<u>WAM Capital (ASX: WAM) Investment Portfolio Update and Q&A Webinar Transcript</u>

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Speakers:

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Tobias Yao – Portfolio Manager

April Lowis – Investor Relations

Oscar Oberg:

Good afternoon, everyone and thank you for dialling into today's call. My name's Oscar and to my right is Tobias Yao and we're the portfolio managers for the four small and mid-cap funds that we manage at Wilson Asset Management being WAM Capital (ASX: WAM), WAM Microcap (ASX: WMI), WAM Research (ASX: WAX) and WAM Active (ASX: WAA). Now today, Tobias and don't have to pick up the kids from school so we can say to the death. So please feel free to ask any questions that you'd like across from for stocks or anything around the share prices, net tangible assets (NTA), anything and we'll endeavour to answer them all.

So look, the purpose of today's call is really just to talk about the four funds that we manage and the outlook and to address, I guess, the share price underperformance that we've really seen since October following the payment of the dividends across the four funds. Now when we were here in August, we talked about our positive expectations for the year ahead in small and mid-cap companies. Now I'm pleased to say that this has only been strengthened through the performance of the four funds over this period. And all four funds are outperforming very strongly in the first five months to the end of November.

The team believe that this is probably the best period that we've seen in stock picking for some time, even better than the COVID period. And some of the highlights through the five months period has been the acquisition of SG Fleet (ASX: SGF), which is a big position in WAM Capital and WAM Microcap that was through private equity that happened a few weeks ago. We also had the completion of the Chemist Warehouse and Sigma Healthcare (ASX: SIG) deal which was fantastic for the funds. And we've also had stellar results from Gentrack (ASX: GTK), TPG Singapore and Catapult Group (ASX: CAT).

Now it's only five months in the financial year, but I'm pleased to report that WAM Capital, WAM Microcap are outperforming by over 6%. If we look at WAM Research and WAM Active, they're outperforming by over 12%. So this is a fantastic performance. It follows on from what was a great year in 2024. And it's worth acknowledging that this is through a period where small-cap companies have continued to underperform large-cap companies. That's three and a half years now and equity capital markets at all-time lows. So, Tobias, how good would it be if we got on a call one day and we could say that we've had a benefit? And look, to be perfectly honest, we do think we're very close to that now we've said it in the United States and New Zealand following the first rate cut, small-cap companies have outperformed quite extensively, and we do think rate cuts are going to come in Australia in the first half of the 2025 calendar years, probably in March and April. We can talk about that further if people have questions.

Now, despite the strong performance of the funds, it would be remiss of me not to talk about the share prices which have clearly been weak and underperformed the broader market over a period of time. Now if we look at WAM Capital, WAM Capital is currently trading at a 7% discount to its net tangible assets. The last time that we saw that was in 2013, so 11 to 12 years ago. So, in terms of value this is the best time we've seen in 11 to 12 years to buy WAM Capital.

And I think it's worth pointing out that on a 12-month basis the gross performance achieved by the fund is well over 40%. The last time performance was better than that was in 2002. So we're talking the performance has been, is the best performance we've seen in 22 years. Now it's fair to say myself Tobias and the wider investment team looking at small mid-cap companies are feeling pretty, pretty good at the moment and see strong momentum.

If we turn to the other funds where Microcap we launched WAM Microcap mid-2017 and to this point we've outperformed every single year since we IPO'd. WAM Microcap has never traded at a discount to its net tangible assets. Well today it's trading at a 2% discount. If we look at WAM Active, similar to WAM has had a tight profit reserve. Well today we've got three years of visibility in the profit reserve in terms of dividends. It's just come off one of its best years ever, outperforming their index by over 40% and is currently trading at a 9% discount.

And finally if we look at WAM Research, it has outperformed the market by over 30% in the last 12 months. It's got great momentum, it's continued its strong performance yet is currently trading at a small discount to its net tangible assets. So, all in all we see great value across the funds at this point in time. So, turning to the profit reserve and look we've both been on these calls for the last really three and a half years. I'd say talking about the WAM Capital profit reserve and the fact that it was quite tight in terms of being able to fund the future dividends going forward. And obviously for our investors that know us well, we pay quite a high dividend and pay quite a high dividend yield.

Now, I'm pleased to say we currently have 22 cents in the profit reserve at the end of November. This represents close to three semi-annual dividends of the 7.75 cents. Now you might wonder, okay, why is that so great? Well, in the period where WAM capital, in the 10-year period where WAM Capital traded at a premium, the average profit reserve we had was 18 cents. So today WAM Capital is trading at a 7% discount, and we've got 22 cents in the profit reserve. So, we actually have 20% higher in the profit reserve yet are trading at a discount.

So, we've got great visibility, much more improved than we were a year ago. Now finally, when we talk about listed investment companies, and unfortunately Geoff isn't on the call, but Geoff will always say you should be selling a listed investment company at a premium and should be buying a listed investment company at a discount. If you type in WAM on the ASX, you will see on the director holdings in the last two weeks that Geoff has started buying shares.

Kate, who's also on the board, our CEO, has also started buying shares. I'm not on the board. I bought shares last week. And the team has been buying shares and own substantial holdings across all the funds. And in between, WAM Capital and us as a team believe it's the best time to buy WAM Capital that we've seen in 11 or 12 years. And finally, this is my ninth year in Wilson Asset Management. It's Tobias's 10th year. Over that journey, WAM up until the last few months has always traded at a premium.

And so for that reason, Wilson Asset Management as a business hasn't been pushing or marketing or communicating the value that we see in the share prices because it trades at a premium. Now, as you can see from the tone of my presentation today, that has completely flipped in the last few months and certainly we are going to be working as hard as we can to get the share price back to it, back to firstly net tangible assets and back over a premium, which is where we think we deserve to trade at given the strong performance that we've seen over the last few years.

So look, how about I leave it at that? We'll throw out. Let's go to questions. I've probably been talking too much. I'll Let Tobias talk now, but thank you, April, if you can open them up. Thanks.

April Lowis:

Thanks, Oscar. And thanks Tobias. And thank you to those that have been sending in questions. We'll start off by reading out the questions for those that submitted them ahead of time. So, the first one comes from Olivia, Oscar and Tobias, which are your two highest conviction stock picks as we go into 2025.

Tobias Yao:

Good afternoon everyone. So my two highest conviction ideas are two of the largest positions in the fund. The first one, you've heard me talk about this in the past, which is TUA TPG Singapore (ASX: TUA). Now, one of the reasons why we think it's very exciting at this particular juncture is because they've recently just launched a new product which is targeting the global market. So outside of the Singapore and with great execution over the next few years, the total addressable market for this product is actually globally rather than being historically constricted to just the Singaporean market. And that's the eSIM product.

So we're very excited on the new journey that they're on and we're really backing a management and a founding team that has continued to delivered upgrades every single time they've reported. The other large company, large position that we like is a company called A2 Milk (ASX: A2M). Now we've done an incredible amount of work on A2. They had a hiccup during August where the supply chain issue, chain issue. But the underlying momentum has continued from a demand perspective.

We visited China three times over the last 18 months and have done a lot of on the ground due diligence. You know that we believe their brand is premium the market. We believe they continue to win market share and going forward they're entering a few other regions such as Vietnam in the Middle East as well as growing their business in the United States. Has a very, very strong balance sheet with a lot of optionalities and so a2 milk, we think over the next 12 months looks very exciting as well. So those are my two high conviction ideas.

Oscar Oberg:

Should I do one as well? I'll do okay because you did two. Sorry, I thought it was one each.

Tobias Yao:

I thought it was two each.

