harvesting maturing investments and hopefully you feel that you are up to date on those exits that we successfully completed and some of them that we feel the results were very strong.

You can see on the slides businesses such as Better Medical, Quality Foods, Climate Friendly, Shopper and more recent exit, Birch & Waite, and I'll talk about this. What happens once those exits are realised and the WMA portfolio receives the distribution, we use this available capital to invest in new opportunities. So you can see at the bottom of the chart examples of the new investments that we made over this period. The message that I want to leave with you today is that this part of WMA portfolio is a live part. It's going to continuously evolve and change once we invest and those investments mature and then we harvest or realise the returns in those investments and we reinvest again, it's a business cycle of those businesses and this part of the portfolio you will always see there will be continuous changes as we go. For now, and I had a really good experience yesterday talking to some of our shareholders and receiving their additional questions and feedback.

One of the most frequent questions was how many of the maturing or inherited investments we have left in this private equity part of the portfolio. As of now, it's approximately 75% of the portfolio that's been exited. So what you'd see now in the annual reports in the NTA, this is a nearly brand new portfolio compared to the initial period or phase one. What happens then, as we go through this process, I would say per year we would look at about a hundred new opportunities and we would only select four to five investments per year with the goal then to exit three to four to five investments per year and this is how we set the portfolio and this is how it's going to work within this growth part of the portfolio. What I would like to note on this slide as well, and you've heard me talking before about the maturity of those investments, Sally pointed out as well that those investments, they don't have daily liquidity.

However, even though the general rule or the general expectation is that we are holding them for five to seven years, there are businesses or there are opportunities when those exits can be realised within 12 to 24 months. And a good example would be a business called Climate Friendly where we invested through our investing partner at Adamantem Capital. Adamantem Capital realised and partially exited from Climate Friendly within 12 months of making this investment and the return was very strong. So if we move to the next slide, this is where I wanted to spend a bit more time to talk about the current portfolio composition but also go back to Geoff's update on the investment results. You will see that the portfolio is constructed now in a way where we build out, I would call it bedrock, solid defensive part of the portfolio. This is part of the portfolio that will help you sleep well at night because the type of the investments or type of the strategies within that part of the portfolio, their values remain fairly stable throughout economic cycles, they are defensive in nature and they tend to produce strong investment income and our investment return for the financial year was about just over 5%.

Now what I want to highlight, this return was driven by various factors and by various strategies within the defensive part of the portfolio. What we've been focusing on from the start was to really reposition the portfolio and minimise the concentration risk because if some of you remember, we had only water rights in that part of the portfolio and it was over 40% allocation to water rights. Now while it's an excellent asset class to have, it does tend to be quite volatile from the return perspective because it's highly correlated to weather. So we've been reducing this allocation and when we have the next update with you in six months' time, I expect that this allocation will be down to about 10%. On the other hand, we looked at the market and we looked at opportunities that would provide a more solid and stable investment income or investment return and we added asset classes such as infrastructure, healthcare, real estate and private debt.

Now looking and going through the valuation process, I know we had a question on valuation, so we'll talk about this. We went through very robust analytical work through the portfolio. Looking at every asset, I can tell you that infrastructure was one of the strongest performing strategies within the portfolio delivering 11% for the last financial year and 7.5% of it was income return. Very similar story in private debt, it's running yield in the portfolio. Where we invest is approximately 9%, which again in the current environment is a very attractive income return to me, very similar to healthcare and real estate given the link to inflation. Within the income return, we also saw strong distribution, strong returns to the portfolio. Now what did last year mean for the growth part of the portfolio? And by the way, while this part of the portfolio is about 44% now, what we will see over time is that it'll continue growing with the intention to increase to 60% to 70% of the total portfolio because this is where we'll see those excess returns that Sally talked about Within that part of the portfolio we faced several factors.

One, I can tell you it's been a very challenging market environment, not just for listed equities but also for asset classes like private equity, challenging in the sense that the market experienced very low level or very low volume of transactions. There were willing buyers and there were willing sellers. However, there was a clear mismatch in terms of the price expectations plus there was a lot of uncertainty with regard to the monetary policy and whether the Reserve Bank of Australia (RBA) will continue increasing interest rates or will pause. So the market was literally in hang. What it meant for the WMA portfolio is that we only had one strong exit within the portfolio and that definitely affected the investment returns. Having said that, going through the assessment of the values of the assets and businesses, I can see that currently within the portfolio new private businesses where we have exposure, they are of good quality even in this current market environment, they will continue generating strong cash flows, they will continue growing revenues.

