Wilson Asset Management Income Maximiser Q&A Webinar Transcript

Friday 21 March 2025

Speakers:

Geoff Wilson AO – Chairman and Lead Portfolio Manager

Matthew Haupt – Lead Portfolio Manager

Damien Boey – Portfolio Strategist

April Lowis – Investor Relations

Transcript

Geoff Wilson AO:
Welcome to the WAM Income Maximiser (ASX: WMX) webinar. This is actually a record attendance; back in the challenging time of COVID, that was our previous record. Thank you everyone for dialing in. I'll be giving you a little bit of the presentation then Matt and Damien will cover off the rest of the presentation, and April, who works with us in the Investor Relations area, she'll be taking all the Q&A. Again thank you very much for all the questions that have been sent in. There's a lot of questions sent in. We'll group them.

We're very happy to spend as much time as you want in terms of talking about this product because we're incredibly excited about it. Just for those you know, there'll be a number of slides which we'll email you afterwards. You know, WAM Income Maximiser the, you know, the plan, you know, or the aim is to deliver investors monthly frank dividends and capital growth from high quality equities and corporate debt. And this will be the first Australian listed investment company (LIC) to do so.

But before we start, I've just - because this has a prospectus live, I've just got to read pretty much verbatim a little bit of a disclaimer and it goes: Before we begin, a disclaimer is displayed for you on the screen. What we will discuss is general in nature only and not financial advice. This does not take into account anyone's personal circumstance or objectives. You are encouraged to read the Prospectus carefully as it contains detailed information about the Company and the Offer. Like all investments, an investment in the Company carries risk. The performance of the Company will be dependent on the Investment Manager's ability to deliver on the investment objectives. For more information of the key risks, please read Section 6 of the Prospectus. The WMX offer is being made under its prospectus, which can be found with the Target Market Determination (TMD) at

our website or you can contact us to get a copy. We will put up contact details again at the end. Please consider the prospectus and the TMD before making investment decisions.

And when you go on the Wilson Asset Management website, when you click through to the prospectus then you actually have to download the prospectus and download the TMD Market Determination before you can fill out anything else. So that's. That's sort of the formal part in terms of, again, thank you everyone, for dialing in. As I mentioned, we've got a record number of people on the call. And one of the things is, I think everyone's very interested about this new product, but also there's been a little bit of volatility in the market.

And what I've learned over time, that in times of volatility, you want people, whether it's a pilot or a surgeon, someone that can cut through the noise and be focused on the end objective. Another thing I've probably learned, and anyone who's listened to various interviews or podcasts, is with investing in the market. When I started back in, you know, the latter part of the 90s, that's Wilson Asset Management, I was really focused on timing of the market. That's when I thought we could make the most money. And I remember as if it was yesterday, our little office in Macquarie Street, we're all squashed into one office, trying to keep costs as low as possible.

And it was the time of the GFC. There's a lot of volatility and we were very nervous, so we went short, had a lot of cash and really probably, maybe we should have been fully invested because the market did bounce and it bounced very strongly. So in these times of volatility, to me, you've got to be prepared to look through a lot of this noise. At the moment, we've got the noise on Trump, which I'm sure we'll talk about, because what you find is, it's really what I've learned is it's time in the market rather than timing of the market.

It's very hard to pick the bottom of the market and the tops, and so over time you tend to perform now in terms of this product. So WAM Income Maximiser, where did it come from? Now there's been, as you'd all be aware, there's been sort of a growing demand for interest, sorry, income products. A number of our shareholders over the years have been asking us for income products and even monthly income products. And thank you, I'm sure you're on the call.

The ones that have been communicating with us directly about talking about a monthly income product. And to me, I think just generally in the investment community, there's been increasing demand for regular income. So what we've been looking at for a number of years is really creating a new product that addresses that market demand. And actually, four years ago we were, you know, we'd been working on it. We found some old papers that was, I think it was called Project Eagle at that point in time.

But to provide people with a sort of a low, low risk product that gave them also some capital upside and, you know, consistent monthly franked income. And that's pretty much where WAM Income Maximiser came from. Another trigger for us was the fact that we had the situation where APRA came out and said that they were going to effectively stop banks from issuing bank hybrids. And there's 40 billion plus that people have invested in bank hybrids.