Oscar Oberg:

It's two each? I've got to make one up. No, just joking. No, G8 Education's (ASX: GEM) mine. It's, it's. I'll go on the value plays or the cheaper plays, but G8 Education's largest childcare operator in Australia, management teams is two years into the job, done a fantastic job in a really hard environment given the sort of cost-of-living pressures and so forth but effectively taking costs out of the business. But thankfully and a lot of our listeners will know that at one of two of our successful holdings over the years have been in aged care with Estia Health (ASX: EHE) and Regis Healthcare (ASX: REG) and really the catalyst to buy shares for both those companies was the government actually funding the award wage increase in the aged care sector.

Well the exact same thing has happened here in childcare. There's been a 15% increase in the award wage and the government has effectively funded it. So, what that means is we think the sector can now generate real strong operating leverage to the bottom line. The company itself has very low debt. It's buying back shares, it's getting rid of its loss making centres. But as I'm sure a lot of you are aware, the Albanese government has said quite openly that childcare is a real talking point for this election.

So we think childcare, the Liberal's at some point will effectively give some sort of a better than expected childcare policy. Whether or not it's equivalent of Labor's, who knows. But investors effectively get a free option on that. So we do think that the sector is, you know, it's similar to aged care and if you look at the metrics of G8 Education it trades at a price earnings multiple valuation of around 12 times earnings growing at 15%. So that's a great stock for us. So we like that one.

Look AMP (ASX: AMP) I've got to talk about. I think it's back, I think it's back in the growth. Listeners will know that we've been there on the journey over the last few years. It's had some ups, it's had some downs but there's net flows coming back into the business. There's cost savings, stronger markets and we think that will drive substantial earnings upgrades, when we go into that February result. It's still not discovered by the market. I think most people think there's still problems there. But no, we really like the stock and we think it will have a decent RE rating of the February result.

April Lowis:

Thanks guys. I'm sure Olivia won't mind getting four stock tips instead of two. The next question is for Tobias from Ethan. Ethan's asked with central banks globally maintaining high interest rates and the RBA signalling a longer than expected tightening cycle, how are small to mid-cap companies navigating these pressures?

Tobias Yao:

Yeah, thank you for the question. Look, the most obvious answer to the questions around the impact to companies with high levels of debt at Wilson Asset Management, as with our investment process analysing the Balance sheet is quite core. And so over the last few years many of the companies in the small to mid-cap space have deleveraged and have pretty strong balance sheets. And so that's key for us looking at the balance sheet of these businesses that sort of shields them from potential left field shocks to the system. So, for us looking at the potential improvements in the debt levels and how quickly they pay down debt is key for us and a catalyst for potential earning upgrades.

April Lowis:

Thanks Tobias, another one for you from Wendy. The global AI boom is creating ripple effects across multiple industries. Are there any Australian small to mid-cap tech companies leading innovation in this space and what excites you most about their potential?

Tobias Yao:

Yeah, so we do have a couple of exciting stories in the fund. You know the first one is a company we've talked about in the past which is Temple & Webster (ASX: TPW). They've been very ahead in the space in terms of using AI and ChatGPT to automate and streamline this, the back end and the customer facing functions of their business. That drives efficiency and that drives cost out as well as delivering a better overall customer satisfaction. So we're seeing that live, that's live in the market.

Another company we have in the Microcap fund is a company called AI-Media Technologies (ASX: AIM). Now about 12 months ago for the first time transcribing. So this is think about I guess the Olympics and having live TV events transcribed. The AI ability to transcribe live has for the first time 12 months ago exceeded the accuracy of humans. And so for them the benefit from here on in is applying the AI technology across all of the media customers that they have to be able to deliver that offer at a much cheaper price and therefore disrupting the market and effectively winning a lot of market share.

So those are the two exciting companies, Temple & Webster and AI-Media.

April Lowis:

Thanks Tobias. And the next question is for Oscar from Margaret. Margaret's asked during the last conference call you talked about three problem stocks in the portfolio that have been detractors and they were EML Payment (ASX: EML), Smartpay (ASX: SMP) and Close the Loop (ASX: CLG). Can you please give an update on each stock?

Oscar Oberg:

Okay, so we've had some positive news I guess since we last spoke to you. So EML had their investor day and AGM which effectively they gave long term guidance. So, in terms of their earnings per share that they expect I think was 13 cents a share, does that sound right? Yes, 13 cents a share in the 2027 financial year and also a firm guidance. So, the shares Were actually at the time they've shot up I think around well over 50%.

They were trading at about 60 cents. Now they're back at a dollar. So we're square on the investment there. So it's been fantastic. And we're still very positive on the stock. Close the Loop was a win but we will find out I think it's tonight. So they had a takeover bid by Adamantem Capital a private equity fund but they're under sort of a non-binding or they're under due diligence let's call it at the moment. So we won't really know until tonight but assuming that goes ahead that will be a win as well.

And then Smartpay probably more on the negative side I'd say look we're probably shares have probably gone down a little bit since we last spoke but not too much. And look the balance sheets there is fine. We've just got to wait. There's an overhang on the stock until the Reserve Bank of Australia (RBA) comes out and says what they're going to do on surcharging but ultimately so we won't see the shares increase anytime soon until that happens. But on the positive side is they're changing the economics of their New Zealand business in terms of their terminals over there and that was the big reason why we own the stock in the first place. And if you have a look at these long term incentives that the company has with looking at an increase in earnings from call it $20 million to like $90 million in the next two or three years off the base of the New Zealand business just solely so and that's just started to kick off now which is great but ultimately there's an overhang on the stock until the Reserve Bank lets the market know, let's the country know I guess what they, what they're going to do on surcharging which won't happen until the end of the next calendar year. But look at 50, 50 odd cents where it is now. Look honestly we can't really see much downside from here. We just gotta be patient And I should add a fourth actually Nexted (ASX: NXD) which wasn't, look it wasn't. It's not an issue stock at the moment because it's so small but it was, it impacted us in the 2024 financial year.

They actually this is basically an education provider for offshore students coming into Australia for vocational courses and so forth. As I'm sure a lot of the shareholders are aware. The government has come out and really regulated that, given the cost-of-living crisis, the housing crisis and so forth. But the interesting thing is they just bought a business out of receivership effectively and took all their students two weeks ago and you know, we own 10% of shares. It hasn't been a good investment.

However, if there's more opportunities for the company to do this, you know, in the next few years, we could see it come out of this a much stronger and a better business. So we're actually quite excited for the opportunity for Nexted. And so I'd say three out of the four we're square on EML potentially square on Close the Loop. Smartpay was still unders. Nexted was still unders but it's had a much better, you know it's up about 50% this financial year but again it's a very small weighting in all the portfolios now. So it's not going to really make a difference until any for the next few years.

April Lowis:

Thanks Oscar. The next one's for Tobias from Steve and it's about the IPO market. He said he has asked the small to mid-caps IPO market has been subdued globally but there are signs of a rebound. What trends are you seeing in the Australian IPO market?

Tobias Yao:

I think look the good news is there is demand for IPOs. I think the aftermarket trading has been mixed. You know you've seen ones where like Guzman Y Gomez (ASX: GYG) has done very well after they've traded. Overall, I think it's we're progressing. You know in our view the next 12 months could be very exciting for potential IPOs. I think the IPO door is now open. I think there's demand for quality IPOs to come to the market and investors are looking for opportunities again looking for these new businesses that could drive growth over the next 10 years. We believe versus this time last year it's a lot better. And we're actually looking forward to 2025 in terms of the meetings we've had. We've had probably the most pre-IPO type meetings we've had in a very long time.

These are visiting businesses that's thinking about an IPO. They're not sure whether getting listed is the right move for them and having those conversations with management and giving our view on the benefits of being listed on the ASX. So we're having a lot of those conversations in the background. We're seeing some of those business come to the market and there's demand for them and so we believe it's going to continue and continue into 2015.

