<u>WAM Strategic Value FY2024 Full Year Results Q&A Webinar</u>

Tuesday 3rd September 2024

Speakers:
Geoff Wilson AO – Wilson Asset Management Chairman & WAM Strategic Value Lead Portfolio Manager
Jesse Hamilton – Chief Financial Officer
Martyn McCathie – Investment Specialist
Connie Short – Corporate Affairs Associate

Geoff Wilson AO:

The team and I are here because it's your company. We're reporting to you on the results for the 12 months to June this year, FY24, and we want to go through our current positions, how we're seeing everything going forward and open up for shareholder questions, comments or suggestions. In terms of who will be working with me today on this webinar, Jesse Hamilton and also Marty McCarthy who works with me on the investment opportunities for WAM Strategic Value (ASX: WAR). Also, Connie Short, she'll be moderating the Q&A. Thank you very much. We've had a lot of questions come in and please during the webinar if you have any more questions please send them in.

In terms of the result, we've got a few slides that we've announced to the ASX. It was a solid result from our perspective. Obviously WAM Strategic Value has been listed for a little while. In the early days, share price was trading at a premium, actually a very good premium to net tangible assets (NTA) and over the last year or so it's gone to quite a sizable discount. That discount is declining significantly at the moment and we expect it to get back to NTA in the near future and if not trade at a premium NTA. We will take you through why we think that's the case. In terms of the result, obviously a solid profit number, but as you know this is a listed investment company, so the profit number is just a reflection of the change in the value of the portfolio over the period. So that's where the profit came from. We need to make that profit and potentially pay some tax so we can pay you fully frank dividends.

In terms of the dividends, you probably would've been expecting us to be announcing a final dividend of 2.25 cents in line with the interim dividend at 2.25 cents. But there was vigorous discussion at the board level when we were looking at what dividend we should pay to shareholders and it was decided that, look, we have had a good year. The profits reserve has grown nicely since the company's been listed and now we're in a position, where we could actually increase the final dividend above what we had anticipated six months earlier, which was a very pleasing result I think for myself as a shareholder and everyone else. And we came in with a final dividend of 3 cents, so 20% plus higher than we would've been anticipating six months ago when we set the interim dividend and the expectations for the full year. This was because of the strong result and the fact that we had the franking allowed us to reward shareholders with a 1 cent special dividend.

So thank you shareholders for your loyalty. A number of you have been with us since the start. You've seen the share price trade at quite a sizable discount. You've also seen the share price more recently narrow. I think it's probably a little less than an 8% discount now and we're hoping to get it soon to NTA as I mentioned earlier, if not a premium. I'm just trying to think what else we need to go through in terms of the dividend. Some people are saying, look, you've got a reasonable profits reserve there, do you want to pay a high dividend? We're trying to balance that dividend to give shareholders a sizable, fully franked dividend yield, well and truly in excess of what the equity market is providing you at the moment. I mean the equity market yield, is probably that three and a half, 4% and we are giving you a higher yield than that.

The dividend is fully franked and we hope that if we can continue to perform we can provide that to you over time. Please be aware that you are getting a bit over 5% fully franked dividend yield on assets to actually pay that. Now we either have to receive fully franked dividends from underlying investment companies or we have to pay tax, so it's the equivalent pre-tax yield of a little over 7%. So therefore if we are going to deliver 10 to 12% per annum, you've just got to be aware that a significant part of that is coming effectively as a pre-tax, fully franked yield and the rest will be capital growth over time. Jesse, is there anything else I need to cover off in my opening remarks or do I pass over to you?

Jesse Hamilton:

A quick reminder on the dividends – the 3 cents final dividend goes ex-dividend on the 1st of October and the 1 cent special goes ex-dividend on the 22nd of November the following month. So just a reminder for shareholders when it does trade ex-dividend October, it's not the full 4 cents, it'll be 3 cents initially and it'll still be trading cum-dividend, the 1 cent special dividend.

Geoff Wilson AO:

And the logic behind that is, what you tend to find is when you cum-dividend, people tend to buy listed investment companies. Even for the banks and large companies which are some of the larger big dividend payers, if you buy it just before their final dividend, then you get three dividends in a 13 month period. And so you tend to find more buying. You tend to find you gain shareholders and you tend to find your discount to NTA declines. So ideally if I had my way, but sanity prevails from the board, we'd be cum-dividend all the time. There'd only be a day or two each year that would be ex-dividend and not cum the next dividend. The reason why we split the two dividends, we're going to split it a bit further out, but we wanted to have it in this six month period to smooth that out a little bit because as I said, you'll tend to find there's buying over time when you cum-dividend. So Jesse, why don't you go through the top holdings and give everyone a bit of a window into that and then we can pass over to Marty who will take us through a bit of the structure of the listed investment company sector. We can then come back and Connie can work on the Q&A.

Jesse Hamilton:

Perfect, thanks Geoff. So just touching on slide seven on the top 20 holdings. We've released the full portfolio holdings as at 30 June in the annual report. And one thing just to highlight, at 30 June we had the QV Equities (ASX: QVE) position. QV Equities was taken over by WAM Leaders (ASX: WLE) by way of a scheme of arrangement. So that position has turned to cash and as you can see there on slide eight, the cash holding at the end of July was around 19.2% and approximately 17% at the moment. So we're sitting on a good cash level taking advantage of opportunities in the market when we see, but we haven't redeployed that QVE cash amount yet. One of the questions that did come pre the webinar was why we took out the cash? On the scheme of arrangement, we're not generally holders of our other listed investment companies.

WAM Global (ASX: WGB) obviously we acquired through the Templeton Global Growth Fund (ASX: TGG) merger. There was a cash out back then with WAM Global and TGG, but it was at a bit of a discount to the actual NTA value offered through the scheme of arrangement with QVE. Given it was a two and a half percent discount to NTA, we thought it was prudent to rather than taking WAM Leaders shares and selling them on market, there was more value for us taking the cash out and being able to redeploy that into new opportunities in the market. But you'll see there as well in the top 20 our other substantial holdings including VG1, PIA and GDC, which I'll pass over to Marty who we'll talk about shortly. Marty, over to you.

Martyn McCathie:

Thanks Jesse and good afternoon everyone. If we jump to slide nine there, just to put things into context a little bit, the LIC sector and the cyclicality of the sector, we have seen since 2019 a bit of a decline. Pleasingly the market capitalization has been pretty stable so the sector from a market capitalization perspective has been quite stable predominantly through performance and some secondary capital reasons as well. In the last 12 months or actually in the last quarter we had the first LIC to list or LIT as it was to list, we've seen some new entrants coming into the market but it has been that steady decline as we go through that rationalization and consolidation in the sector. From a discount perspective, it is not up on the screen there, but we had seen the weighted average discount across the sector widening more recently that has started to narrow.

So I guess sentiment with cash term deposits as high as they were, we did see some net selling in the LIC sector whereas the long duration and the long end of the interest rate has started to come down already in advance of expected interest rate cuts. We have seen money come back into this sector, so for a strategy like WAM strategic value, we're invested in those discounted assets. It should be a positive tailwind for us with our investments going forward. As we flick onto the next slide to run through a couple of the holdings. There are four holdings where we have gone substantial in the last financial year. We noted them in the annual report, but I wanted to just highlight a couple including global data center (ASX: GDC). We've talked about it in the past and been quite topical with some news flow on that one this afternoon.

So GDC was an investment that we made at a discount to its assets. It was in the discount asset side of the investment portfolio they were going through. We initially invested because of the discount and then the board announced that they were going to go through an asset revalue exit strategy and that's when we materially increased our position there and went substantial last year. So the GDC share price increased 90% last year and it's up about $3.50 today. So we've seen strong performance again into this financial year. The two investments and their third and final investment that they'll be exiting is a 1% position, an air trunk and if media reports or to be believed this afternoon, that has sold this afternoon as well. So we'll expect to get the NTA value back in due course there and NTA is around about $3.80 to $4 just depending on the upside and where that sale transaction actually goes through.