What we need is patience. We need to allow investment teams to implement their strategies with those businesses and when it's ready and the companies are mature to be sold, we'll see those realisations coming through in exits. And you also saw a few announcements and more recent one was the QANTM Intellectual Property deal within our net tangible assets (NTA) announcement, which means we continued deploying capital. So you will see in the NTA report that the current cash level is just over 25%, however about two thirds of this cash is deployed. So what you see on this chart, this is what I as a portfolio manager treat as a true cash level because the rest of it has been committed. Now I would like to use the slide to link it back to the message that Sally left with us when she talked about why institutional investors like investing in private equity and why we have it as such a big focus within the WMA portfolio.

This slide shows 12 realised exits within the WMA portfolio and you can see there is quite a dispersion between the results of those exits. On average what we've seen though is about 35% premium on exit to carrying value and to me it's a very strong result. Also considering and taking into account that the last two years they haven't been the best years for exits in private equity. They have been really good years to deploy capital because what we are seeing now is the values are being adjusted in private equity and usually looking at the historical data. The best performing private equity investments are those that are made during the economic downturns, during challenging market environment. Looking ahead, what we expect in terms of the returns, my expectation is we'll continue delivering strong returns and the main focus from the macroeconomic perspective is really on the monetary policy.

Once we see monetary policy easing, I would expect it will trigger more transactions in the private equity space and it will trigger a more optimistic outlook in terms of the values of those businesses. Finally, the slide that showcases the last exit, I absolutely find this story fascinating because initially if you think about this type of business Birch & Waite, it's a business that sources and supplies produce to food retailers and shops. And we also realised when the team went to a team offsite to watch an AFL game that they also supplied them to stadiums. So it's a pretty unremarkable business, however, it's a business that was and is in strong demand and the exit results really showed us how much potential there is in this type of businesses if the strategy is implemented in the right way and if it's the business within the sector with a strong tailwind. But the initial investment was made in 2017 and the business was exited this year delivering over 25% of internal rate of return or three and a half times money invested. That's an excellent result for this year and I'm looking forward to continue delivering those returns for our shareholders and really positioning our portfolio as the best in class offering and alternative assets in Australia. Thank you. I'm going to hand over now to my colleague from the corporate affairs team Bridget to start our question and answer session.

Bridget Thelander:

Thanks Dania, and we have received a fair few questions so we'll kick off with the first one from Garfield. He says, when looking at the investment portfolio exposure, I think that was slide seven, I noticed the uncalled capital commitments should these count as cash and cash equivalents given they're sitting in the investment portfolio and not being utilised at present?

Dania Zinurova:

So it's a good question. We do however, report on this uncalled capital commitments as cash and the way it works in alternative assets is that we do need to have access to those funds because capital calls would come within 14 business days' notice. So it is very, to have access to those funds, we need to have them as liquid or cash equivalent. So on this slide I specifically used only 8% uncalled or uncommitted cash just to show you how I think about the portfolio. However, in all the reports that you'd see on the Australian Securities Exchange (ASX) or on our website, we do report it as the total cash level.

Bridget Thelander:

Fantastic. And the next question is from Jill and she says, can you discuss the valuation process for the holdings in the portfolio?

Dania Zinurova:

Yes, that's a very important question and I would say one of the most interesting ones, I will try to stay focused because there is a lot to discuss in that question. From a WMA perspective, according to our valuation policy, we conduct valuation assessments on all 129 assets within the portfolio every six months. So we do it semi-annually and then for the financial year results, what this process involves is going through independent valuation reports, going through the market reports, but also taking into account our regular updates on those assets and businesses, which we do on a monthly or a quarterly basis. Depending on the asset class, various valuations valuation approaches would be used. So let's say if we talk about real estate, it would be mainly discounted cashflow. However, when we look at independent valuation reports, we would be also looking at comparable market transactions. We will be looking where the overall unlisted market stands in terms of the performance, et cetera.

The valuations within real estate tend to be more frequent now with regard to the specific investments in WMA, they are done on quarterly basis the valuations in infrastructure, again, depending on the sector they would be done using a slightly different approach. Still broadly what we see is the Capital Asset Pricing Model (CAPM) approach being the main one and also we would look at factors such as discount rates, equity risk, premier, and we would look at interest rates as well. Within the specific portfolio where WMA invests, valuations are done independently, semiannually and then reviewed quarterly by investment teams and then private equity as Sally said, the usual practice is to review those valuations on the quarterly basis with independent valuations done annually. In other words, it's a very robust, well governed, well organised process. The end result of our work is the report that goes to our auditors and our auditors then report back to the WMA board. I hope that answers the question.

Bridget Thelander:

Absolutely. Thanks Dania. The next question is from Simon. He says, you mentioned that you've reduced the investment portfolio's allocation to water rights. Do you have plans to reduce this further?