April Lowis:

Thank you. The next question comes from Sophia, who's asked, why do you think small-cap companies continue to underperform large-caps? I think you've said this, it has been for about three and a half years. So what, what changes this from here? Tobias?

Tobias Yao:

Yeah, yeah, I think as Oscar mentioned, I think we've sound like broken records in terms of we've had that headwind in terms of where we invest in our investable universe. However, I think the key for us is that's not an excuse. We've been able to deliver outperformance versus the overall market despite the small-cap headwind. Our investment process is quite simple. It's been the same since the inception of the fund, which is to look for catalysts.

And we believe that over the long term the catalyst investing will deliver strong alpha for us in terms of what we think could change. As Oscar mentioned earlier, we think an interest rate cut next year could change the market, as we've seen in the US and New Zealand. However, we're not holding our breath and we're not expecting that to be the tailwind for us to outperform.

Oscar Oberg:

And so for context, if you go on our website and look at WAM Capital and you compare the All Ordinaries Index versus the Small Ordinaries Index, effectively the outperformance of the All Ordinaries Index, which is large-cap companies such as big banks and nine or on all guys we don't own shares in. But the outperformance every year has been 9.1% per annum. So, every time we walk in the door July 1st, we're down 9.1% on the market. Now we've been able to outperform over that period. So that shows you the strength of the investment process, the quality of the team. So, imagine, as I said in my opening comments, if that reversed and we think we're close, I think all our shareholders know Commonwealth Bank Australian (ASX: CBA) has gone up a lot. It's very expensive. Its dividend yield, I think is 3, only 3%. It's trading at 27 times earnings. It's the most expensive bank in the world. I'm not saying Commonwealth bank goes down, but if it has a period where it's flat and small-caps go up, that'll be extremely positive for us.

Yet we just, we haven't seen it. And like even now, strong performance that we talked about starts financial year. I think small-caps are underperforming large-caps by about 2% already. So as Tobias said, it's not an Excuse for us, we're still working as hard as we can to find those undervalued growth companies and we're seeing plenty of them at cheap valuations. But again, at some point we're going to have a benefit and it'll be a great day when we can tell you all that on one of these conference calls.

April Lowis:

Thanks, Oscar. The next question comes from Eden who's asked when applying your investment process is the intrinsic value or target price of a target company estimated? If not, why not.

Tobias Yao:

100%. So, it's part of our investment process. So how it works internally is once we've done the work on a company which we like, one of the guys in the team will send out an investment thesis with a target price, with a model which we've modelled out future earnings, future revenue as well as the WAM rating system which Geoff put in 25 years ago. So, putting all of this together, the investment process gets read by everyone in team and we debate, debate the target price. We have base case, bull case, bear case scenarios and the various likely outcomes and obviously ultimately, we talk about a catalyst. So as part of the investment thesis, it needs to have a target price, it needs to have a catalyst to occur for the share price to reach the target price. And so, we use that entire investment process across all the companies.

April Lowis:

Thanks. The next question comes from Jamie. Oscar, with fluctuating commodity prices, which resources do you believe will drive the next phase of growth for the mining sector?

Oscar Oberg:

Yeah, thanks for the question Jamie. So, as I'm sure you're aware sort of mining is not generally our expertise when we play the mining sector it's generally mining services and we do have quite a few mining services across the portfolio being NRW Holdings (ASX: NRW) ALS (ASX: ALQ) Seven Group Holdings (ASX: SVW) which has been there for how long? We own Seven Group for 12 years like a long, long time keep delivering great company. In the micro portfolios we've got SRG Global (ASXL SRG) and GenusPlus Group (ASX: GNP) so we do, we probably have an overweight position, let's call it in mining services. We were over in Perth recently, it was very bullish.

Look at just on the resources side I think, look, mining services sector in Australia is generally it's driven by iron ore and you know, iron ore prices have fallen quite a lot but it's still around that call it $90 to $100 level. I think it's worth putting into context that BHP (ASX: BHP), Rio Tinto (ASX: RIO) and Fortescue (ASX: FMG) are still making and Roy Hill I should say with Hancock & Gore (ASX: HNG) are still making incredible margins and incredible returns at those levels. Certainly, you know, what we've seen when we've gone over to Perth is these are massive mines that need to be replenished every year.

And so irrespective of the commodity price falls that we've seen, these companies are still spending money on maintenance, capital expenditure and so forth, which benefits the service companies. Now, if I look at the macro look, it feels to us that we've seen evidence that China is trying to stimulate the economy. The data is certainly weak over there. So in our eyes, the commodity that probably looks the most interesting as we go into 2025 is probably iron ore.

Whether or not that's sustained or not is another story. So you might get the big bounce in iron ore for a few months post a big stimulus. But then the proof's got to be in the pudding, which, having Tobias been over there numerous times, it is very tough over there in China. So, it's going to need a huge stimulus boost for iron ore prices to say, go back to $140, $150 again. So, look, I think short-term, probably, and I'm speaking for WAM leaders here, they're certainly overweight. The iron ore sector, iron ore probably is, probably looks good. I think longer term, lithium is probably the most interesting, but you still got to get through this oversupply of electric cars that's happening globally at the moment. And certainly copper as well, to play that sort of electrification angle. And I think copper is very strong too at the moment, but we generally play copper through exploration stocks like ALS.

April Lowis:

Thanks, Oscar. Sorry, I think there was just some Internet problems, but hopefully you can hear me now. Thanks for that. The next one is for Tobias and it's on Technology One (ASX: TNE). Do you still hold it? And if not, why not?

Tobias Yao:

We do. Technology One has just fallen just outside of the top 20. For us, it's a core holding longer term for us. It has done an amazing job, obviously in Australia with the software and went through the SaaS transition very successfully. The reason why we first invest in Technology One is for the growth in the UK, which has shown actually amazing amount of growth over the very short term. So Technology One is still a core position, particularly in our tech space, and we still hold it in the fund.

April Lowis:

Thank you. I think hopefully the internet's working a little bit better now. So, Tobias, the next question is from Emmanuel, who's asked, could you please give a detailed breakdown on what happened with GQG Partners (ASX: GQG) in the portfolio dating back to June 2024.

Tobias Yao:

Thank you, thank you for the question. I think June 2024, if I remember correctly, we probably had something along the lines of I think 1.3%, 1.4% of the fund in GQG that was based on a catalyst which we identified which was around index inclusion at the time. For many of you that's followed GQG recently, they've had a bit of an issue with one of their investments. The share price had quite a sharp fall prior to the sharp fall because we didn't think the catalyst was playing ahead. We actually sold a lot of the stock. So on the day when it fell, I think we had about 0.2% to 0.25% of the was what was left in GQG.

So, fortunately for us, you know, the impact was, was very minimal. And this goes back to the way we manage risk when we sell the position if we don't think that the catalyst is going to play out. And luckily in this case, you know, we were able to exit over 1.2% of the fund and only with. So, I think left with 0.25% into, into the fall.

April Lowis:

The next question is for Oscar from Joel. I noticed that Geoff has been buying WAM Capital shares recently. Why is that?

Oscar Oberg:

Oh, Joel said cheap. They're trading at a discount to net tangible assets and sort of, as I said before, Geoff has shown over history that he will sell when shares are at a premium to net tangible assets. And he's actually buying at the moment and Kate's buying as well. And certainly myself and the team are buying too. So that gives you a sense of how the team's feeling about WAM Capital at the moment.

April Lowis:

Makes sense. Sounds like a good opportunity. So the next question is on franking dividends in the profit reserve and it's from Mahtab, Michael, Anthony, Christopher, Sonja and Sam. So there are a few questions on this. How many years of profits reserve are required before restoring franking credits to fully franked and what factors might impact this?