The other one we wanted to touch on briefly was Australian Unity. So Australian Unity office fund, it's a REIT and again it was a discount to asset play in there. They're also going through an asset revitalization process. So for us that's the catalyst for us to be able to extract value from that position. So in the position they've sold two assets in the last six months and they've got a couple of assets that they will be selling in the near future and we believe will see a return of capital to shareholders and realize that full value of the NTA over time. With that, I'm going to be pass back to Connie to open up for the Q&A.

Connie Short:

Sure thing. Thank you Marty and thanks Geoff and Jesse as well and thank you to everyone who has sent through your questions so far. We'll endeavor to answer as many questions as possible during this question and answer segment and should we run out of time we'll reach out to you afterwards. So the first question that we've had come through is from Ross. He has asked, I note that nearly all LICs on the market including the big old ones like Australian Foundation Investment Company (ASX: AFIC) and Argo (ASX: ARG) along with the WAMI stable are trading below their NTA. Is this just a market rotation or is there some underlying problem like proposed legislations change, et cetera that should be talked about?

Geoff Wilson AO:

Yeah, thanks for the question there. The answer is no. The listed investment companies or closed-end funds from a global perspective have been, I think the first one was 1868 foreign and colonial where it listed on the UK stock market. And they've been around for the last 200 and what's that? 70 odd years and they're going to be around for another 270 odd years. I mean the beautiful thing about the closed end fund structure is in an ETF or in a trust structure, you might put a dollar in and over a 12 month period it goes from a dollar to a dollar a dollar 30 and it's all realized then you'll get a distribution of 30 cents because the trust has to pay out all the earnings in terms of in the company structure. Say if a listed investment company or closed end fund as they talked to about in the US had achieved the same results, then it's a company structure and that money can be paid to you over time as the money isn't paid.

The rest can be invested and you can get a growing stream of dividends and that's what shareholders tend to want. A lot of people want, some people want the other one. So the sector is alive and well and strong in terms of the fact that they trade at premiums and discounts. I had a good chat before this, a journalist from The Australian gave me a call, I just wanted to talk about the sector and we were talking through that. The funny thing is she asked me a few questions about the current treasurer and I just told her what I thought and anyway, she's putting them up online and maybe they're a bit too powerful. You can make your assessment of those. But in terms of discussing what's happening and what's happened in the sector, if you go back say I remember three or four years ago we had a lot of our shareholders coming up to us or people we knew and say, look, interest rates are close to zero.

What do I do with my money? Now you've got to understand that listed investment companies, it's just a function of supply and demand. If supply and demand is equal, then they trade at NTA. If there's more demand than supply, they trade at a premium. If there's more supply and demand, they trade at a discount. But usually 96 or 97 or even 98% of listed investment companies’ share registers are long-term rusted on shareholders that are very happy. So what you would've had is you would've had four or five years ago when interest rates or even more recently that interest rates were close to zero. People were looking for places to put their cash and they were looking to try and get some type of return. So if you go back, then you had the AFICs and the Argos trading at phenomenal premiums to NTA that I hadn't seen before.

And all you're doing is getting a reflection of that because more recently interest rates have gone up. So a lot of those people, the less sophisticated money that was buying LICs back then at a premium is probably now selling them at a discount. And we've all been around the market long enough. The average investor, if the market over time gives you a 10% return, the average investor tends to buy towards the top and tends to sell towards the bottom and they get about a 5% return. So the sector is as strong as it ever was. There's been some consolidation and rationalization and that's in every market. And so to me it's just a little bit of a skew in terms of that supply demand, a bit more supply now than demand. And at some point in time that'll get to equilibrium and if not go to a premium.

I mean the WAM LICs, eight of them I think as of this morning, I think three or four of them are trading at premiums and the other ones are trading at discounts. And then I know there's a question somewhere coming up that some of our LICs are trading at big discounts Now obviously, WAR was at a big discount. Well it was a pretty decent discount a couple of months ago. Now that discount's narrowed. WAM Global was at a bigger discount. Now that's narrowed and you tend to find the newer listed investment companies takes time in terms of the supply demand, their share register might be 90% rusted on. So 10% is at risk and so there could be more selling in that 10% than buying.

One of the things with WAM Strategic Value is within the first three weeks of us floating one of our positions, we had a shareholding in Magellan (ASX: MFG) concentrated fund. So they decided to allow everyone to get out of NTA similar to what Magellan's done in their other fund more recently, which we've been a major beneficiary of and also WAM Global’s bid for TGG. And we had a reasonable position in that. So within three or four weeks, two of our positions got taken over. So then I think that's when we might've gone to a 10% plus premium and then you're getting people that have bought in because they think every week something we own is going to be bid for. Now that's not the case. We're buying undervalued assets and as Marty mentioned, we're not only buying listed investment companies but buying operating businesses that are trading at discounts to NTA and with all this money flowing into all the passive money that's pushing the extremes in terms of valuations. The high liquid stocks, they're pushing them into high valuations and that allows a lot more opportunities for us in terms of any companies that have operating businesses that may be trading at what we believe are discounts to NTA or discounts to the assets. And that's how Global data centers turned up. It was trading at a discount to NTA. Another one we had during the year, which it was a MP, another operating business, which is trading at a big discount to NTA. We took a position in that, we made some money, we've actually moved on because we actually don't, we're a bit concerned that the catalyst, we couldn't see the continued catalyst for it to trade at NTA. It might get there long term, but yeah. Anyway, that's sort of a long answer for that short question. Thank you Connie.

Connie Short:

Thank you Geoff. Cheryl has asked the returns quoted in the WAM Strategic Value results announcement email last week don't tell the real story. I bought at IPO, I invested $43.3 and it's now worth $38.83k and dividends of $4,340. Overall, we're down 0.63% as of today. This was dated for last week, which is higher than where it was at 30 June, 2024 report date. It would have made about 4.5% interest if we put that money in the bank at no risk, which is a significant opportunity loss. I had high hopes for this share and all the hype at the launch. All the rosy words in the announcement email are hard to swallow. I'm now quite disillusioned with LICs. I want to get out as soon as I reasonably can, but it irks me that WAR holds three years’ worth of future dividends that I can't benefit from. This seems unfair. Can you please comment on the lack of performance and why you are charging high management fees without performing?

Jesse Hamilton:

The biggest difference there is the current discount to NTA. So when we talk about performance in the annual reports, we're talking about the portfolio performance for the 12 months. We talk about the NTA performance, which essentially is the performance after fees and expenses, adjusting for the dividends and tax. And then we talk about total shareholder return, which is the return to you in the hands of shareholders. And we're currently trading at $1.17 and a half at the moment and we've paid around $12 and a half cents since inception including the benefit of franking credits. Adding all that back, it looks like it's around $1.30, I think $1.3074 in terms of the total value since inception, a little bit above the IPO price, but right now the share price is obviously at a 7.5% to 8% discount.

And the discount since inception has been the impact to your returns versus the portfolio returns. So that's the bridging of the gap between the two. As Geoff mentioned, it's something we're focused on. We've seen the discount come in from sort of that 13, 14% into the high single digits of the last week with the results announced, the increased dividend and the special dividend. So it is something we're focused on. We really want to get this back to NTA and we're dedicated on this. It will just take time. We've seen today we've had some good traction and post the results, but it's something that will be a continuous work in progress. But on the dividend point, whilst there is I think 2.9 years before the payment of these dividends in the profits reserve, that is in the NTA, it's not something separate to the NTA. So if the share price does close to NTA and you did look to sell, you are getting the benefit of the profits there through exiting at that point in time. It's not something that is missed in the total value.