And so we just thought all the things were lining up that it made sense for us to create a hybrid product which is debt and equities that can give monthly income. Latter part of last year we surveyed you all and it was about 63% of you said that you'd like a monthly franked income product. So look, thanks everyone for the feedback on that. In terms of the offer, we've got the prospectus out there, the offer is open, which should all be aware of and pretty much three weeks before it closes. It closes on Friday 11th April.

It'll start trading on the stock market at the end of April, on the 30th of April. Now we've already had, I know a lot of people have already applied through the priority allocation and you'd be aware the issue price is $1.50. What is the minimum amount of money people can put in? It's $1,500 and we've allocated just a little under $200 million worth of stock to the various people in the Wilson Asset Management family. Everyone here, the ones that have been with us or our investors with us or have supported us.

In terms of the actual details of the product, well, I'll pass over to Matt and Damien to drill down broadly the benchmark that we're operating, we're looking at 60% is equities and the benchmark is the ASX 300. And the other 40% is the performance against the Bloomberg Australian Bond Bank Bill Index plus 100 basis points or you know, plus 1%. So we to get a fee for outperforming, we've got to outperform against both those. So in terms of drilling into the exact what the product is. Let me pass over to Matt Haupt, who'll take you through the next part. Thanks, Matt.

Matthew Haupt:
Thanks, Geoff. And thanks for everyone for joining us today. Like Geoff was saying, we're extremely excited about the, the WMX product. It's like Geoff said, we've been planning for this for over four years and we've had a huge amount of time to come up with what we think is the optimal structure, which is where we landed with that mixture of debt and equity. So for us, Damien's done some great work around why we've come up with that measure.

But I mean the summary is it gives you a great return and lowers the risk profile of the portfolio. So the equity market has a risk profile or risk measure around 15%. By introducing the bonds at 40% of the portfolio, we get the volatility down to 8.8%. So a

significant reduction in volatility. And you would see with markets at the moment, obviously very volatile. So any sort of product which can reduce volatility is welcomed in this environment.

For us this is the only LIC of its kind in Australia which has a mixture of equity and bonds. And again, what is key here is by introducing bonds, which gives us the stability of income. The big benefit is what it does to the equity side of the portfolio. So traditionally when you have an income style product, you really need to look for high dividend stocks and that's really the only lever you have to sustain that high level of income you pay out.

But given that we've got investment grade bonds on that side of the portfolio, we can really explore capital growth on the equity side as well as traditional income approach. So the flexibility is amazing. Essentially what the portfolio will be comprised of is ASX 300 stocks which were screened and ultimately they'll be high quality. And then on the bond side is investment grade debt which is again high quality.

What we're giving shareholders access to is Effectively the Tier 2 subordinated bank debt which like Geoff mentioned, APRA is taking away the tier ones. So we're going to give retail people access to the wholesale bond market. So again, another benefit by introducing this product, obviously the equity side we've got significant experience. But on the debt side as well, both Damien and myself have had many, many years of experience.

I was running a multi asset portfolio for five years before I joined Wilson Asset Management and Damien had multiple years on the debt side as well at the rba. So for us there's many, many levers to pull on this portfolio. Both in the equity side of the portfolio and also on the bond side of the portfolio. We can really adjust and mitigate a lot of risk through those factors too. So if I look at the what is the dividend policy of WAM Income Maximiser?

I mean the company's intention is to pay out a monthly income stream in the form of fully franked dividends, provided the company has sufficient profit reserves and franking credits and within prudent business practices. Our income target, which we've got for the fund, so this is the income side is RBA cash rate plus 250 basis points. So that is the income we're hoping to generate from the portfolio which equates to 6.6% at this point in time. The beauty of a LIC is we have the ability to pay out, you know, capital through profits. So there is obviously the ability to pay more than the income we receive. And based on last year, you know, that would be around 12%. But obviously it's a Board decision how much they pay out and whether they would keep some in reserve to smooth out dividends at a forward point in time. But you can see here, there is a large proportion of potential dividends which is going to be cash back by the income we receive from dividends and interest from on the bond portfolio. So a very balanced way of making a very sustainable monthly income fund.