Dania Zinurova:

Yes, I might've mentioned that when I was talking about the slide. So the plan is to reduce it to approximately 10% to 12%. We will see that this level towards the end of January, early February next year. I would also note that part of the current allocation to water rights is linked to our investment in Strategic Australian Agriculture fund, which is a portfolio that is now maturing. So gradually this location will also decrease, it will remain part of WMA portfolio. Water rights is a strong diversifier within the investment portfolio, but what we expect to see as well from next year on the back of the government announcement to start buybacks, in fact the tenders have already started in September. So we will have a really good sense on the level of pricing that the government buys back the water rights. What I do expect to see next year is that the valuations of values of water rights will continue increasing. Thank you.

Bridget Thelander:

Fantastic, thank you Dania. The next question we have is from Christopher, he said, are any of the WMA holdings geared? If so, what is the overall look through gearing level?

Dania Zinurova:

Thank you. So WMA portfolio itself is leverage, so there is no use of leverage underlying investments depending on the asset class they would use gearing. If we account for the current level of cash, it would be approximately at the portfolio level at about 30%.

Bridget Thelander:

Fantastic. And the next question is from Sydney. He says, I've been a shareholder in WAM Alternative Assets since November, 2020. In October when Wilson Asset Management was appointed as the investment manager, it promised to adhere to a premium target that if the shares failed to trade above the pre-tax NTA at least three times over the next five years, then shareholders could have the right to vote to terminate the arrangement with Wilson Asset Management and liquidate the company. The end of this five year period is now just over 12 months away. Can you please advise if this premium to NTA has been achieved? I have not seen it happen in the last couple of years. And if it hasn't, can you please advise how you intend to address this issue by October, 2025? Thank you.

Geoff Wilson AO:

I will take it from a board perspective because in theory I know Dania you could answer it just as well in terms of that target, that was one of the things that we put in when we took over the management and I mean that is our plan is to make sure that the share price is trading at NTA if not a premium. In terms of the timeline of that, it's just very difficult to guesstimate how long it takes to get listed investment companies to a premium. I mean listed investment companies, it's effectively first year economics, demand and supply and the share price trading at NTA is equilibrium. If there's more selling then and everyone saw when this entity was managed by Blue Sky and Blue Sky had its significant problems that there was an enormous amount of selling and went to probably trading it nearly half its NTA if it could have even been more.

I can't haven't looked back and checked the exact figures. So that's a lot of supply and since we've taken over and obviously you've bought into since we've been managing it, that we've been able to narrow that discount and at the moment it's trading around 13%, it has got as low as 7% and I'm very confident that it'll trade at NTA if not a premium, whether it'll do it in the next 12 months. Who knows? With WAM Research (ASX: WAX) it took us seven years to get it to trade at NTA. It was a long journey for WAM Research. In the end we were so successful in terms of reducing the supply with getting new shareholders that were very happy with what we're doing and we're excited with what we're doing that it ended up going to a significant premium. And I think just a couple of years ago I was trading at something like 50% premium, which was as crazy as WAM Alternative Assets, which was the old blue sky trading at a 50% discount as well because the assets. We've seen this structure trade at 10% premiums back in the old days before the previous manager had their problems.

So whatever we said we'd do, we will do. The interesting thing is we've already had some sort of quite sizeable investors that Dania and her team have been communicating with are a little bit nervous of the fact that this vote is coming up in a year's time broadly, and the reason they're a little bit nervous is because they want to invest in this vehicle, they want to invest in alternative assets and they want exposure to it. So they said, look, people hate uncertainty. So that's a little bit of an uncertainty that may stop people from investing. From our perspective, the better thing is we go to the vote in a year's time, shareholders decide what they want to do. All the shareholders I speak to are very excited about this opportunity. It's really the only way you can play it, a really good portfolio of alternative assets that's listed on the stock market. So to me in the end, shareholders will decide the premium target was in there to put the shareholders and they'll decide, but pretty much nearly all the shareholders I've spoken to said they would like it to continue.

Dania Zinurova:

I would like to add Geoff, if I may. I think it's really important as well to I understand how much work has been done in terms of the register of WMA. Because I can tell you from my interaction with the current shareholders, it's a very different register compared to when it started. It's a much more engaged shareholder base and even looking at the numbers of the shareholders, we continue, we measure it regularly through our reports. We continue seeing the increase in the number of the shareholders. So since we took over, it increased by nearly 17%. Now it still didn't take us or haven't taken us yet to the premium also because what was happening before within the previous management under Blue Sky, the shareholder register was quite concentrated. And so as we've been going through this transition in terms of the shareholders who buy and who own WMA, there's been a lot of work that was done by our corporate affairs team, by my colleagues in the investment team, Marty and Will engaging with the financial planners and I go and talk to financial planners and present at the events.