Geoff Wilson AO:

And from my perspective, that's a great question and thanks for the question. I'm not sure who has given you the hype, but we'll tell you the same thing all the way through. You're saying the hype when the company was being listed, and that's a classic example, people like yourself, you need to sell because again, it's supply and demand. You are obviously disappointed with the return you've got, whether you fully understand how they trade at premiums discounts, and I know it is trading at a discount. So that's disappointing in terms of you all as shareholders decide whether they trade at premiums and discounts. Now what our job is to explain to you clearly what you're investing in, why you're investing in it, and try to get you to fully understand that. I know this is a bit cheeky, but I think six months ago when we were around talking to shareholders at our annual shareholder presentations and we got in Sydney and Melbourne, probably a thousand plus of our shareholders turn up.

I did say that I thought we should actually probably do a questionnaire when new people buy shares so they fully understand what they've invested in. If you're buying into a listed investment company, you don't understand how they operate. It might be a situation where you can't benefit from the franking credit so that all the tax we pay and pay out fully frank dividends to you, you mightn't get the full benefit of that. So maybe you shouldn't be investing in a listed investment company. So to me, I'd nearly like to do this, but it's probably a bit extreme, is everyone who buys shares in it fill out a questionnaire and if you don't get sort of 90%, then we send you a letter and say, look, can you please sell your shares because you don't understand what you've invested in. So I know that's a bit harsh, but if you had a choice of potentially putting your money in a property or buying a list investment company, it depends what your total tax position is, which would be the better one for you.

Connie Short:

Thank you Geoff and Jesse for answering Cheryl's question. Robert would like to know what do you make of Ryder Capital's strategic review where they decided to take no further action to close the discount to NTA? Given the fund's strong investment performance, do you see an opportunity here after the recent sell off?

Geoff Wilson AO:

Yeah, look, I mean we're a shareholder in Ryder Capital. It is to me a bit strange that you announce you're going to do a review and when you really haven't decided what the result's going to be, you tend to find most close end funds when they announce they're going to do a review, which way they're going. So for Ryder, we are very happy, we're very happy to have more listed investment companies. The more listed investment companies, the better as far as we're concerned because if that trade at discounts to NTA, it provides opportunity for us and we know that eventually they'll trade at NTA if not a premium, otherwise long term they don't exist. So yeah, I suppose Ryder, they've done their analysis whereas a shareholder, if they traded a big discount will become a bigger shareholder.

Connie Short:

Great, thank you Geoff. A question from Gary, what takeaways might there be for Wilson Asset Management from the sharp demise of Magellan financial groups share price performance in the last three years. MFG have suffered from massive net retail and institutional outflows together with unstable leadership leading to an 80% decrease in its share price. Could this happen to Wilson Asset Management's LICs and if not, why?

Geoff Wilson AO:

Yeah, the answer is no. Well, it couldn't happen to our LICs. And the reason why is you've got to separate the management company of Magellan versus their listed investment companies and it's the management company that went to virtually managing very little. When they first raised $380 million a number of years ago they grew it to be managing a billion dollars. And so what you are talking about the one that's fallen, that 80 odd percent, that's the management company. So the management company of Wilson Asset Management is a private company that's not listed on the stock market, so that'll never happen to us. Then the question is, will our listed investment companies for, well the listed investment companies, we manage them and the underlying assets are the companies we invest in. So yeah, that won't happen to us. In terms of the first part of the question, Connie, what was that?

Connie Short:

What takeaways might there be from the demise of the financial group.

Geoff Wilson AO:

I think there definitely are takeaways in terms of we very much use a team approach in terms of how we manage money now in terms of the pool. So Wilson Asset Management, we've got eight listed investment companies. We support two Future Generation companies. We've got over 130,000 shareholders and over $5 billion of assets in terms of WAMI listed investment companies. And the bulk of that money, money is managed by all the other people excluding me. The only pool of capital that I actively manage is this is WAM Strategic Value. So what, $240 to $250 million. And I do that with Marty and Jesse. So I think with Magellan it was very concentrated with Hamish Douglas, even when they did their new list investment companies, Hamish was the lead PM and it tended to be the model they used.

They had analysts and it all fed up to one person, which was Hamish. We don't use that model. We've got a signal, we are more democratic in terms of, we have lead portfolio managers in terms of sectors like global, large cap, mid and smalls, and then they have a team under there. So we're a lot more diffused.

Connie Short:

Thank you Geoff. Owen has asked, is the investment in the US Masters Residential Property Fund with the ASX ticker URF unfolding satisfactorily?

Geoff Wilson AO:

The answer's no. We've got a lot of no answers today. We bought it at a discount. We were hoping that discount would narrow a lot quicker. We were hoping that reduced costs significantly out of the vehicle. That hasn't been the case. It is moving in the right direction, but it's a lot slower than we anticipated. Jesse and Marty, have you got anything further?

Martyn McCathie:

The change of responsible entity happened late at the end of the financial year, so that's gone through now. So it's an internally managed responsible entity, which is what we see as a positive. On the divestment of assets, I think they forecast about $150 million worth of sales this calendar year. And the first half they did between $55 and $60 million. So they're running short of what they expected to exit on the last update. They said they've got $78 to $80 million in the pipeline for the next quarter. So that would be a sizable chunk of that $150 million target and we'd probably get them back on track to meet that $150 million exit for the calendar year. So as Geoff said, it's been slower than we expected. The discount is still around 50%, so it's about a 31% share price and a 61% NTA so value there, but there's no signs of it being extracted at the moment. But if those sales pick up in the next quarter, we might see a little bit of movement in that share price.

Connie Short:

Great, thank you Marty. And thank you Geoff. Reg has asked what formula do you use to reach the dividend and the size of the dividend reserve? Or does the company just decree it based off their experience? Jesse, this might be one for you.

Geoff Wilson AO:

Before we go to Jesse for all those people looking at Marty, I know it looks like he's in a nightclub. He actually isn't in a nightclub, he's in New Zealand. So, he has gone back to his hotel room and that was the shiniest curtain he could sit in front of.

Martyn McCathie:

Thanks, Geoff, for pointing that out.

Jesse Hamilton:

Had to answer the elephant in the room. But on dividends, great question. I mean there's no exact science to it. If you speak to the research houses, Morningstar ETF, Zenith, they love to see two to three years in the profits reserve for listen investment companies. And the main reason is, I mean the benefit of the LIC structure is you can pay a dividend, you can maintain or increase the dividends through market cycles. So as you saw in 2020, 2021, 2022 the market went up and down during that time, I think all but maybe a few listed investment companies maintained or increased their dividends during that window. So when you sit back from a capital management perspective, you want to have a little bit of assurance that you can do that at times when the market's fallen. And WAM Leaders, for example, even just this financial year is up 2.8% and underperformed the market. I think 7%, 8% underperformance of the market, but maintained its dividend during this time and was actually able to increase it given the previous year's profits reserves and maintained around three to four years' coverage.

So that's the things that the board will consider from a capital management perspective. When you're sub two years, obviously you are probably living hand to mouth a little bit more. You need to rely on the current year performance in order to be able to pay the dividends in the following year. Having a little bit more of a buffer is probably the ideal scenario, but also at the same time it's looking at the yield level. So listen, investment companies, we'd love to be able to pay above market yield even for our WAM Global product which is paying above the US and the MSCI yield levels. And we're just conscious that you need to look at the yield and gross that up for tax. Is that sustainable each year based off the long-term performance? What we mean by that is if the market is doing 10% per annum, take away the management fee, if you're at that 9% level, you want to give shareholders a good combination of capital growth and income. So you look at that fully franked yield, the grossed-up yield, and if that grossed-up yield is exceeding the performance in certain years, the NTA can go backwards as well as the share price. So it's just being conscious of that at the same time as well.

Connie Short:

Thanks Jesse. Robert has a follow-up question. Can you please comment on Ellerston Asian Investments EAI's disagreement with the Australian tax offices position regarding the treatment of the distribution made when it was restructured? What can other funds learn from this?

Geoff Wilson AO:

Hey, great question and Jesse, I'm going to let you answer that, but I just want to get my little punch in terms of what the current government is doing. And Jesse, you can expand on that. And unfortunately I don't think all Australians, I don't think most of corporate Australia understand to me the behaviour, what the current government has already done in terms of restricting dividends has really made the playing field in terms of being listed on the stock market for companies or being unlisted. Being listed on the stock market is now a disadvantage because you can potentially lose your franking credits. And now I'll pass on to Jesse, he'll explain what happened there, but incredibly good question. Thank you.