Oscar Oberg:

Okay, thanks for the question, guys. Look, when we were here this time last year, you know, things when we look we're looking forward in the profit reserve, you know, things were looking pretty like grim to be frank, as we, as we went into that February result and certainly the board, you know, having had meetings with the board, the feeling was we were going to cut the dividend. This is sort of November 2023 now, at that time, there was a big shift in the market.

US Federal Reserve said they weren't going to increase interest rates anymore. The market took off, but probably more importantly, our performance really took off because we've materially outperformed over that period. It's been close to 20%. So, we've been able to add quite a lot of profit reserve over that period. Now, that's great to pay your dividends, but to pay, to effectively pay five frank dividends, you need to physically sell shares and create a tax event. In other words, pay tax to the tax office.

Once we do that, then we can pass that on to our shareholders and that's effectively the franking credit. Now, there is often a mismatch between franking and the profit reserve. Why? Because if there, if there wasn't a mismatch, it would mean we'd be, we'd have to sell our shares all the time just to generate the franking, which we're not going to do because that would be, that would, that would be negative for shareholders. So you do get a mismatch between your franking and your profit reserve. And that was the big reason why in February of this year, even though the performance took off and the profit reserve increased, that we had to cut the franking to 60%.

Now, we could have kept. And when I say wade to the board and just remember I'm not on the board, so I shouldn't be saying wait, but the board cut the franking to 60%. Now, the board could have kept it at 100% at that point in time. Right. But then as we went into the next dividend, which is one just paid the October dividend, it was possible, it was zero and we didn't. And the board didn't want to do that, so they chose to hold it at 60%.

The last dividend you just received was at 60%. So the question is, how do we get it back to 100%? It's very simple. We just need the performance to keep, to keep occurring. Now we. Last year, I think the gross performance was 26%. So far this year it's around 16%. If we got it to 26% and we're selling more stocks at a profit, generating more tax, it's very possible that we could potentially get it to 100% again because we've generated franking. Now, until that happens, there's still a mismatch. So if the market was flat from here on in and our performance was flat.

Yeah, from my perspective, it's probably Unlikely that we would go back to 100% but if we put on another 10% in performance, that's certainly possible. So, yeah, it's just trying to understand the difference between the profit reserve, which is unrealised gains in the portfolio, and the franking, which is generated by realised gains. In other words, when you sell the shares, that's why there's a mismatch.

But yes, you just monitor our performance. If we keep going well, then yeah, the board will be up to the board and if we have the. If they can see visibility to keep paying 100% franked, then they probably will and they'll probably increase it. But this juncture, it's too early to make a call.

April Lowis:

Thanks, Oscar. The next question is on share price performance and NTA, so a few people asked very similar questions. Cameron, Abul, David, Stuart, Sam and Graeme. So they've asked why has the share price underperformed to the market? A high dividend yield is of little benefit if a capital loss threat hangs over my investment.

Oscar Oberg:

Yeah, it's a fair comment and we've said numerous times in presentations the board had an opportunity to cut the dividend in Covid and they didn't. This is in 2020. We were very close to. We didn't have any profit reserve after Covid, which was a huge sell off, as we all know, in the market. Now the market rallied very strongly after that and Geoff had commentary at the time saying if we've got the franking and we've got the profit reserve, we'll pay it all out.

Market rallied at that point in time, gave us all this profit reserve. We outperformed in that period of time and that gave us really good buffer for a number of years. Then unfortunately, we saw the 2022 sell off occur. We kept paying your dividends, we kept paying your franking through that period, despite the fact the portfolio fell away. And then 2023 was a good year, but the market didn't really go up that much.

So, all we did was the profit reserve that we achieved basically allowed us to pay our dividend. Now, 2024 and 2025 so far have been really, really good years. So, we've actually got more of a buffer today. So, I guess in summary, why am I telling you that? Because we think that the reason why the shares have traded a discount or trading at discount now and have faded away from where they were was because we think that. And certainly our commentary, to be fair, over the last three and a half years has probably been on the negative side, like, I think if you compared my opening spiel compared to previous conference calls, it's been entirely different.

So, we now have great visibility over the profit reserve. As I said in my opening spiel, we had less profit reserve yet traded at a premium than what we do today. We have more profit reserve and are trading at a discount. So, we have good visibility at the moment. And that's one of the reasons why we think the premium shrunk over that time. Now, for context, when the 2020, before the 2022 sell off occurred, our shares are trading at $2.20 and $2.30.

The market had fallen, but the share price hadn't. So, at that point in time, unfortunately, the premium to its net tangible asset was over 30%. And it's interesting, before the court, looking the prep that was at the period Geoff was selling stock, which should have been a message to shareholders that he thought the shares were expensive. Now from that 30% premium has now gone to a 7% discount. That's a 37% move, unfortunately, through that period.

Now, today, we're at $1.53, I think it is if you added back that premium, that gap, which is about, call it just over 40%, you'd be back at $2.15, $2.20. And if you added back the dividends, we would have actually outperformed the market. So, the issue, what I'm trying to say to you all is that the issue has been the premium. The premium has shrunk in a large way. And as I said at the end of my spill opening spiel before is that it's up to us within Wilson Asset Management to really like, you know, we haven't communicated positively on WAM, really, ever since I've been at WAM, it's close to 10 years. That's changing now. And we really fixated on getting these shares, share price back to first step NTA and then to us and then to a small premium.

April Lowis:

Thanks, Oscar. Further to that, how do you propose to increase the NTA?

Oscar Oberg:

That's simple. We've got to perform and that's what we've done. So last two or three years, really, we had a bad year in 2022, which was a very hard year with the Russia and Ukraine war, Covid, and then interest rates starting to increase. That's a terrible market for small-cap companies, undervalued small-cap companies, which is what we do. But 2023, 2024 and so far in 2025 have been great years. And We've more than offset where the NTA was notwithstanding, we still paid you great dividends and paid you out franking. So, look, we just got to keep performing. It's pretty simple.

If we cut the dividend, we would increase the NTA. It's as simple as that. But a lot of our shareholders would be unhappy with us because they'd get less of a dividend. So, at the moment, we have an imbalance. We're more prefer. There's a high preference to the dividend versus capital growth of, of the, of the, of the NTA. That's not ideal. We'll be the first to say that. But unfortunately, that's where we're at right now.

And as I said earlier, Geoff has always said that forgot the franking. And then we've got the profit reserve will pay it out as a dividend. So, you know, unfortunately we, you know, if we have, we, we need, we need decent markets and our performance, more importantly to be very good, to keep adding onto that NTA. And look, we've certainly done that over the last few years and we will keep endeavouring to do that.

April Lowis:

The next question comes from Des and Adrian, who've asked what is the current relativity between the WAM share price and the weighted average value of those shares? And secondly, how do you respond to Motley Fool's negative outlook for WAM?

Oscar Oberg:

So, I assume the weighted average shares is what you're referring to as the net tangible assets. So currently we're at a minus 7% discount. Over that last 10 years, I think the average has probably been around a 15 to 20% premium. And as we always said, through that period, that was unsustainably high. We feel terrible for all shareholders that have purchased shares through that period. Don't get me wrong. And we're going to try and fight as hard as we can to get it back there. So, everyone's happy. But unfortunately that's the fact.

Now, on Motley Fool's review of WAM Capital, look, what they said was right. I mean, we have been eating into our capital growth. But that was before. We've performed very. That article was written before. We performed very strongly in 2024 and it's performed very, very strongly in 2025. So, in the first five months. So effectively, we have more colour on our profit reserve, which is what they were referring to. That article they thought would cut the dividend.