The feedback from them is that it's often the only option for their clients to access private markets because of its structure and because of its quality. So to me it's really from the portfolio management perspective, continue delivering the investment returns and showing our shareholders the potential of this portfolio. I'm very confident the investment returns that we will see from the new investments, they will be very strong and continue engaging with our shareholders. It's been an incredible educational learning journey for both sides and it just can’t be done within one week or within one month, not even within few years. I personally strongly believe in this. I know I'm biased being the portfolio manager, but I'm doing this job because I strongly believe in this portfolio and I will continue doing my best to grow this portfolio. Thank you.

Geoff Wilson AO:

Yeah. And Dania, just one thing that you made a very good point there is, I mean what we're doing is we are tightening up the register and you and your team have done a fantastic job in terms of communicating with shareholders. As you said, we've had the growth in shareholder numbers. Normally if we were trading closest to NTA and we had that type of growth in shareholders numbers, then we'd be definitely trading at a premium. But I suppose you've started the handicap, you've started significantly behind because of the 40% discount. So it just takes more of the share register has to turn over for you to get the people that are aligned with the strategy of the company. And in terms of the question was in 12 months’ time you just don't know when that supply demand equation's going to change and all of a sudden the discount might narrow very quickly.

And we had that with WAM Strategic Values (ASX: WAR), which was trading at 18% to 20% discount. And I just looked last night and I think it said a 6% discount and that's been in a four month period. But if you'd asked me four months ago, I couldn't have forecast that because you just don't know when the supply demand equation is going to tilt in your favor in terms of if you wanted to trade at NTA, if not a premium, if you put the Warren Buffet hat on, he says he's the example of the guy who makes hamburgers. Does he want hamburger meat to go up or down? Of course you want the price of hamburger meat to go down if you're making and selling hamburgers. And his logic is if you are investing then do you want the discount to be narrower or do you want to trade at a premium or would you prefer it a bigger discount? Like in theory, if you've got to buy more, you want a bigger discount. So I mean that's just a bit of noise. Thanks.

Bridget Thelander:

Thanks Geoff. And we'll stay on this same topic because there's been a great question from Claire that has come through. Claire has asked with regards to the premium target, why not bring the vote forward to remove the uncertainty?

Geoff Wilson AO:

Yeah, I mean great question. As Claire, quite rightly pointed out, markets don't like uncertainty and at board level we've talked about that particularly getting feedback from some larger investors saying, look, we'd like to commit a lot more capital but we're not confident enough to do it until that vote's passed. And the risk is from a manager's perspective, if we bought it forward to me it's sort of a no win situation. People will say, look, why are you bringing it forward and then you haven't reached the target yet. Is that why you're bringing it forward? So what we decided from the manager and from the board in the end independently couldn't see the advantage of bringing it forward because we'd hate anyone to think that it actually favoured the manager. So the conclusion was to leave the timetable as it is and what do we achieve and then we'll go to the vote. If it's not trading at a premium, but who knows, it's still another problem now 12 months it could trade at a premium three times over this period.

Bridget Thelander:

Great. The next question's from Robert and Geoff, this is probably one for you, it's a board question. He says, has WMA considered renaming the company? I originally had the wrong idea on what alternative assets gave me exposure to. For example, I had assumed it was a green investment fund. Dania, could you please explain what green investments WAM Alternative Assets holds and potentially Geoff, you can comment on the board decision.

Geoff Wilson AO:

Okay, it's interesting you say that because it is something that we do think about whether it actually is the correct name for what we're doing. So it's a topic that's open, we haven't concluded on there, but it's a fair pickup. And Dania do you want to talk about?

Dania Zinurova:

No, you might remember Geoff at one of our roadshows, I had also one of our shareholders coming and saying not necessarily everyone even liked the sound of the word alternative. So I do find myself often unpacking what we include in that the reality is it's a well-accepted term within the investment industry and it's a very broad term, so very valid comment in terms of the green investment. So in general, when this term is being used and applied to the portfolio, usually those are investments that either have some development component. So for example, in infrastructure when we say it's greenfield infrastructure, that means it's an infrastructure asset that requires significant development versus brownfield infrastructure, which is a mature existing, very similar terms being used in real estate, but then also from the environmental perspective, these terms often used by investors to indicate that those strategies have a positive impact from the environmental and social governance perspectives.

Bridget Thelander:

Thanks Dania. We have two questions from Kate that have come through. She says, firstly, what does harvest of investment mean? And the second question from Kate is, does WAM Alternative Assets still hold property in the United States?