Jesse Hamilton:

Yeah, it's a great question and just for everyone who may not have seen this, EAI was converting from a listed investment company structure into an unlisted trust to allow people to get out at NTA. So we had gone through a strategic review, was looking to do a restructure thinking that, well, deciding that was in the best interest of their shareholders and as part of the move from the company structure into the unlisted trust, they wanted us to pay out the residual profits reserve and franking they had for shareholders because when you move from a company structure to a trust structure, you don't transfer the franking credits over. Trusts work differently from a franking perspective. So the board in the best interest of shareholders had announced the restructure, had a timetable together, and we're looking to pay a special fully franked dividend down to shareholders and then transfer everyone over from the LIC into the trust structure.

So at face value any day of the week, that looks like it's a great outcome for shareholders and the right outcome for shareholders. Unfortunately, what the government did last year, which Geoff and I were actively lobbying against, was that they introduced a piece of legislation which in part stopped companies doing off-market buybacks. Now not just doing them completely, but stopped including a franked dividend component to off-market buybacks. So now when a company does an off-market buyback or an on-market buyback, it's all capital. There's no dividend and there's no franking component to the off-market buybacks. But the weird part that Geoff and I were lobbying against, we can put that aside for a second in terms of buybacks generally, but included in the legislation was this small provision that if you still do an off market buyback or if you do a selective capital reduction, which is what EAI was doing in transitioning from the company to the trust structure proportionately in terms of the amount that you do.

So if you do a hundred percent selective capital reduction, you lose all your franking credits. If you do a 30% selective capital reduction or a 30% off market buyback, you'll lose that proportion of your franking credits. And it actually can put companies in a situation where not only do they lose the franking they have, it can force them into a franking deficit and they have to pay tax to the Australian Tax Office (ATO), which is probably the most illogical thing I've seen the government put forward for a number of years. I mean, it's just something that is having drastic unintended consequences because it's just selective capital reductions off market buybacks. They're effective capital management tools when you want to use them. No one is trying to game the system here, EAI was doing the right thing by their shareholders, yet they get caught by this bit of legislation that took away all their franking credits and deemed that they then couldn't pay the special fully franked dividends. EAI strongly disagreed with the ruling from the tax office, as did I. When I read it, I was thinking, okay, are you kidding me? This is crazy that the tax office would apply in this manner. But unfortunately, that was the result of the Labor government tinkering with the franking system and the rules around it with the legislation they introduced last year. So the lesson is it's incredibly difficult to do a restructure now and not lose the benefit of franking credits, which is rightfully shareholders'. At the end of the day, it's their money.

Connie Short:

Thank you Geoff and Jesse for answering that question. Kevin has emailed through and asked, do you think LICs in general have bottomed out in their last down cycle? I've recently noticed improvement in WAR, but I guess that could be due to good results in dividends rather than a cyclical turnaround. What do you think?

Geoff Wilson AO:

Well, we could do all three of us and let's see, I'll start, or maybe or should I go last anyway, I don't want to influence the other's answers. But my thoughts are we had that situation, which I talked about earlier, where the money when interest rates were zero, a lot of money was looking for homes and a degree of that money would've found its way into listed investment companies, Australian listed investment companies. And correspondingly we did see the larger LICs trading at significantly high premiums that I really hadn't seen for decades. And then the interesting thing is, say the AFIC and Argo are the two largest LICs. I know WAM Leaders and WAM Global are the third and fourth largest, but they've been trading at discounts more recently which we haven't seen that for decades as well.

And probably to me, you probably keep an eye on the discounts for the AFIC and the Argo because I would've thought as the share price discount to NTA start narrowing and they start getting to say 6%, 5% discounts, then it's a clear indication that demand or that excess supply is petering out. So I think it looks like it has bottomed. It's like any industry, it expands and contracts. We've seen it do that over a number of years and it did get to like a hundred, it was 114 odd, listed investment companies a few years ago and now they're down to 87. Platinum said they're going to turn their two into trust, so we're down to 85. So we're probably at a short term cyclical low. Like Marty mentioned, there's a new listed investment trust that has discount mechanisms in there that raised a couple hundred million dollars recently. So that's a slightly positive sign for the sector.

Jesse Hamilton:

I was going to say, I think it's bottomed for some, not everyone, and that probably is the difference. I mean the good listed investment companies that communicate effectively with shareholders, I think they'll be beneficiaries and see their discounts close through this cycle and then some that aren't communicating as well may not close as quickly as the others. That's probably the only difference I'd add to Geoff's comment.

Martyn McCathie:

Yeah, I don't have anything constructive to add. I agree. I don't know if it's your behavioural finance, Geoff, and we all agree with you or if we're all just aligned, but for me, I think it's no coincidence that the premiums in select LICs got to their excessive levels when interest rates were zero effectively or close to. And on the flip side, I think it's no coincidence that discounts got as wide as they did as interest rates peaked. With the term deposit rates starting to come down, I think people are willing to take a little bit more risk. And as you said, it's changing that supply demand. We've probably seen a lot of that supply go and we're starting to see that demand come back in from investors that were otherwise sitting in cash. So very positive on the outlook for the sector from here.

Jesse Hamilton:

And it's worth just adding Australia's not alone when it comes to the current discount levels, the UK and the US closed-end fund markets, which are much older and more mature than the Australian market are trading at. Similar in some parts of the market, worse discounts in Australia. So Australia's actually faring quite well at the moment.

Connie Short:

Thanks all for your insights. Kathy would like to know, what do you think about the NAOS Small Cap Opportunities (ASX: NSC) LIC and Climb Investment Management Limited (ASX: CIW).

Geoff Wilson AO:

Jeez, we've got some shareholders that pay close attention to what's going on. Hey, Jesse, only because you caught up with Sebastian, what, two days ago from NAOS?

Jesse Hamilton:

Yeah, I'll cover NSC and you can cover CIW. I mean NSC had a very tough quarter into June, which I think they had their webinar recently and we're pretty upfront and frank about that. It's a highly concentrated portfolio. It's not just traditional equities, a diversified portfolio that you might get another LIC. They are trying to differentiate themselves and do something different for their shareholders that did go against them in the June quarter, but they rallied back considerably. I think they were up maybe 18% in July in the portfolio, and they did see an uptick in the share price, but it's one to watch. Obviously the discount's a problem. It's something that they've got the convertibles coming up for refinancing. There are a few things happening at the moment. So it is one to keep an eye on given the performance of late.

Geoff Wilson AO:

And CIW, that's an interesting one only because they've got a listed investment company, which trades at NTA and then CIW is actually the management company for Clime, and there's a new CEO that's joined there. He's already doing some incredibly positive things. There was a line of stock that went through the other day. We add up the piece of the puzzle. It's trading at quite a nice, well, we believe discount to the value of its assets. Whoever asked that question, it's like they've tapped our phones. That's what we've been doing for the last week or so. Jesse just catching up with Sebastian yesterday, and we just purchased a small position in CIW at 30 cents about a week ago. So yeah, to me they're both, well, the CIW one, I think I'm pretty confident we'll make some good money out of that.

Connie Short:

Great. Thank you both. From Allan. The Morningstar LIC summary at 31 July shows only seven of over 100 LICs are trading at or above NTA. Wilson Asset Management has WAM Capital (ASX: WAM) and WAM Active (ASX: WAA) trading at slight discounts. But WAM Leaders, WAM Global and Strategic Value are trading at substantial discounts. If you cannot close this discount gap, will you look at changing the structure of WAR like PAI has indicated they will do?

Geoff Wilson AO:

Yeah, of our eight LICs, three of them are trading at premiums at the moment. This is as of last night. And I think the other two of them are trading within very small discounts. And then you've got the more recent ones, the WAM Global, which was trading at about 18% discount. And what discount is global now? Is it about 11%?