They were right. A year ago, 100%. But as it stands today, we've got three dividends in the Tank. So, we've got visibility really to the, you know, for, in the next call it year and a half, which is as good as we've ever had.

April Lowis:

Thanks, Oscar. Now we've got a few stock specific questions coming through. Debbie has asked, what is your view on the latest IPO DigiCo (ASX: DGT)?

Oscar Oberg:

Do you want me to do it? Oh, it's been like, to be frank, it's been a terrible IPO and it's very frustrating from our perspective because, you know, we, we really like the business, we've supported it. You know what I get frustrated with the most is some of our peers or other fund managers get larger holdings and then sell on day one from an IPO just because the market's fallen a week into it. And that's effectively what's happened. We knew before it started trading we could see it. There was a million shares on the offer at $5. Like that's, it's game over when that happens. And effectively that's what's happened.

Nothing has changed. The stock is 20% cheaper. We've been buying it, we really like it. I think we've been one of the biggest buyers over the last three days, which is frustrating to us because you sort of go, well it would have been nice to get a bigger position other than compared to some of the other funds that sold it. So, look where, as you can see in tone of my voice, I'm a bit frustrated. But yeah, look, yeah, I, I look the thing about IPOs at the moment, the companies aren't the problem, it's the fund managers because they keep selling them on first, the first few days because there's a bit of market uncertainty. So hopefully the investment banks that are listening on the call remembers that WAM doesn't sell on days at all with an IPO. We buy. And so when there's a hot IPO market, just remember who's a big supporter of those stocks. So that's all I'll say there. April, thank you.

April Lowis:

So, Michael has asked, do you see more upside in Bravura (ASX: BVS)?

Tobias Yao:

Yeah, 100%. They upgraded recently. I think what's surprising to us was they upgraded the top line revenue, which I think was the, which was something that the market was worried about. And so the momentum seems very strong and definitely we think that there's more upside to it. Bravura is very strategic asset. I think it fits very well with. It's always being looked at potentially by other companies that's looking to enter the space. You know they have very long-term contracts and very locked in. So, we think it looks very good and the intrinsic value is actually higher than the current share price.

April Lowis:

Thanks Tobias. The next question comes from Mehdi who has asked in your 2023 August webinar, you were positive about Flight Centre (ASX: FLT). What is your current view on the company?

Tobias Yao:

Thank you. So that would have been probably a year and a half ago. We had quite a few travel names including Flight Centre, Webjet (ASX: WEB) I think from memory Siteminder (ASX: SDR) as well we still have those names. It's the small positions obviously the macro environment is a little bit more uncertain now. We exited or reduced the positions quite a bit towards the end of 2023. We still hold it. You know Flight Centre, they have a very strong business. The B2B business is actually doing a great job. Winning share obviously have another part of the business which is the consumer business.

That's the part. There's a bit of uncertainty and patchiness in the, in the market in terms of demand given the high interest rates and the cost of living issues that we all see in the market. So we're looking for the catalyst to go harder into these names and we're just waiting for the expectations for these businesses to come down a little bit before we would increase the stake in the travel names.

April Lowis:

We've had a few questions from Malcolm and Gary on SG Fleet. What are your thoughts on the company? What price do you think it might get taken out at and is it a good deal for shareholders?

Oscar Oberg:

Oh, that's a good question. Look, was SG Fleet going to go up materially in the next sort of one to two years? Probably not. So for us we were happy to take our money at $3, $3.50 which was the bid and you know, redeploy it into, into other stocks which is effectively what we've done. And it's, the timing's been fantastic because it's been a tough period in the market for us. Do we think it's, it's the price was fair?

Oh, I don't know. We think it was undervalued in the business to be, to be perfectly honest. But it's binding. The boards approved it, the major shareholders, 54% approved it. So it will go ahead. But our view is we, we were very positive on that business. We've spoken about it on previous webinars. The big year for it was going to be next financial year. But you know, unfortunately or fortunately, I don't know how you could probably talk about it but Pacific Equity Partners (PEP) will get all the benefit of that. But for us as fund managers, whenever we get a takeover like that, it's just gold.

So you know, for us we were happy to part ways at $3.50. It's been a good, good investment finally for us and we can redeploy the funds elsewhere.

April Lowis:

Thanks Oscar. Sonja has asked, can you please share which stocks have been recently added to the WAM portfolio?

Tobias Yao:

Yep, look, a stock which we've actually bought quite a bit of over the last few months is a company called Catapult. It's a sports analytics business. It's being used by, you know, NBA teams, premier league teams where you know, the hardware goes on the back of these athletes and you know, training or sometimes in game the analytics gets used by the coaching team to reduce stress on the body, reduce injury times.

The business has done a great job transitioning to the software as a service model even with the hardware that they have and they've been able to reposition just to the elite team. So these are the top teams in the world. They've done an incredible job under the new CEO Will Lopes. He's come in and really applied his DNA on the business and they've been winning a lot of share and the growth has been very strong. So this is one that we've been buying over the last few months.

Oscar Oberg:

Maybe I'll add one which is on the value side. It's been an old WAM favourite over the years. We haven't owned it for a few years, but we've been buying it back is Event Hospitality and Entertainment (ASX: EVT). Now Event's always been a very asset heavy business and always the catalyst for Event has been well when are they going to sell assets effectively and realise the true value for the business? And there's been a noticeable shift in the management commentary following their AGM and your general meeting which is a couple of months ago and it appears that might be starting to happen.

So, we like that one. And also, the other catalyst for it is cinemas has always been post Covid. I think there's been general people don't think cinemas will get back to where it was. So, for instance, I think cinemas did about $110 million of earnings before COVID I think this year the market's got all the analysts have got them doing like 30 and I think going forward they've got it doing 70. So I'm sure maybe some of you online have daughters or granddaughters or I should say sons as well that have been to Moana 2 over the last few weeks and certainly Gladiator 2 has been very popular as well. We do think cinema is coming back as the writer strikes are coming off now. We think the pipeline is very strong for that business going forward and I think the market will get confidence that it can get back to what it was.

April Lowis:

Thanks, guys. The next question comes from Emmanuel, who's asked what is WAM's outlook on the real estate landscape in Australia, including commercial and office real estate. And secondly, how do you plan to take advantage of any opportunities in the sector?

Oscar Oberg:

So real estate investment trust isn't necessarily something that we look at across WAM. Like I'd say mining and REITs are the two sectors that we don't generally do. However, in saying that the two businesses that we like there is, we like Ingenia (ASX: INA), which is a focused on manufactured house estates and also tourism parks. That is a company that we're Homeco Daily Needs (ASX: HDN), which has obviously been involved, we mentioned before with Digico (ASX: DGT), is a major shareholder and certainly we do see some shareholder activism that could benefit the business and selling some assets and really boosting their manufactured home business.

Oscar Oberg:

So we like that one management team's excellent. So we like that cheap valuation. And the other one is actually another WAM favourite. That actually that's another stock we've been buying recently is Brickworks (ASX: BKW). With Brickworks, if you have a look at their release, and obviously that's run or has significant shareholder in Soul Patts. And with Rob Milner and Todd Barlow, who we respect very highly across the business now, their building products business is really struggling at the moment, but that's the reason to own it because we don't think it'll get worse than where it is now.

And then put simply, if we get a rate cut, that's very, very positive for their industrial property business in terms of how it's valued by the market. So if you look at the share price, current $25 a share, if we get 100 basis points of interest rate cuts at some point, that'll actually add probably about six or seven dollars to the share price just purely off that. So look, we like Brickworks, we're building a position there and that's certainly on the property side of things, is the reason I own that business.

April Lowis:

Thank you. Anikitos has asked, can you recap on how WAM Capital has performed since 2017?