Dania Zinurova:

Thank you. Thank you very much. Kate, harvest in very simple terms means selling your holding, selling your equity stake in the business or in the asset and realising the investment return. So, you would hear me often referring to this as exit I was using today harvesting, but what it means is basically selling the ownership or selling the stakes and realising the returns. In terms of the exposure to the markets outside of Australia. Our larger exposure was within the energy storage business called esVolta in the US that was exited and we had exposure to two large commercial real estate assets in New York, Manhattan, both were exited. So currently there is a low exposure to the US market through private equity businesses such as Origo Education and another business such as Active Adventures. It's a tourism business which has some business acquisitions in the US.

Bridget Thelander:

Thanks Dania. The next question is from James. Are alternatives short or long-term investments? And this is coming from an investor who's not currently a shareholder of WMA.

Sally Box:

Yeah, thanks very much James. It's a really good question. Alternatives really are longer term investments and as we talked about earlier on this strategy with these types of investments is while you're in the confines of the private market, so you're not reporting and you're not marking the value of your investment, you're doing something to it, fixing it, growing it, restructuring it. So generally speaking it is a longer term investment. We also spoke about the J curve, which means that initially when you invest in a private equity fund, that fund costs more money than it makes. And so you do need to be able to hold that investment with some patients to be able to see out the business plan or the strategy.

Bridget Thelander:

Fantastic, thank you. And we'll stay with you Sally, this next question's from Tanya. You mentioned earlier about the financial year being a challenging environment for private markets. What is the correlation between alternatives and high inflation and high interest rate environments?

Sally Box:

Yeah, so if we think about the portfolio, different parts of the portfolio are going to do different things in this environment. So infrastructure is often considered an inflation hedge, and that's because your cashflow is often linked to inflation. It's an inflation linked to cashflow. And in real estate some but not all leases are linked to inflation, which means when your lease comes up for renewal, you'll either have a fixed increase or you'll have an inflation linked increase. So generally speaking for your infrastructure and your real estate inflation is beneficial in terms of cashflow. Where it can be detrimental is that your cost of debt, if these assets are highly levered and your debt costs more, that can have an impact on the value of your investment as a whole. If we think about private equity, generally speaking, a high debt, high inflationary environment is challenging for private equity really because it's challenging to exit out into the public market and you tend to see that initial public offerings (IPOs) are fairly subdued. They've been subdued in Australia now for quite some time, but as Dania said earlier, you sometimes see a valuation, so the value of some of these assets that you buy falls and often in a portfolio we talk about it as vintage years, challenging markets to invest into and we are probably in those at the moment, often yield outperformance. So sometimes the irony is that the harder it is to invest, the better it is, the better performance you will get. But of course all circumstances are different.

Bridget Thelander:

Great, thank you Sally. The next question's from Bill and he's asked, he said previously, WMA considered utilising distributions to paid in capital (DPI) as a measure of performance. Would you please provide an update on this?

Dania Zinurova:

Yes. So I believe, I know actually I believe we talked, we had a call with the shareholder because I recognise this question. So distribution to paid in capital, basically what it means, it predominantly applies to private equity. There are different measures of the investment performance that can be applied in private equity. You hear me saying multiples on money invested or equity multiple. We can also use internal rates of return, which is more time weighted measure of the investment return. And then what's been happening over the last 18 to 24 months in the private equity market that investors started looking at the measures such as DPI. What it means is that you as an investor measuring the success of your money invested not only by the final number achieved, you are measuring the success by the amount of the distributions that you are receiving back as the exits are being realised. I hope I explained it in simple terms without confusing people, but when there are no exits or transactions, transaction volumes are going down. This is where investors start looking at in order to understand where the returns are or how their capital performs. We do look at this when we monitor our underlying private equity investments. I don't think DPI would be an appropriate measure for WMA portfolio because we invest in a diversified pool of strategies and assets. So for example, it would not be applicable to infrastructure, it would not be applicable to water rights. But in general it's one of the measures of the private equity investment performance.

Bridget Thelander:

Great, thank you Dania. This next question is from Joseph. He says, private equity has been a hot news topic over the last few months. Will WMA launch a share purchase plan soon to top up the firing power in case of any opportunity arising from interest rates going down?

Geoff Wilson AO:

I mean, we tend not to like raising money unless it's trading at NTA or unless we're raising the money at NTA or a premium. So it just depends. If WMA trades at NTA or premium and it looks like it's in shareholders' interest to raise capital, then we'll do that because there are, as I quite rightly pointed out, it's not as if there's not opportunities.

Bridget Thelander:

And another question from Bill, he's asked, it's great to hear about WMA's successes. Please share what you've learned from a few of your less successful investments, if any. Dania potentially this is one for you.