Martyn McCathie:

About 11%.

Geoff Wilson AO:

In theory, yeah, 11.5% we'd assume that the discount will continue to narrow. So in theory, it really is about a function of supply and demand, and it's really having all the shareholders that own the company are comfortable with what's happening and then having some other shareholders that are interested in buying it. And we have 12 to 14 people in the shareholder engagement and communication area. There's a few million dollars a year we're spending on that. Now, most closed end fund operators don't do that, but we understand in the end of the market, it's a weighing machine, so it's effectively a function of supply demand. And on the LICs they have shrunk significantly because a lot of people, a lot of fund managers turn up, they think, oh look great, we'll raise some money at a listed investment company and then we'll leave it and do nothing about it.

So unfortunately that's a recipe for disaster. But in terms of would we turn WAR into a different structure? We wouldn't do that. I mean, one of the negatives about ETFs or trust structures is the best you get as NTA where we had WAM Research (ASX: WAX), which it took us seven years to get WAM

Research to trade at NTA, we did a 35% buyback, three lots of 10% and one lot of 5% over the first sort of four years of its life. And that was probably an error in hindsight, and that's probably why it took us seven years to get it to trade at NTA, if not a premium. Because the interesting thing is investors in closed-end funds actually want you to invest the money and get 20 and 30% return.

They prefer to put another dollar in GDC and make a hundred percent on your money rather than buy back shares at a 12% discount and make a little amount on your money. So to me, we are pretty comfortable that WAR will trade again at NTA and then if it ends up trading at a premium. WAM Research, as I mentioned, took us seven years to trade at a premium. And this is the bizarre thing, because we did such a good job in terms of supply demand, it ended up trading at a 50% plus premium NTA, and this is only a few years ago. So there is a balance in terms of not tightening up the share register too tightly, so it doesn't go to too much of a premium, but with listed investment companies, that's part of the benefit.

Connie Short:

Thanks, Geoff. Allan's asked another question. Some of your funds now have a post-tax NTA higher than the pre-tax NTA. Are you paying out dividends that are too large in these funds?

Geoff Wilson AO:

Jesse, do you want to cover that off?

Jesse Hamilton:

Yeah, I can take that one. I mean, in circumstances where the after tax NTA might be above the pre-tax NTA, it's really just a sign that we might have some tax losses. So you'll notice in WAM Capital, WAM Research, we do have some tax losses that we footnote in the NTA each month. They mainly stem from 2020 and 2022 where we had big down periods in the market. And we'll just utilise those losses over time to save tax payments and manage the franking levels of the entities. So it's not so much to do with paying too much in dividends, it's more to do with historical periods in the market.

Connie Short:

Thanks, Jesse. I appreciate we touched on this earlier, but Michael has asked why did you cash out of QVE instead of converting to WAM Leaders?

Geoff Wilson AO:

Yeah, and just to take a step back, so Jesse, do you want to go through all the takeovers that WAR has benefited from the WAM ones?

Jesse Hamilton:

Yeah, so we've had TGG with WAM Global. We've had WIC and Ozgrowth with WAM Capital, and we've also had AEG with WAM Leaders. Now WIC and Ozgrowth and AEG were a hundred percent scrip offers. So WAM Strategic Value did receive shares in the other listed investment companies under those examples and we did subsequently sell the shares apart from TGG with WAM Global. We decided with that one, there was a scrip and options. So there were shares and options at a certain level or a cash out at a discount. And when we waited up at the time, it was the discount and I think it was closer to 8%, 9%, 10% at the time. We thought there was better value taking the shares. In hindsight, maybe we wouldn't have. I think we took the shares and there was a bit of a correction in global markets.

And we've been holding the WAM Global position since it is something we have performed well on, obviously the past financial year. And we are back above obviously cost amount that we took at the time of the offer, adding back dividends and franking as well. But that was an example where we took shares versus cash. With this one, given there was a cash out, there was a two and a half percent discount, so it was much closer. And where the WAM Leaders shares were trading at the time at a bit of a discount, there was better value for us when looking at the best use of cash to take the actual cash out versus receive shares and subsequently sell the shares on market. So if we'd taken scrip, we would've been selling WAM Leaders on market versus getting cash quickly at a 2.5% discount, which we're able to then sit on and look for opportunities from there.

Geoff Wilson AO:

And just to cover off on that, the plan is never to own shares in any of the other WAMI entities. The only reason we took shares in WAM Global was because there was a significant price differential and our plan was to sell over time. Then the market got a bit of a shake at WAM Global, which was trading at NTA, ended up going to a big discount and we weren't going to sell at a 20% odd discount. Now, the holding that's in portfolio, which is about 17.6%, we don't get a fee on that capital that's being managed for you for free because we don't want to double dip on fees there. So it's actually against our best interest, the fact that we've got that holding. But subsequent to that, well even before, separate to that, now we've got a clear policy that we will never, we won't accept. Well, if we accept shares, then we're going to sell in the very short term and we've got to make sure there's liquidity so we can sell or we'll go for the cash out because we don't, eventually we'll sell the WAM Global shares when it's trading closer to NTA, if not a premium. And we are happy for other and WAMI entities to take over other LICs, but we'll either take scrip and turn it into cash or take cash.

Jesse Hamilton:

And Connie, I think that covers Gary's question that's come through as well about when WAR would start to sell down its Global position, what Geoff has touched on.

Connie Short:

Great. And thanks Jesse, and thank you Geoff as well. We've got a question from Brett of a similar nature. Why is WAR not buying other LICs trading at a big NTA discount and then liquidating the assets?

Geoff Wilson AO:

Yeah, very easily said. It just takes time. So QVE, we ended up getting that out very close to NTA. Jesse, how long do you think it took us to build that position?

Jesse Hamilton:

Quite some time. I mean, we increased, what was it in the December through a line that came up, but it took well over a year, eight years.

Geoff Wilson AO:

I know, but to get from zero to where we ended up eight years to live.

Jesse Hamilton:

Yeah, probably It's been there for some time in the background. Yeah.

Geoff Wilson AO:

Yeah. I think Templeton took us 10 or 15 years to build a position. If you want to buy cheaply, it just takes you time to build a position and then you've got to be confident there's going to be a catalyst and the catalyst plays out. So it just takes time.

Connie Short:

Thanks both. A question from Gordon, are there any plans for implementing a WAR share purchase plan?

Geoff Wilson AO:

Good question, Gordon. Good question. No, there's no plans. Nothing in the short term. Assuming the share price is trading at NTA or if not a premium, then that's an option that's on the table. Whether we do it or not, who knows? But it's definitely an option then, but not at a discount.

Connie Short:

Thanks Geoff. And a question from John. What is your view of Carlton Investments (ASX: CIN) going forward? This is for anyone on the team.

Geoff Wilson AO:

Yeah, it's cheap. What'll be the catalyst? That's the hard part. To put your finger on that. Marty, what discount is it at the moment?

Martyn McCathie:

21%, 22%?

Geoff Wilson AO:

So effectively, if it went back to NTA, then you make 26%, 27%. It goes from the effect of 78 cents to a dollar. So there'll be a catalyst one day. Unfortunately, that one day could be five years away, could be 10 years away, could be 20 or 30 years away. It's just not clear to us at the moment. We're a small shareholder in WAR. But yeah, if we can see a clearer catalyst, we'll be a bigger shareholder.

Connie Short:

A question from Stuart now about the dividend dates. Why does the special dividend need to be paid a month later?

Geoff Wilson AO:

It doesn't need to be, I was saying I'd be in favor of paying it two or three months later and it could have been paid on the same day. They're all options. Effectively. There was virtually no difference in terms of cost, in terms of paying it with the 3 cents or having a little bit later. But we just thought, actually, Connie, was that your question? No, it was it Camilla's question. Yeah. One of the guys in the comms team and then was saying, are you paying them on the same date? And then normally everyone does pays them on the same day. And then we just thought, oh, it actually probably made a little bit of sense to find two different dates.