Tobias Yao:

Yeah, so we actually got the Data here in front of us. So since 2017, WAM has increased by 121.6% versus the All Ords, which increased by 101.2% in terms of performance.

April Lowis:

Thank you, Very clear. John has asked what are your thoughts on Embark Early Education (ASX: EVO)? I know you mentioned G8 Education earlier as well.

Oscar Oberg:

Yeah, big holding in the Microcap fund. Very similar thesis to G8 that I mentioned earlier. We're a substantial shareholder. They're over 5%. The guys that are sort of running the business really started G8 coming out of the GFC, so they know what they're doing. But yeah, very simple story where small business that we think will use equity markets, raise a bit of money and keep doing earnings accretive acquisitions, which is what they did at G8. So yeah, we like that one. That's in the Microcap Fund.

April Lowis:

We've got a few questions on interest rates from Peter and Darius. What impact do you think lower interest rate environment will have on investor yield expectations and share prices?

Oscar Oberg:

It's an interesting question because. And one of the things we're sort of grappling with at the moment is with the way that Commonwealth Bank has traded over the past two years. These banks used to be yield stocks but now effectively term deposit you can get is actually higher than the yield on the Commonwealth Bank. So look, you would think, and I'm assuming the tone of the question is how do we think that would play out for listed investment companies?

Look, ultimately we think it'd be very positive for listed investment companies if we saw rates go down. I mean, the current fully franked. Well, sorry, partially franked, fully dividend yield for WAM, I think is what, ten and a half percent at the moment. So any interest rate cut is going to make WAM look very attractive and the others are probably at that sort of 7, 8% range. So ultimately, yeah, we do think an interest rate cut will be positive for the LIC sector. However, in saying that, you would have thought that would hurt Commonwealth Bank.

So that's the part we're grappling with. And certainly if you look at the LIC sector, just generally it's going through a really, really tough time and unfortunately I don't have it on me, but I've quoted previously and apologies if I get it wrong, but like Australian Financial Investment Company (AFIC), which is the largest, is I think trading close to a 10% or 11% discount now. So, it just means we've got to work harder as an industry to close that discount gap, I guess you could say. So, look, I've answered a long winded way. We think interest rates will being coming down will be good for the LIC sector but perhaps there's other issues as well that as I said we've got to work harder at to fix.

April Lowis:

And the second part to that question was how do you see the stock market performance if inflation and interest rates actually stayed at these current levels next year?

Tobias Yao:

Yeah, look everything comes down to expectations. So all else equal, if interest rate doesn't get cut next year, which is the current expectation and the share price, the stock market performance will probably be weaker in terms of our investment process we still think there are opportunities and obviously finding quality companies with catalysts and so it doesn't stop us from identifying businesses and investing even with a change in that macro narrative.

April Lowis:

Thanks Tobias. We've got a good but tough question from Walter. If you had to buy just one of your LICs discussed today. So Microcap, Active, Research, WAM, which, which would it be?

Oscar Oberg:

Well, I bought WAM last week on Thursday so I've got to say WAM Walter. No, I would say WAM actually like I think it's yielding the highest. AS I said earlier in the overview, for 10 years we traded a big premium and we only had 18 cents in the profit reserve. Well we got 22 cents today and we're at a negative 7% discount. So look we think we're very confident in our performance and the outlook. So, I'm going to say WAM. I mean worst case scenarios you're going to get 22 cents back from your initial investment in dividends and fully frank dividends. So, looks pretty good to us. What do you reckon?

Tobias Yao:

Yep, agreed.

April Lowis:

The next question comes from Mark. What's the percentage portfolio turnover in the past 12 months?

Tobias Yao:

I think we have the numbers here. It's 250% or 2.5 times over the last 12 months.

Oscar Oberg:

Which would be higher than normal and that's a function of the fact we've probably been performing. So we went back in the, in the 2022 year where it was a really tough year for us. We underperformed, the market was down, we probably weren't trading as much because we're waiting for it to turn. It would have been lower than that. So yeah but that can swing around all the time.

April Lowis:

Now we've got a few more stock specific questions Peter has asked. What are the prospects of mining services companies such as Emeco (ASX: EHL) and Imdex (ASX: IMD)?

Oscar Oberg:

Imdex, we are definitely positive on we own ALS, which is does all the testing and so forth for environmental and mining sectors. So that's our preference at the moment. But we are seeing signs that exploration is improving with gold. Prices have been very high. Copper prices are strong so last couple of months of capital raisings for junior mining companies been very strong. So, it's usually a good six-to-nine-month lag before it comes into the driller which is where Imdex plays. Emeco, look, the stock's very cheap, it's trading pretty close. I think it's trading at discount to net tangible assets at the moment. It's got good management in there. Look, we've just got other options in the portfolio that we favour at the moment so we're not, we don't own it but the stock is very cheap and run pretty well. So, I mean it probably looks interesting here.

April Lowis:

Graham has asked what is your pick in the aged care sector and is this a good sector to invest in at the moment?

Tobias Yao:

Yep, so it is. So, we have a couple of stocks, Regis Healthcare, which is one we've talked about in the past At Somerset we believe the trend of the aging population is here to stay over the next 10 years so we believe demand is going to outstrip supply. And in Australia with the aged care reform recently and the extra funding that went into the industry really benefits existing players. So we are bullish the aged care space over the long term given the visibility has improved significantly over the last three years.

April Lowis:

James has asked do you hold Praemium (ASX: PBS) and can you comment on the outlook for this stock?

Tobias Yao:

We used to hold Praemium. Over the last few years we've gravitated more towards Hub24 (ASX: HUB) which is the larger platforms business winning share of the incumbents. It has done incredibly well. It's gone into the ASX 100 which we continue to hold Hub as a stock in the portfolio and so that's probably been our platform, pure platform exposure.

Oscar Oberg:

I think if we're to own Praemium, being the Microcap fund and we've got a big position as I'm sure some of the shareholders are known, Generation Development Group (ASX: GDG) which is playing sort of similar space. So if we were to buy Praemium, we're probably selling that, which is probably what we don't want to do but, but we see the quarterly updates, they are turning a corner. So I would say it looks interesting.

Oscar Oberg:

That'd be fair. Like I think, like yeah, I think it's something, it's a company worth looking at.

April Lowis:

Michael has asked, do you have a view on Southern Cross Electrical Engineering (ASX: SXE).

Oscar Oberg:

Yeah we do look saw them over in Perth. I think the company's doing very well. However as we see sometimes time to time in mining services companies when they have large contracts that they're completing at the moment I think the market wants to wait and see how that the company performs. I think we think the share price will stay pretty stagnant until they can prove that they've performed well in the contract which is called the Collie Battery contract. It's a big part of their revenue and earnings this year. I think that's a key contract for the business.

Oscar Oberg:

They get through that and then yeah definitely there's a lot of upside in the company because net cash balance sheet and also they're looking to make acquisitions. They've got a good pipeline as I said mining services is looking really good at the moment. They're winning contracts so just got to get through that project. So what I'm saying there is short term I think it might be a bit static the share price let's call it. So that's the key. Watch that contract and watch how it performs.

April Lowis:

Darius and George have asked how do you see the outlook for HMC Capital (ASX: HMC) and do you think it will recover from its sell off the last few days?

Oscar Oberg:

Yeah it's been brutal and one of our best stocks I guess over the last two years. So it's hurt. Hence my frustration for my answer to Digico. Look the answer is that it's amazing how things can turn quite quickly in the market. It's one of the great levellers that isn't it Tobias? It's crazy but anyway David Di Pilla, everything he touched turned to gold about a week ago now. Now he's like oh it's all over.