Dania Zinurova:

Less successful investments lessons, lessons learned every day. I do tend to focus a lot on the risk assessment and really understanding and measuring downside scenarios. And this is really important because once we commit the capital, we cannot trade in and out. So for me, the lesson that I keep learning and I will never stop in this area, is that never feel confident to the point that you don't ask challenging questions. It doesn't matter to me how well I know the strategy, how well I know the business. I would always sit down and think what can go wrong? I would say specifically for WMA portfolio, a part that we inherited is venture capital and it's a very exciting asset class. I know when I talk about venture capital, people feel really thrilled to hear about those success stories. However, with this particular asset class, while there are lots of success stories, the risks are also hard to measure and the downside risks are significant.

So for me, observing how the Australian market reacted to the news that the IPO window has been closed and overall monetary policy uncertainty, et cetera, that was really a good indication that despite the fact that it's an exciting area with potential to deliver very strong returns, I took a cautious view because I could not measure the risks. And examples could be, there are some incredible businesses that were founded in Australia, one of them, and you might have been reading about it, it's called Canva that was backed by venture capital investors and at some point it was valued at about $300 billion. The valuation was just an explosion. And once the IPO window closed, the value decline nearly within a week by 70%. So to me that's really important lesson. There are lots of exciting stories, doesn't mean I can get or I can afford being carried away with them. And there are still lots of exciting businesses and assets within WMA, but those where we can understand the risks measure and potentially manage them.

Bridget Thelander:

Great, thank you Dania. Michael has an interesting question. He said, I noticed that many of the Wilson Asset Management leaks that traded a premium have higher dividend yields. Is raising the dividend yield a viable way to remove the discount for WMA? Geoff, maybe you could comment on this one.

Geoff Wilson AO:

Just as one of the board members. Thanks Bridget, and thanks for the question. What does a listed investment company need to do to trade at NTA, if not a premium? From my perspective, there's four things. One is to perform. Secondly is to provide investors a growing stream of income in Australia it's via dividends and they tend to be franked. Globally it's income that isn't franked. They have different systems. Thirdly is treat shareholders all equitably. And that's for every listed company. The management and board should do that and that's sort of not raising capital at a big discount to NTA and diluting shareholders that don't put money in things like that. And the fourth thing is really to have a shareholder engagement strategy, engagement, marketing and communication strategy. And we spent a lot of resources in that at Wilson Asset Management. If you've got any ideas of other things that we can do to help them, please do. But we've got 12 or 13 people in that area and we spend a lot of time communicating and marketing with shareholders. So to me that's what you need. And just paying a dividend isn't one of the various things that needs to be done, but it's not the only one. And just by increasing the dividend, I've seen some LICs that are trading on very high yields doesn't necessarily mean you'll traded NTA.

So obviously a solid dividend yield. Now in terms of the dividend, in terms of the dividend decision that the board makes, effectively when Wilson Asset Manual, when Dania took over the managing of this portfolio, there was virtually, I think there was six months of dividends available to be paid. It could have been a little bit more than that, but that was it. And to me, Dania's done a great job with her team in terms of building up the profits and we call them profit reserves. So therefore the dividend can be gently increased over time and you would've seen there the board is, it's a solid yield at a what has to be earned to pay. That yield is a little over 7%, 7.2% grossed up. That's the pre-tax yield effectively. So if Dania does 10% to 12% per annum, then a lot of it will be as fully franked yield.

But then also there'll be some capital growth as well. But you want to try to have a bit of a balance like some of our locs because we have held the dividends this WAM Capital (ASX: WAM) very high, then we're actually paying out super dividends. So we're actually paying out more than what we've earned over the last four years on an annual basis or five years since the start of covid. So to me it is a balance and the board's very aware of it and we're aware of it too, but it is one of the things you need.

Bridget Thelander:

Perfect. And the next one's from Dennis, he has asked, do you feel constrained in alternative assets markets given WMA’s market cap and the opportunities that you see from time to time.

Dania Zinurova:

Not constrained at this stage, but it’s a very valid observation. We need to remember that when I was explaining the evolution of the portfolio phase one, when we were exiting maturing investments that resulted in capital distributions coming back to the portfolio in a fairly concentrated nature where some of you might remember about two years ago we had nearly 47% cash within the portfolio. So it does take time in private markets and alternative assets to reposition the portfolio to reinvest and allow for some organic growth within the portfolio. If we look from the NTA perspective, how much organic growth there's been within the portfolio, we can look at NTA, let's assume we haven't paid any dividends since inception, since 2020. The NTA would've been now at about $1.38. So compared to the current one of $1.18, and that just shows to you that the portfolio has a great potential for the growth going and raising capital.