And again, if we look at the way the dividend is made up of between income and capital. So I talked about RBA cash rate plus 250 basis points which is essentially 6.6%. Like I was saying that if we use an example of last year it was 9.7% available to be paid out. Again, this is not a forecast, but that's the, the potential within the fund of what can be generated and essentially up to the discretion of the Board what they will pay out. So again it gives you the, an idea here of the, of the power of both having a strong income portion and a strong capital portion of the portfolio too.

But on that I might hand to Damien who can talk around the benchmark and why we chose the 60% equity and 40% bonds as a neutral point.

Damien Boey:
Yeah, thanks Matt. And thanks everyone for your time. So the way that we went about this was to say look with the blank sheet of paper, what is the best way historically to generate high quality monthly income? If you had a choice of investing a dollar into high dividend yield equities, a dollar into 10 year or long term government bonds or a dollar to go into high grade high quality corporate bonds that have got very short maturity, what exactly is the best allocation?

And since Australia has had a liquid corporate bond market, what we've found is that historically the best blend is 60% equities and 40% debt. And of that 40%, that's pretty much entirely the high-grade short term corporate notes. Now what I want to also say in the way that we've gone about coming up with this is that we haven't just tried to say give me the maximum return and the lowest risk and the allocations that we need to do that.

We've also said, look, we want most of that return or a large chunk of that return to come from distributions. So when we do that exercise, that's how we come about with the 60%, 40% split. What's really interesting in that exercise is that government bonds can play a tactical role in a portfolio, but not a longer term strategic role. And the reason for that is the corporate bonds that we have in Australia are largely in the financial and in particular the banking space.

They're very high quality. And because banks are an essential part of the Australian financial system, essentially they do have some degree of policy support when times do turn a little bit lower. So the benchmark for us is 60% high yielding equities, a quality brand of equities and 40% debt. But it's really high grade short term corporate notes, predominantly financial. Now I guess when it comes to the way that we want to invest, we have a multifaceted approach, the usual WAM way.

So we are interested obviously in taking into account the fundamentals, we are interested in taking into account what's happening in the macro economy and we are interested in

positioning now in the Leaders Fund. We've always invested using these three pillars and we will use these three pillars in the way that we invest in the debt portfolio. The difference will be however, that when it comes to defining our investable universe, obviously we are very, very much focused on, on those sorts of exposures that can give us the monthly income because that is the focus of this product.

If I just turn a little bit to the equity strategy side of things, as I mentioned, and as Matt mentioned, we can invest in the ASX300 universe, but what we are trying to do is come up with an initial filter with which we can actually say within that 300, what is it that we're happy to invest in and what aren't we happy to invest in for the purpose of generating that monthly income? And so the approach at a high level is basically saying, look, we're not just interested in investing in companies that offered you a high dividend yield yesterday.

What we are looking for are those companies that we think could actually offer you a high dividend yield tomorrow. And if they're not actually going to pay you in the form of a dividend, could they pay you in a different way through some sort of capital transaction or a buyback. So to that end, we filter out the ASX300 universe to try to identify companies that would fit into each of those three categories.

And obviously we have quite a focus also on the quality of these businesses because it's no good offering a yield today but no yield tomorrow. We want to see some consistency based on the business model and based on their macroeconomic exposure from the outset. This is not a set and forget portfolio like we do have that focus on income, but we do actively manage this as well. And so depending on the macroeconomic or the micro signals that we get from management, we have the flexibility to dynamically weight the way we the stocks that we put into the portfolio.

Similarly, on the debt side of things, as Matt said, both Matt and I do have experience in fixed income and the multi asset space and we've used those sorts of signals and the information in that space over many years within the equities universe and are very comfortable with applying that both within equities and also to debt. The way that we manage the fixed income portfolio, the debt portfolio, I want to reiterate that it is a high investment grade portfolio.

We are not going into out further out the risk spectrum to get return. We are concentrated at the quality end and the quality end of the spectrum in Australia is largely dominated by financials. But what we are very comfortable with is triangulating the information that we get in the equity space with what we see in the debt space. So we are meeting a lot with company management and we can actually use the signals that we get from company

management to look for opportunities that might be there where there's mispricing between the equity and the debt.

And of course, we're only investing in the debt securities of companies that we are actually comfortable with on the equity side of the portfolio as well. So that's the debt side. It is inherently a short-term portfolio. As in debt, the debt instruments that we'll be investing in basically will have a relatively short life. Now again we are active managers, we're not just going to set and forget. And the main lever that we can use to actively manage the debt side of the portfolio is the duration of it.