No, there's nothing wrong with Digico is very positive for it. They're going to get a lot of fees from it. There's a lot going on in the business at the moment. So look we see these gyrations in share prices from time to time and all that needs to happen is go back to fundamentals and we'll see that at reporting season. So look they guided for earnings per share growth to be greater than 70 cents this year.

Oscar Oberg:

Analysts still haven't updated their numbers. I think they're sitting at like 4:40 cents I think from memory. So you're going to get upgrades coming through to the results. So I guess why is it fallen is because people think oh Digico has been a failure. No one's going to like retail investors aren't going to give Homeco any more money. Look, it's been two days so let's judge how did you go goes when we see some numbers come out and you know often what we see in IPOs all it takes is just one, one fund to start selling stock and you know it creates year and that's what we've seen over the last couple of days. So look, let's see how the results are before we make a judgment call on HMC because they've had a tremendous year, they're led well and certainly we see a lot of upside. We were buying heaps yesterday as an example like 13.5% move was crazy.

April Lowis:

Anthony has asked what are your thoughts on Service Stream (ASX: SSM).

Tobias Yao:

We're very bullish on Service Stream. The key for us is that they've I think over the last we've been Service Stream for a very long time but I think something that the market perhaps haven't fully grasped is the fact that the contracts they have now and sort of the exposures they have, it's a much lower risk profile versus back in the days where they take a long take on a lot more risk on the margins or on the balance sheet.

The business is run by Lee and Linda. They've done an incredible job turning around the business and now actually going for growth and managing, managing the various contracts which they have delivered very well relative to their peers. Now the next short while there's going to be a bit of news flow from the defence contract which they've bid into. Obviously we've seen some news flow from a couple of their peers on that now it's very difficult to see how that plays out. But Service Stream doesn't have any exposure in defence. They're going into defence as a new space, as a potential new drive of growth. So if that comes off, you know that will be additional growth to the current trajectory they're there on. So very happy with the position of Service Stream and the management team is delivering really well.

April Lowis:

Thank you. George has asked do you think Dicker Data (ASX: DDR) will be a beneficiary of the AI trade?

Tobias Yao:

I do. I think the million-dollar question is you know, how, how much of a beneficiary? I think a key thing we're observing in the market are these AI powered or empowered laptops. So these are laptops effectively that runs quicker for a lot of the AI applications that requires much higher compute needs or compute throughput. And so Dicker Data as someone sort of steps in that that's in the middle that does a lot of this will benefit. I guess the question is how quickly is the take up of these type of laptops as an example, by the broader market, by corporates, which really drives sort of how much they benefit. But you know, on the forefront of it that they're in and with a very large market share in Australia, they'll definitely be a beneficiary of AI.

April Lowis:

Thanks, Tobias. Greg has asked McMillan Shakespeare (ASX: MMS) appear to be trading on a very good dividend yield. Do you currently hold it and what is the reason for such a yield?

Oscar Oberg:

We don't own it.

Tobias Yao:

Just got out of just sold SG Fleet and that's probably the reason.

Oscar Oberg:

Oh, okay, yeah. I mean, look, McMillan Shakespeare, look, it's a good business, been around for a very long time, I think. Yeah. The biggest issue the sector has, the fleet leasing sector at the moment and is, is where are used car prices going to go. And you know, certainly something that was a big reason, as I said before, like SG Fleet was probably going nowhere in the next one to two years really because the market was uncertain as to where that was going to go. And McMillan Shakespeare, you know, has a fleet leasing business and that's one of the big reasons. Now the second reason is the fact they are exposed to salary packaging, innovated leasing. Now there's going to be some changes around, you know, the electric vehicles in terms of the tax credits you could get, which potentially might be happening, I think March next year.

And so there's some uncertainty in the market as to what that will do for electric vehicle demand because electric vehicles have been very strong from salary packaging businesses.

And the third reason is McMillan Shakespeare has been growing its Plan Partners business in the NDIS. And you know, I think all of our shareholders who are on the call today know how much spending's been going the NDIS and probably be fair to say, going to the wrong, you know, wrong areas. Now, I'm not saying Plan Partners is doing anything wrong, but ultimately, we do think there'll be greater regulation and so forth. And to be fair to McMillan Shakespeare, they've been very good on that and been investing a lot in the space.

But I think just until we get clarity on the NDIS, is stopping new investors buy the stock. So that's probably why the dividend is so high. The dividend yield is so high. And it's consistent not only with McMillan Shakespeare, it's consistent with SG Fleet. It's the same thing with Fleet Partners and also Smart Group. So it's just we see from time to Time sectors have various headwinds. That sector's got a headwind at the moment, which is why the dividend yield is so high.

April Lowis:

Thanks, Oscar. Les has asked, do you have a long term assessment on LTR Pharma (ASX: LTP) and do any of the leaks hold these shares?

Oscar Oberg:

We don't. I probably should have mentioned biotechs really aren't our thing either. So, yeah, we don't know the business probably at all. I'm sorry. So, yeah, so apologies for that.

April Lowis:

No problem. Neil has asked, do you think Acusensus (ASX: ACE) shares will trade better now that they are more available after the plan placement?

Tobias Yao:

Yeah, so I think Acusensus is one which we participated in the capital raise recently. Sam, one of our colleagues has done a lot of work on it. It's quite bullish on the stock. You know, they're going after what is effectively a global total addressable market has great technology for those of you who's not across. It's the technology that effectively if you're driving and on your mobile phone while you're driving and it sort of picks up on it and you get a fine.

So for that, that's what the company does and that unique technology is being used in Australia and potentially, you know, the opportunity is global. So that's something we're doing a bit more work on and you know, the initial assessment is quite positive.

April Lowis:

Thanks, Tobias. Now, going a bit more macro, Anthony has asked, are you still finding opportunities in New Zealand?

Oscar Oberg:

Yeah, definitely. We've been there three times. I think this this year I made a joke to Geoff, I said, if you can launch a New Zealand only small-cap fund, you would make a lot of money right now. So yeah, it's a funny market, New Zealand, isn't it? There's just so many opportunities there at the moment. They're all trading at depressed valuations. The economy is atrocious. It's, you know, I think Victoria is probably heading that way to be fair.

But every time we go over there it gets worse and worse. Now you're like, well, why does it look interesting then? Well, because the central bank's going to keep cutting interest rates and we've seen 125 basis points of interest rate cuts so far. New government, the national government that's come in will start spending next year, which will be positive. So you can see it in business sentiment and consumer sentiment surveys. It has actually turned despite the fact that the economy is starting to get weaker. So look, ultimately, as we, I think from March, April next year, we think you'll start seeing spending, the market will start looking forward. And that's the problem with New Zealand we always find is we feel it's a very short term market where it's the here and now and everything's so terrible and it's bad. They never think forward to 12 to 24 months.

So you know we've got a lot of companies across the portfolio exposed to that. We've got big positions in Mainfreight (NZE: MFT), A2 milk, as Tobias talked about Summerset (NZE: SUM), which we think is a cracker on the property side I should have mentioned that earlier. Vulcan Steel (NZE: VSL), we've got, on the Microcaps side we've got New Zealand Stock Exchange (NZE: NZX), New Zealand Media, Steel and Tube (NZE: STU) and Turners Automotive (NZE: TRA). So we've got a lot.

So yeah, it is a big bet in the portfolio certainly and you know it's been a big bet for probably a year and a half now. So it's actually that those stocks have actually done quite well for us over the, over the last 12 months and we certainly think we're there before everyone else is. So yeah, stay tuned for next year really.

April Lowis:

Thanks Oscar. Adrian has asked if we see a ceasefire and start of a resolution in Ukraine soon, what companies in the ASX could benefit.