To be honest, even if we were now, let's say by the end of the year we trade at NTA or premium and we go and raise capital, I wouldn't advocate for a large capital raise because my preference is to continue using our investment process and continue staying disciplined in terms of identifying those investments. What it means is that the more capital we raise, the longer it'll take to deploy this capital. And my preference is to do it in a gradual manner, but focus more on the quality and focus more on the potential for the investment return. Currently we do access opportunities and invest alongside large institutional investors and we make co-investments, co-investment sizes can range from anywhere from $3 million to $5 million. We make commitments where the size would range from $10 million to $30 million and we can access high quality institutional investments with these tickets. So I'm happy with where we are in terms of the accessing point.

Bridget Thelander:

Thanks Dania, and we'll stay with you. I think you just touched on this briefly in your answers then, but Greg has a question and he said, what was the percentage return for the growth strategy side of the portfolio during the financial year?

Dania Zinurova:

So during the financial year, we would be looking predominantly from the realised exit perspective. We would be looking predominantly at the Birch & Waite exit that delivered over 3.5 times money invested from the investment return perspective. And we need to remember, because we are also talking about the investment return that is realised and the investment return driven by income and driven by valuations, changing valuations on the growth part of the portfolio, we were looking at 2.8% return and on the income or defensive part of the portfolio, we are looking at 2.3% return taking into account the current split of the portfolio.

Bridget Thelander:

Fantastic. And we have a question on Birch & Waite from Bill. He said Birch & Waite has only been a partial exit for the investment portfolio. When do you expect to complete exit from Birch & Waite?

Dania Zinurova:

So again, this is quite common in some private equity investments. While we announced it was a partial exit, the exit was 80% of the business. So the majority of the equity stake held by our investment partner was exited to continue the alignment with the management team and because our investment partner have built such a strong relationship with the owner of Birch & Waite business, they agreed with Quadrant to retain the 20% share in the business. Now Quadrant strategy is a growth strategy. From our perspective. I see it as an opportunity to give the business another chance for further growth, but at the same time with a shorter maturity, because it's a fairly mature business already, I do not expect that the holding period for this retained part of the equity will be more than three or four years. So usually this type of opportunities, you'd be looking at them from the secondary co-investment opportunity with shorter maturities, but also much more visibility on the operational and financial performance of the business.

Bridget Thelander:

Thank you Dania. The next question's from Joseph. He says, how do you make the decision to completely exit a holding?

Dania Zinurova:

A broad question, which probably will give you a broad answer, broad because in reality every exit is a unique situation is unique transaction. And a few examples that we talked about today, partial exit of climate friendly, the majority equity stake sell in Birch & Waite. There were all different factors involved in that decision making. The general rule is that once the investment is matured and there are interested buyers in this transaction, then the exit is fully realised. What we've observed though, over the last 12 to 18 months in this current market environment, we've observed more secondary co-investment opportunities or continuation of the investments. And this is in particular relevant for the businesses that have very strong cash flows, continue growing their revenues and are fairly mature businesses where investors do not necessarily see the current market environment as the best time to exit. And they're willing to continue holding that business for another 12 to 24 months. So they would either sell partially and continue holding the rest or they make the decision to continue holding. In other words, look, there is no simple answer to this question because again, every transaction would be very unique.

Bridget Thelander:

Thank you Dania. And we've just received a couple more questions on the premium target. So we might just go back to that briefly just to ensure everyone is across that. So one question from Dennis who said, if there is no success addressing the discount to NTA, what can or will be done? And then Steve has also said, presumably the uncertainty of this premium target vote is a factor adding to the discount to NTA. Once the vote has passed, wouldn't the share price rise quickly and the discount to NTA likely fall or go into a premium?

Geoff Wilson AO:

Okay, there's two different questions there. So I mean the second question is, okay, let's just do them one at a time. Is the after the vote, assume the vote doesn't go through, then will the discount reduce because it'll remove the uncertainty. There's no doubt it will remove the uncertainty for the people that were holding off because of that. And if that's the only factor, then you'd assume that the discount would reduce. If some people have bought it because they only want it to own it because they know there's going to be a vote and they hope the vote will be to liquidate the assets, which would be a timely, that would happen over time, then they would be selling. So to me it really depends again on supply and demand. It depends which is the greater factor. So unfortunately we don't have exact visibility to that in terms of a year's time after the vote, we can tell you because you'll see how many people voted for and how many people voted against. So that's that one.

Bridget Thelander:

Yeah, the first one, if there is no success addressing the discount NTA, what can or will be done?