Jesse Hamilton:

And one just an extra item there is just on the DRP, just the way we facilitate the dividend reinvestment plan for WAR. We go on market and buy the shares back at the discount to facilitate the DRP for anyone who's elected that versus issuing shares at a discount, having them both on same day just meant it was much tighter to be able to facilitate the DRP during October with the daily liquidity. We don't want to be too much of liquidity when we're doing that for the DRP, so having them separate just gave us a bit more freedom as well.

Connie Short:

Great. Thank you Jesse. And thanks Geoff. A question from George now is Australian Unity Office Fund (ASX: AOF) selling down all of its investments or just some.

Martyn McCathie:

Just thinking I've been quiet for a while. I forgot I was here in the nightclub. They're selling all of their assets. As we said, they've exited or they've got contracts in place with two, one of them is settling in 2025, but there is an agreement in place to sell and they've got two assets left. And so just maybe just going on, one of the other questions that came through on the assets AOF have written down their assets substantially already. So I think over the last 12 months they've written down their assets by 35%. The last two exits, when they've gone through, they've gone through very close within five or 6% of carrying value. So they've been going through a small discount to carrying value, not a material discount was obviously a much bigger discount to where they have been held in the past. And at the moment we've got an NTA and we believe around about that $1.45, $1.50 mark. So trading at the one 20 levels, there's still reasonable value in that one, we believe.

Connie Short:

Thanks Marty. And a question now from Robert again, what is your view of the AFIC and Djerriwarrh Investment (ASX: DJW) discount to NTA?

Geoff Wilson AO:

Yeah, I just think it's a cyclical period. And I mean as they have historically traded close to NTA DJW is slightly different. I mean, I really haven't looked at in any detail recently. To me they were trading at a big premium to NTA back a number of years. They tend to do buy, right, so give you an enhanced income, but sometimes there's a cost to that. I actually think that's a pretty good strategy. I just haven't looked at the moment in terms of what discount it is. Marty, have you looked at it recently?

Martyn McCathie:

Yeah, Djerriwarrh Investment is about an 8.5% discount at the moment, and Argo are about a 10.5% discount, so a little bit wider. And Argo with probably a clearer catalyst to get back to NTA.

Geoff Wilson AO:

Yeah, you'd probably play them if you wanted to.

Connie Short:

Thanks all. And a question from Justin, what is the amount of tax paid versus franking credits covered by funds or investments?

Jesse Hamilton:

Yeah, I mean it varies year to year right now for context, I think over the 12 months we got around four and a half cents in a fully franked dividend through the franking that we receive on the portfolio. So that was quite a good contribution to the franking accounts. We've had some realisations in there as well that we're paying some tax on that amount. That four and a half I'd probably say is a little bit inflated this year probably sits more around that 4 cents flow through yield that we get in a fully franked dividend from the portfolio. Given we've got to, I guess remember the LICs we're investing in are yielding considerable amounts as well.

Connie Short:

Thanks, Jesse. A question from Simon, it's another one on AOF, the Australian Unity Office Fund is selling off its remaining properties. Assuming it winds up, how much of a discount to NTA do you think shareholders are likely to end with?

Martyn McCathie:

I think so. I think it's about a 15% to 18% discount at the moment just on our estimated NTA and some transaction costs factored then.

Geoff Wilson AO:

So did you think about $1.40? Is it

Martyn McCathie:

No, a $1.50.

Connie Short:

Thank you. And a question from Joe, have you been satisfied with Regal's management of VG1 and their large buyback program? Do you believe their current activities to close the discount will work? And do you expect Saba will start to push harder to close that discount?

Geoff Wilson AO:

Marty, do you want to start on this and then I'll come over at the end?

Martyn McCathie:

Yeah, perfect. I think with the buyback, I think first and foremost, I think we've got a view collectively that buybacks don't work in addressing discounts and especially as a single form of attack, it's not going to fix the problem from a supply demand. They have been exceptionally aggressive with their buyback. They've got a shareholder approval to buy back 25% of the company in a 12 month period and they're on track to do that. So the discounts have narrowed a little bit. Performance has been better. So was it the performance, was it the buyback or was it increased dividends? We don't know, but discount has been narrowing and the buyback has been exceptionally aggressive. I think if you thought they were going to buy back 25% of the company, if you were a subscriber that the buybacks do make a material difference, I think you would've expected that discount to narrow a lot quicker than it has. So that probably backs up our thesis that buybacks generally don't work. Geoff, did you want to add over the top of that?

Geoff Wilson AO:

Yeah, and to me, I'm not sure how many people of the hundreds that are on the call are on Twitter. I tend not to be big on social media. I think I've still got 32 friends from when I set up Facebook about 30 odd years ago. But a few months ago I started tweeting after in March when I was over in the US, caught up with Bill Ackman. Obviously you got 1.4 million X followers and also Boaz Weinstein, who's the founder of Saba. If you want a bit of entertainment, well besides following me, you can follow. And I'm Geoff Wilson AO. Well, unfortunately Geoff Wilson AO's a very popular name, but it's Geoff Wilson AO with a g and WAM, I put WAM at the end of Wilson, but Boaz Weinstein, the good thing is Boaz has a very unique name, so he's got his name there, but he's the biggest player globally investing in closed end funds and he's been giving BlackRock a hard time over the last few months.

It's a lot of entertainment. Now that's a risk. They are players down here in the Australian market. They have a position in one of the Pengana (ASX: PCG) LICs. They've got a position in Hearts and Minds (ASX: HM1). They've got a position in VG1, they've got a small position in WAM Global. So to me that's a risk. So they've kept the guns in the holsters at the moment, but you tend to find that you tend to, as I was explaining before, when someone suggested, “Look, why don't you just go and buy all the LICs and then buy them at a discount and sell them when they trade at NTA”, these things they take time to incubate. We try to use the carrot and the stick and I'm sure bow, I think he was a chess champion at the age of 15 or something like that. I'm sure he probably used a carrot and a stick as well. I'm not sure how he utilises them, but you support the people until you think they can't achieve what you want them to achieve. And if they can't, then you've got to bring the stick out. So I would assume they would be, if they were sitting there on VG1, they'd be quite happy. As Marty pointed out, they've been exceptionally aggressive on the buyback. Marty, what percentage have they bought some days that buyback.

Martyn McCathie:

They've got up to high nineties.

Geoff Wilson AO:

Pretty consistent.

Martyn McCathie:

I think the average volume is a 65%, 66%, but it has got up higher than that.

Geoff Wilson AO:

That's right. So yeah, to me, my view is they will get them, the Regal's pretty focused on getting them to trade at NTA and hey, if they've got a buyback, 50% of it, they'll buy back 50%. If they buy back 80%, they'll buy back 80%. Well, maybe they won't, but to me I think they're pretty committed to getting it to trade a lot closer to NTA. So as an investor, we're going along for the ride, we think we'll benefit, we'll get the exposure of the underlying manager however they perform, plus we'll get the discount narrowing. So it's a double whammy that we're looking for.

Connie Short:

Thanks Geoff. And Marty, we've got a question now from Junming. I noticed that the portfolio increased its stake in Perpetual Equity Investment Company (ASX: PIC). What is the rationale or catalyst behind this?

Geoff Wilson AO:

See, everyone's looking at all our shareholdings very closely, aren't they?

Jesse Hamilton:

This one is from City of London. So they're right onto it.

Geoff Wilson AO:

Yeah, we're just buying the discount. We are very comfortable with the discount. Obviously we'd like bigger discounts to buy more and we'd like the entities that we buy shares in our own to stay listed. Whereas, I think I might've explained it to someone on X a week or so ago that we're sort of like the cat playing with the mouse. We actually don't want to kill the mouse. We would prefer there to be more listed investment companies, but occasionally by mistake the cat, you do eat the mouse, but that's not a disaster for us either. So with the Perpetual LIC, there's some interesting things happening at Perpetual, some very interesting things. So they've sold the brand, they're going to rebrand it, where does it fit? That's a question they've got to work out. And we are very happy to buy assets at a discount to go along for the ride to see if they work it out successfully. And if they don't, we're sort of always there to help.