Oscar Oberg:

Yeah, I think, look, let's go back to 2022. So as soon as the war happened and this was very, we had conference call on this, it was bad for our portfolio. You know, what's the sectors we don't own, we don't own energy, so we don't own Woodside Energy Group (ASX: WDS), we don't own Santos (ASX: STO), we don't own iron ore, we don't own BHP, Rio, Fortescue, et cetera. And then as soon as the war happened you took a whole heap of oil effectively and iron ore out of the market. So what happened was people sold all their other stocks to fund energy and iron ore. Very simple.

And that really hurt us through that. I always remember that February, March period where I had a great reporting season. Shares would go up 10% the next day to be down 20%. So that really hurt our performance for that period. Now let's say tomorrow there's a ceasefire. I'm not saying the reverse will happen, it'll take time to play out but the market always looks forward. And if the market got some sort of certainty that Ukraine and Russia potentially could be back in the market and selling freely. We all know that Russia's been selling oil and iron ore or whatever through China and other countries through this period. But like in terms of, you know, the market being caught more free than what it is now, you know, potentially the market says okay, well if I, if I bought those shares three years ago, it's possible I might, I might sell them now.

And ultimately yeah, that should be good for small-cap companies. And even in that period, that 2022 period, because it was so uncertain and as I said earlier, we talked about COVID we talked about interest rates. It wasn't just, you know, the energy and the big, the big miners that got, that got people buying shares of it was the banks because they were big, they were liquid, that was certain, paid a dividend. And at the time all these small-caps are very uncertain, illiquid, doesn't trade much uncertain about the outlook. So, they got sold off.

Again we're talking about how do small-cap companies outperform. That would be ceasefire, I think be very, very positive for small-caps. It just removes some uncertainty, it gives people more confidence to invest in the companies. Now if we look at our portfolio, there's probably one company that would be impacted from a ceasefire and that is Codan. Codan has done incredibly well over this period with the Ukraine and Russia war, selling a lot of their equipment and so forth into that area.

But then other parts of their business would also benefit. Like for instance they used to sell metal detectors into Russia and Ukraine and they haven't been able to do that for three years. It was a big market for them. So you know, Codan would get sold off in our portfolio but certainly we feel like other parts of our portfolio would go up. So anyway, that was a long-winded answer but in short, I think it would be positive for small-caps.

April Lowis:

Thanks, Oscar. Ashley has asked if we see a pullback in the US tech stocks and S&P generally, which looks super expensive. How do you see that playing out in the ASX, especially in small to mid-caps?

Tobias Yao:

That's going to definitely have an impact on the tech stocks in Australia. So there's going to be perhaps not a one to one impact, but there will be an impact in terms of how we invest. As you know, we look for catalysts so we don't hold on to positions if we don't think there's a catalyst. And so the work we need to do and the investment process dictates us to effectively continue to find these catalysts to be able to hold the stock.

So as you can tell, we turn over the portfolio quite a bit throughout the year and manage and dynamically manage the position size for these businesses for these stocks and obviously gone through various volatility periods over the last few years and then we've been able to come out of it pretty well. So for us continue to manage each position dynamically and continue to look for catalysts.

April Lowis:

Thanks Tobias. And we've got a few more stock specific questions Gary has asked do you have a view on Rural Funds Group (ASX: RFF)?

Oscar Oberg:

Yeah, no view, sorry.

April Lowis:

No worries. Next, Ulrike has asked do you have a view on Respiri (ASX: RSH)?

Oscar Oberg:

No, no, but can you please email through your thesis? That would be much appreciated. Never heard of it.

Tobias Yao:

Thank you.

April Lowis:

And David has asked what do you think of mining services company GR Engineering Services (ASX: GNG).

Oscar Oberg:

Really good company, really good management. The best of what they do for processing plants in gold and copper and lithium. We've just got other companies in the portfolio at the moment so yeah, we'd buy it again haven't seen them for a while to be frank as well but yeah, at the moment we don't own it.

April Lowis:

Ashley has asked what is your view on Healthco Healthcare and Wellness REIT (ASX: HCW)?

Oscar Oberg:

So that's a HomeCo rate let's call it or investment. So HCW has last year, well this, this year I think it was effectively the landlord for Healthscope (ASX: HSO) and Healthscope's going like all private hospitals at the moment, going through a very tough time and Healthccope is held by Brookfield in private equity and there's been a lot of news reports saying that they're struggling on the financing side of things.

Oscar Oberg:

So I guess that's impacted the share price. If you had a resolution at Health Scope and they got funding I would have thought the share price goes up but that is a big discount to NTA. I think they're buying back stock as well. It shows you how HomeCo are thinking about it. But we don't own HCW across the funds.

April Lowis:

Thanks Oscar. Felix has asked do you have an opinion on Ventia (ASX: VNT) after the recent announcement that ASIC is taking action on them and Downer EDI (ASX: DOW).

Oscar Oberg:

It's potentially very good for Servicestream, there's no doubt about it. Servicestream's trying to get in the defence sector and Downer and and Ventia are very large in the defence sector. Servicestream is also retendering its NBN contract which is a big part of their business which also Downer and Ventia on so look, hate to like the news is not good for the sector let's call it but you know given they're in a tendering process it can't hurt service ream which is what we own. We don't own Ventia, we don't own Downer. However, what I will say is without just sitting here and just saying oh how good service stream is and you should sell the other two. Look I personally think, look then those businesses have been with the defence sector for a very, very long time.

Oscar Oberg:

It's a big call for the defence sector to say hey what's going on is no good. And I think it was only two individuals I think from memory that was in question. These are big, big contracts so look I, I think they'll get you know and the timing of it's a bit interesting isn't it when they're in a big contract negotiation at the moment so look they might, I think they'll win the contract in some form maybe it's reduced in some way maybe, maybe the margins are a bit lower, don't know. I think you know they've been there, they're the incumbent there and been there for a long time so I think it's a big call from defence just to say you're off.

April Lowis:

Thank you. So Warren has asked do you have a view on Moneyme (ASX: MME)?

Tobias Yao:

Oh we do, we are positive on Moneyme they've actually done really well recently just winning share in the non-bank financial space we actually quite like that sector particularly in an environment where the interest rate is potentially getting cut so that's one that we are actually actively doing work on.

April Lowis:

Thank you and Ashley has asked what are your thoughts on DGL Group (ASX: DGL)?

Oscar Oberg:

Look it's, we had a lot of it a few years back mistakenly it wasn't a good investment for us but look we haven't looked at it for, for well over 12 months so I think from memory the last result was weak and then expected to and the cash flow was weak side look maybe we'll have a love a look at it again but unlikely at this point in time.

April Lowis:

Thanks Oscar. And the last question comes from Steve what happens to the franking credits that WAM receives from companies that it invests.

Oscar Oberg:

In that gets passed on to shareholders but it's a small proportion of the franking that we generate most of the franking and I think it is 2/3 don't quote me but it's a larger amount comes from the realised gains from the shares that we sell which obviously generates a tax event when we have a tax event we pass on that tax through to you shareholder as a franking credit so yeah it's largely the realised gain so if the portfolio is going up chances are we are selling companies at various points in time so that will create a franking event, let's call it.

April Lowis:

Okay, that concludes the Q and A for today. I'll hand back over to Oscar to conclude.

Oscar Oberg:

Look, thanks everyone for dialling and really appreciate it. We always appreciate the support. As you can see, we're sort of frustrated as well where the share prices are. We don't, you know, our performance, we feel, has been really, really strong. We've got a great outlook into 2025. So, look, fingers crossed. When we next talk to you, I think it'll be in early March. You know, we'll hopefully see some more positivity in the share price. But other than that, have a great Christmas and New Year. Have a good break, and I guess we'll see you in early March.

Tobias Yao:

Thank you.