Geoff Wilson AO:

Yeah, I mean what can or will be done in theory, the addressing of the discount NTA, which has already been addressed significantly, but it hasn't been addressed to the extent, which means this vote doesn't occur. And who knows that might happen over the next 12 months. We have quite a defined strategy in terms of the four things that I talked about required earlier, and we'll continue to do that. Dania and her team will continue to manage the money, but also with the Wilson Asset Management Group, we'll continue to engage with shareholders, marketing, et cetera, et cetera. And as we've already seen, the discount has narrowed sizeably, and we think we'll eventually get to NTA if it never trades at NTA. Well what's never, but I mean you can do a buyback. Our experience is buybacks don't work. The interesting thing is, I talked about the example of WAM Research, which took us seven years to get it traded at NTA. We actually did three and a half buybacks. We walked back 35% of the company. And that's I think maybe one of the reasons why it actually took us longer to get to NTA because the average investor in a listed investment company doesn't like companies doing buybacks. The investor in an operating business loves companies doing buybacks. What they think is within an investment company, if you are doing buybacks, say the board announced the buyback today at a 13% discount. So then you are saying your board thinks that whatever 13% discount means if you buy it at 87 it goes to a dollar. What's it about a 15% return you get. So then you as a board are saying, we don't think we can get better than a 14.5% return in the short to medium term. And a lot of investors see that as a backward negative step because they're investing because they want the manager to get a return. Similar to what Dania was talking about the exit premiums, 30%, that's positive returns. Everyone would love those.

Bridget Thelander:

Absolutely. We'll pass to you now Dania. A question from Phil. He says, I understand that WMA's investment in water rights has been significantly reduced due to climate uncertainties and government buybacks. Can you please talk about the decision to scale back your water rights investments when the valuations are expected to rise?

Dania Zinurova:

Thank you. Very good question. So first of all, the decision to reduce the exposure to water has been made more than two years ago and we started reducing the water about 18 months ago, so it's not a new decision. When we started reducing the allocation to water rights, the valuations of water entitlements were their historical highs. This financial year. I would say the first time in the history of the Australian water rights market, we saw capital values declining. We made the decision to reduce our allocation further. So this is what I was talking about, that we will reduce it to about 10% to 12%. What I expect will happen next year on the back of the government buybacks. We'll start seeing valuations improving and then you as a shareholder will see our allocation to water rights increasing on the back of those valuations improving. I hope it makes sense. So the decision was made not necessarily to try and time the market and time the valuations, the decision was made predominantly driven by portfolio construction and what role this strategy should place within the portfolio. But if we are to draw the parallel to valuations, that's basically the story in terms of the timing.

Bridget Thelander:

Thanks, Dania. And Anthony has asked if on average WMA's investment exits are approximately 35% above NTA, does that mean the funds valuations are very conservative?

Dania Zinurova:

Look, the way I would answer this, there is no incentive to increase or inflate valuations on private equity investments in the interim periods before they exited. And that was a big change when Wilson Asset Management took over the management of the company, all the structures of the performance fees, they were reviewed and renegotiated. And the main incentive for the investment teams to deliver those outsized returns is basically the performance fee. So all the performance fee on private equity investments within our portfolio, they're on exit. Just based on taking into account this factor. We can look at the valuations from a more conservative angle. I would leave it at that because it's always it's, it's a question that requires a more in depth discussion. But I think this factor is really one of the key ones in order to understand what's the actual underlying reasons or underlying motivators or underlying incentives for the investment teams to keep working on those companies and keep delivering. So in the interim period, in fact, when a private equity investment is made for the first 12 months, it would be held at cost. And then as Sally was explaining, what happens with the valuations from the investor's perspective, you will see it going through the J Curve and only then going up. Thank you.

Bridget Thelander:

Fantastic. Thank you. Dania. Joseph has asked another question on the share purchase plan. He said, you mentioned there's no plan for a share purchase plan due to WMA trading below NTA. When you purchase assets, won't you pay higher interest rates to the bank?

Dania Zinurova:

Would you like me to answer this or if it is, share purchase plan.

Geoff Wilson AO:

Well, we're not borrowing money, so we're not, yeah, we're not borrowing money.

Bridget Thelander:

Okay. That's the last question that's come through. So I'll pass back to you, Geoff, for any closing remarks.

Geoff Wilson AO:

Thank you very much. And thank you for all the shareholders for your engagement. As I mentioned earlier, we've had a couple of hundred on the call. This is your company. If you have any thoughts or ideas, please feed them back to us. Any other questions, please do that as well. And thank you, Sally, very much for coming on as an IC member. And Dania. And Bridget yourself, thank you very much for running this smoothly as always. Thanks guys.