Martyn McCathie:

And I think it's a really good example of the investment strategy PIC as well. I think if anybody's following our quarterly announcements closely or our annual reports, you'll have seen the weight of pick move around. So we have historically bought as the discounts kind of gone above 10% and we've had the opportunity twice to sell or hold close to NTA. So it is one that has been very cyclical around the discount and we've been able to benefit from it. So as the discount has blown out, again more recently as some others have, we had been increasing our holding. So good pickup, but it's one that we've played around with a lot.

Geoff Wilson AO:

And if you go back just on that, Marty, I think we nearly had, we just had just under 5% of it at one stage and then it got to NTO and we sold out totally. So to me, we're agnostic. We don't mind how we make our money.

Connie Short:

Thanks all. A question now from Matthew. How does the Lark investment fit within the WAR strategy?

Geoff Wilson AO:

Yeah, Lark that fits in the assets at a discount. Unfortunately when we bought it, we believe we're buying assets at a discount, which we still believe we are buying assets at a discount in terms of where it's trading now is, it's a bigger discount than when we bought it. So Marty, I know you saw them more recently. Have you got any other That's where it fits in. So it's not only closed-end funds, it's like global data centers or a MP or some operating businesses or close to operating businesses. We bought at discount assets

Martyn McCathie:

And it's an interesting one market. Yeah, it is an interesting one that new CEO joined the company 12 to 18 months ago. So that was a bit of a catalyst for maybe broader market appreciation of the company, but our investment thesis was underpinned by assets and land and property that they have as well as the whiskey that they've got under maturation. It is a premium brand in Australia and globally, and they're demanding top dollar for the whiskey they're producing. So for us it was a brand, but even excluding the brand, just the assets that they hold, is that a significant discount? So attractive opportunity, as Geoff said, it hasn't played out that way to date, but hopefully it'll start to move in the right direction.

Geoff Wilson AO:

Yeah, we still think that we'll make money. The question is how long it takes us to make that money. It's the harder part.

Connie Short:

Thanks both. Another question from Joe, do you have any thoughts if Regal should merge RG8 and VG1 to increase the size and liquidity of the LIC?

Geoff Wilson AO:

It's a fair point. To me, it'd be more likely VG1 and PM Global, PM Global is trading at a premium. That'd be a more logical merger, but I think they've really got to tighten up that VG1 share register first because you don't want to put a big weight on PM Global. Hey, that's my speculation. I could be right. I could be wrong.

Connie Short:

Thanks Geoff. And a question from David following our discussion earlier, why are you buying shares in Clime Investment Management or why is WAR buying shares in Clime Investment Management?

Geoff Wilson AO:

Yeah, because we think we'll make money and we think the value of the assets in terms of the operating business, if you look at the cash they own plus the valuing the funds, we think we bought the share the line of stock at 30 cents. We think the total value of the business as well and truly north of 40 cents. So that's a nice margin of safety and we'll think we will probably make that money in the medium-ish term.

Connie Short:

Thanks Geoff. And a question now from George. He says thank you for the great amount of detail in the annual report. It is over and beyond what is mandated to be reported. Could you please explain the investment thesis for investing in 360 Capital Mortgage REIT (ASX: TCF)?

Geoff Wilson AO:

Marty, do you want to do that or?

Martyn McCathie:

Yeah, I am happy to. Again, it's just there's a discount in the portfolio. So for us it's intrinsic value in there that we think there's a catalyst to extract. So it's not a big position in the portfolio at the moment, but as hopefully you've heard on the call today as our conviction gets closer and the catalyst gets nearer and we can dial positions or we will dial positions up. So a bit of a discount that we're got a small hold in position in and continuing to watch.

Connie Short:

Thanks Marty. A question now from Jack, how long will it take for WAR's share prize to get back to NTA? A lot of the war NTA is locked up in discounted LICs and LITs.

Geoff Wilson AO:

Yeah, that's a great question. That's the million dollar question. And if we all knew it, we'd be filling our boots with shares because we'd make some money. It's very hard to understand supply and demand. And as we talked about with Regal with VG1 Marty, what percentage of VG one have they bought back since they started the buyback?

Martyn McCathie:

I don't have that number at hand, Geoff. Sorry.

Geoff Wilson AO:

What would you guess be, just give me a guess.

Martyn McCathie:

20% over the last 18 months.

Geoff Wilson AO:

Yeah, exactly. That's right. The big question is of your share register, what percentage of your share register understands what you do and is happy with what you do and they're the ones that won't sell? And then what percentage of you register is disappointed or doesn't believe you're going to achieve what they want you to? Well, they're sellers. Now the question is when do they sell? So you would've thought if you took out 20% of the supply, sorry, not 20% of the supply, 20% of the company, then you've taken out all the excess selling. The fact is VG1didn't succeed. And the strange things is, I mean you do these things. I was on a call, some of you may have been on the call for Future Generation Australia (ASX: FGX) earlier today, and anyone who knows FGX, the performance of the underlying managers is first class and it's gone in a very short period of time, like in a five months from trading at an 18% discount to, I mean it's is it less than a 10% discount-ish?

Martyn McCathie:

12% at the moment.

Geoff Wilson AO:

Okay, okay. So yeah, it's, sorry it's coming. The discounts come in by a third. You just don't know. That just happens to be in the last little bit. Well, war is another one. The discount narrowing has narrowed in the last couple of months. So you just don't know when you hit that tipping point. And to me, the tough thing is, and in retrospect, we did too good a job with WAM research, the one that took us seven years to get that to trade at NTA because you actually don't want something trading at a 50% premium to NTA. I know for people that bought at a discount and then it goes to big premium, it's great result. But really for the longevity of the company because some people buy them at those premiums that they haven't done their work, don't understand that you should try to buy LICs at NTA or discounts. So it's incredibly difficult to crystal ball gaze that.

Connie Short:

Thank you. A question now from Paul. Are LICs allowed to perform a share buyback when the NTA is suffering?

Geoff Wilson AO:

Yeah, they are. And we've sort of done a lot of analysis on that and it doesn't help. And the example is VG one, which we talked about a little while earlier, and the reason why is because investors, they like operating businesses, buying back. If they're trading at discounts, management think they're discounts, but listed investment companies or those pools of capital that are managed by someone, they would like those fund managers to find opportunities to make 20 or 30% on their money rather than just buy back a few shares.

Connie Short:

Thanks Geoff. Another question from George is the US Master's Residential Property Fund selling down all their real estate holdings and returning profits to shareholders with an ultimate view of winding down

Geoff Wilson AO:

Marty?

Martyn McCathie:

Yeah, that's our understanding is that they're going through a divestment phase. So they're looking to dispose of investments. It's not a fire sale, so they're not selling them at depressed prices, but looking to, in an orderly fashion, sell assets and use that capital to pay them debt and then look to return capital to shareholders as well. So ultimately investors over the duration of that wind down period will get TA returns to them.

Connie Short:

Thanks, Marty. A question from David. Would Wall look to take over a hundred percent of an LIC if the discount was big enough and sell those assets at close to NTA?

Geoff Wilson AO:

Yep. Yes.

Connie Short:

Nice and quick, another one from George on CD1, CD2 and CD3. Do you have any concerns that the valuations they attribute to underlying investments may not actually be realized in sales given the relatively high level interest rate environment compared to the previous few years?

Geoff Wilson AO:

Hi Marty, do you want to answer that?

Martyn McCathie:

Yeah, I'm happy to. And look, there's always a risk with any investment and I think with CD one, two, and three, it's obviously private equity. They're again going through a maturity of their investment portfolio and exit in businesses that they've invested in. They've had a phenomenal track record of investing well and extracting value. So they've done well, they've performed well. I think that their valuation at the moment, given that they're trading it between a 30 and 40% discount, we think there's a reasonable buffer in there to allow for one or two of the investments not to go through the discount. Others will go through the premium. So we think again there that the discount provides you as an investor with enough certainty and a big enough buffer that you're still going to get a really, really strong risk adjusted return from that one. So we're comfortable with that one.