So although the benchmark for our portfolio is short term corporate debt, we do have the ability to use instruments like swaps to basically lengthen the maturity if we think that there is a strong high conviction view about where interest rates are going to go. So for example, if we thought that interest rates would fall a lot, we could actually have more fixed rate debt rather than floating.

Matthew Haupt:
Maybe just to reiterate the experience on the debt side as well, obviously managed. Before I joined WAM, I was managing a multi asset portfolio as a portfolio manager for five years and work through the GFC. So actually, work through a credit cycle and liquidity crunch. So, you know, have very hands on experience for a very difficult time and maybe Damien yourself your experience.

Damien Boey:
Yes. So I started my life working at the Reserve bank, so largely working in a department that monitored foreign exchange. And the Reserve Bank's foreign exchange reserve portfolio, which in turn was obviously heavily invested into US Treasuries, European government bonds and Japanese government bonds, did a lot of work in terms of I suppose the macro inputs that would go into understanding where interest rates and foreign exchange would go as well as a lot of work on what could potentially be some additions to the way that portfolio would be used.

So after my time about four years at the RBA, I spent 20 years basically in equity strategy land. And the whole idea that was to take a lot of the macro signals and the frameworks that I developed at the Reserve bank and apply them through a very different universe in equities. Over the journey, what I've been doing is working on constructing multi asset portfolios, country allocation or multi country portfolios and also looking at stocks, building stock portfolios in APAC, US and in Australia.

So it's a very comfortable space. And what both Matt and I find quite remarkable is just how

common the set of information actually is. Starting with the fixed income and macro signals working their way through equities. There is a significant amount of overlap.

Matthew Haupt:
And just on the, on the dividend, we were talking about the dividend as well, you know, the income target of RBA plus 250 as I try to explain, is the income target of the underlying securities of the fund. That is not what the fund intends to pay out. Obviously the dividends are a Board decision, but that is the base, that is the bare minimum that could be paid out if no capital growth or retain profits were available. But obviously 60% of the portfolio is in equities. And as we know the history suggests you can put whatever figure you would like in there, but you can see there's significant upside potential based off historical figures to that RBA plus 250. So just to clarify, that is not the income target, is not what's going to be paid to shareholders, that's the income generating target of the securities we hold in the fund. Just to clarify on that point as well.

Geoff Wilson AO:
Now, do I have to go to - are we in slide 14 in terms of risks? Do I need to touch on that?

Matthew Haupt:
Yeah, I think that's a correct. Yes.

Geoff Wilson AO:
So, yeah, I think I've got to read this out. This is again, because there's a prospectus there and they're just talking about risks and the prospectus and the target market determination as discussed earlier. Please refer to the prospectus for further information, including the key risks to the offer. Now, yeah, I think that's obviously, it's equities debt. We're looking for monthly income, a lot of that.

The monthly franked income. The bulk of that is covered by cash flow from the equities and debt. You'll See on slide 9. As Matt said, know what, what we, you know, what we're planning on doing, or maybe I'm not allowed to say that what we, what we are looking to deliver is a better return than investing in equities and a better return than investing in debt and reliable income that doesn't necessarily have to worry about profit reserves because we've got the yield from the debt and the yield from the equities that we're flowing through to the investors.

Now, why don't I pass over to April, who. I know we've got a lot of questions and there's more questions coming in and please keep them coming in, but April: why don't you start off with them?

April Lowis: Thanks, Geoff, Matt and Damien, and thanks for everyone for submitting their questions for the webinar. So the first questions we'll ask around the dividend and capital

gains, and I know that Matt and Damien have just touched on it, but it might be worth reiterating what yield you're expecting to pay and whether it includes capital gains.

Matthew Haupt:
Sure, I can touch on that. Obviously, whatever the dividends paid is a Board decision, but we can give you the building blocks. And really we were trying to walk through the building blocks and the best example we can give is that of what would have happened last year. So the target return of the fund, you know, would be met by the cash, as Geoff mentioned. So we're talking around 6.6%. That's the income.