Connie Short:

Thanks Marty. A question now from Neil. Will the remarks about the Ellerston Asian investments restructure have any bearing on the platinum restructures

Jesse Hamilton:

Potentially? I mean, good question. It depends on probably how smart the advisors are. The big learning for e AI is one way that you can avoid the attraction of this legislation is to make sure your de-listing date is well in advance of any special dividends. And the conversion does mean investors are in a window where it's not traded and they don't have access to the unlisted fund yet in their conversion, which is what PMC and P are looking to do. But it does mean that the legislation doesn't apply because the legislation, as Geoff mentioned before, only applies to listed companies, which puts them at a significant disadvantage being a listed entity trying to do a restructure.

Connie Short:

Thanks, Jesse. A question now for the team from John, can you comment on Glennon Small Companies Limited?

Geoff Wilson AO:

We don't own it in the entities. I personally own some shares.

Jesse Hamilton:

25% discount at the moment.

Geoff Wilson AO:

Well, you got to be careful with the discount. Just got to make sure there's a tax. I'm pretty sure there's a tax asset in there.

Jesse Hamilton:

Okay.

Geoff Wilson AO:

Yeah, I think you might find the discount isn't anywhere near as big as it looks. I think there mightn't be much discount at all once you take the tax asset out because of course, if the entity liquidated, the tax asset is worthless, worthless. So you'll have to look at the whoever, if anyone's looking at it, doing the analysis, you've got to do the analysis. Don't just buy blindly.

Jesse Hamilton:

Yeah, good reminder for everyone, obviously on the after-tax NTA and if there's tax assets involved on a windup, you generally don't get the full utilization and on a merger or a takeover, generally you can't transfer the tax assets over to the new entity, which is generally why they happen at pre-tax NTA level versus the after-tax NTA level.

Connie Short:

Thank you. And a question from Barry now, what are your thoughts on Touch Ventures Limited (ASX: TVL)?

Martyn McCathie:

Yeah, it is not one that fits into an investment universe, so not one that we've looked at, and maybe more one for the small cap guys, but not one that's in our universe.

Jesse Hamilton:

It does have high cash back. I think share prices.

Geoff Wilson AO:

It can be in our universe.

Jesse Hamilton:

Can be from talking to the small cap guys cheap, but there's not a huge amount of liquidity out there in the stock, so it is tough to buy.

Connie Short:

Right. Thanks all. And a question from John, why don't you buy back shares for all of the Wilson Asset Management, LIC dividend DRPs on the market?

Geoff Wilson AO:

Well mean we could do that. We did that for war specifically. We've sort of taken you through particularly the early parts of this presentation, how that investors aren't that keen on buybacks and Marty took you through the numbers with VG one bought back 20% of the company and it hasn't worked. So you just got to be a bit careful. People are giving us money because they want to get a better return than what they think they can get. And that's in theory why we get paid. And if we can't do it, then we don't deserve to get paid.

Connie Short:

Thanks, Geoff. A question now from Simon for the team, most of the safer discount capture trades have already been made in the worm strategic value portfolio. Are we reaching a point where there are only a few trades left unless we get into funds that are hard to buy and sell due to their illiquid assets?

Geoff Wilson AO:

To me, it's sort of like saying, I started working in the equities market in 1980 and it's probably like saying after I've been working for a couple of years, look, all the easy money's been made. The great thing about equity markets as they evolve, there's, we could talk in detail about some of the structural problems with capital formation globally and in Australia. One of them is the passive funds that go back. Historically, money would be allocated to where people believe the best returns would be made, and that's sort of efficient capital allocation. More recently, a lot of money has gone into ETFs and passive funds, so money has allocated on size and liquidity. Also, there's been consolidation in the superannuation market in Australia, so the bigger got bigger, so they actually can't outperform like they used to. So a lot more of their money is going to index as well. So what that's doing is providing enormous opportunity for active managers and people that are prepared to do the work. And it's really nearly making it two tier where the larger companies say like Commonwealth Bank (ASX: CBA), biggest company in Australia now hitting record highs. It's a bank, it's trading on a moral pool of 25 times.

Anyway. To me that's just the dumb money is all flown in one direction. So probably the simple answer is there'll always be opportunities, there'll always be opportunities. Someone else talked earlier. I think 90 odd percent of the closed end funds are trading at discounts. So 90% of our market, there's an opportunity. So to me, that's excluding the operating businesses that we've made good money on, whether it's a MP, whether it's global data centers and there are others. So to me, I'm very comfortable that there's always an opportunity to create value.

Connie Short:

Thanks Geoff. And a question from Matthew. Geoff, what do you think the government will, do you think that the Labor government will tackle franking credits in their second term?

Geoff Wilson AO:

Oh, I don't think so. No. I mean, we've tried to hit them as hard as we can. We know they lost the election in the unusable election back in 2019. We've hit them as hard as we can more recently when last year they bought that legislation in. Unfortunately, I think the general view is that the labor government isn't doing that well at the moment. So to me, I mean one of the problems is I don't know if the liberal opposition is doing any better. So to me it's too risky for them to do anything on that. So yeah, we don't think it should have been off the agenda for a generation. And unfortunately they've done some things that have negatively impacted the formation, the efficient formation of capital in Australia. But let's hope that there is a change of government at some point and that those various things that effectively make listed companies less competitive get wound back.

As Jesse said, it's just remove one paragraph we we're not caught up on that we don't want, well, I'm sure a lot of people would like the fact that if they'd reversed the whole legislation in terms of allowing companies like BHP to do off market buybacks and give out franking credits, but we accept that's off the table. But just take out that one paragraph that makes that disadvantages. Every listed company against unlisted companies, and I'm not sure whether we finished it in detail, but the Alliston entity, the reason why they got a slap on the wrist is because they worked out, their tax advisor worked out the legislation was faulty. They instead of, so they tried to delist a week earlier, which meant they would've been an unlisted company. So then they would've kept all their franking credits when they did the transaction. But the tax office said if you do that, then that's tax avoidance and which is just, to me it's pathetic, but we don't, you don't want to warm me up on Frankie

Connie Short:

For those interested as well. We'll upload the article where Geoff shares his comments on Jim Chalmers to the Wilson Asset Management website later this afternoon. For those who'd like to read.

Geoff Wilson AO:

If you're on Twitter, the journalist just tweeted it. 22 minutes ago.

Connie Short:

There you go. That's right. So thank you everyone for your questions. That closes the q and a segment of today's webinar. I'll now pass back onto you, Geoff, for closing remarks.

Geoff Wilson AO:

Yeah, look, thanks very much Connie and Jesse and Marty, and thanks for finding the nightclub, Marty to do the presentation in. And look, thank you all for all the shareholders. This is your company. We do this, we love what we do. So please, if you have any ideas or feedback, you'll see in our announcements, we talk about the see-through NTA. That was a shareholder saying, look, you're talking about you're buying all these companies at discounts. Can you add them all up and tell me how big a discount you are trading at? And so we calculated that and we sent it to them, we announced it, and then a number of other shareholders said, look, can you do that on a regular basis? It's a little bit like Warren Buffett in his early days with Berkshire Hathaway when he was buying companies, a hundred percent of companies, no one could work out exactly what the value of the assets were.

And so he said, look, I'll add them all together and I'll give you a number. And now, and eventually he did that for a period for a long time. He still does it now. And now the Berkshire actually traded at a premium to that. So what one of our goals would be is that we'll trade it. This is our medium long-term goal. We traded a premium to the see-through NTA and we won't be calling it the see-through NTA. When we are starting to approach it. We'll use another more highly technical name. And so then people will end up thinking, oh, well that's what the value of the business is. It can create value for us. So we'll pay a premium to that. Thanks for all coming with us on the journey. We're all shareholders and we're looking forward to the share price trading at a premium. Thank you.