And then above and beyond that, you can get to 11.9% inclusive of that 6.6. So effectively 11.9% theoretically could be available for distribution. So that's sort of the range. And you'd expect it somewhere in the middle there. Obviously, the board dictates the policy, but you'd expect maybe it wouldn't be all paid out, they keep some in reserve so they can smooth the dividends. But you can see that range between a floor of 6.6% and a ceiling of 11.97%.

That is the range you'd expect that the board could set the dividend from. So obviously some significant scope and much more than that. RBA plus 250.

Geoff Wilson AO:
But isn't that, and just on that, isn't that 11.97% the example of what it would have been hypothetically last year? Isn't that excluding whether you outperformed in equities and debt?

Matthew Haupt:
Yeah, exactly. I mean, that's again, like historically, you could go through all the WAM products and extrapolate what you think we're capable of on the outperformance and add that to the potential to be paid out. So you can. The building blocks are there. You can see 11.97% excluding no outperformance on both the equity and the debt side. You know, that is not our goal that we don't, we don't come into work every day not hoping to outperform. So you can see there's another leg up to the potential for distributions to be paid out of outperformance as well.

April Lowis:
Thank you. And the next question we've got. How soon will dividends commence and at what rate? And will the fund have a lower dividend in year one?

Matthew Haupt:
I mean. Yes -

Geoff Wilson AO:
Yes – sorry, you got Matt.

Matthew Haupt:
I was just going to say the expectation is to. Well, the goal or objective is to pay and declare the first dividend in August. Obviously, it will take a little while to build up the profit reserves and the income flowing through. But again, we haven't formally articulated the communication policy. But you know, in those early few months, we really want to keep everyone up to date on how we're going with the accumulation of interest and also dividends. So, expect regular communication before August and again monthly updates, but maybe even the frequency would be higher as we build up that. The underlying franking we get through the portfolio is between 30 and 40%.

That's the underlying flow through franking we receive from the companies we're invested in. And obviously within FY26, we'd expect to be at a fully franked level as well. But again, the profile of the dividends, you would expect a gradual increase before we start to hit a steady state on the distributions. But again, it'd be really dictated upon market conditions and obviously we'd want to pay as soon as possible. So there could be potential for, for upside surprise if market moves in our favor.

April Lowis:
Thanks, Matt.

Geoff Wilson AO:
But Matt, just on That I think it's got to be clear like how this is different to our other products is the interest that's coming in from the other the bonds we invest in and the dividends from the equity. Effectively they're covering or pretty close to covering 100% of the distribution. So the outperformance or as you said the capital growth that's then obviously up to the board how they pay that out over time.

April Lowis:
Thanks Matt and Geoff. That actually covers off the next question which is about some a shareholder that had concern regarding the monthly dividend paying structure having a possible loss of capital over time and how you'd address that. But as Geoff said it's actually largely cashed back through that passive income.

So the next question comes from Peter. I currently have a mixture of shares, fixed income and some US equities. Would the proposed LIC be a preferable alternative if I just wanted regular monthly income?

Matthew Haupt:
We obviously can't give product advice but the way I look at it is this product has that the beautiful blend of bonds and equities which give you that diversification benefits. And one of the things we're hoping to do for people is through active management take away that

interest rate risk from people. Because obviously as we move through cycles, hiking cycles, cutting cycles, our goal is to protect people from falls or rises in interest rates and make sure we can maintain a dividend no matter what the market environment.

When rates are cut quite often in the midpoint equities go for a run. So we can really dial in between the equities and bonds to protect people through all parts of the cycle. So I mean, yeah, we can't give advice on what product would be suitable but you know, factually it's a very diversified product and through active management we hope to take away the risk of interest rate cycles from people.

April Lowis:
Thanks Matt. When most companies are paying dividends twice a year, how would you find enough funds to pay dividends monthly?

Matthew Haupt:
Yeah, I mean that's a great question as well. Obviously, a lot of our income comes through quarterly, through quarterly coupon payments as well. So we've got a large proportion coming through that obviously we're going to have some short term liquidity funding as well. Like maybe 1% would be in very short term highly liquid interest-bearing accounts. But also, with a list investment company you get to smooth the dividends out over time as well. So I mean that's why that first three months or you know, while we get the funds deployed we can build up and build a little bit of a buffer before we start paying the dividend in August and then we can gradually build it up so we're in a position where we have the capacity to pay, where we're not receiving the high frequency monthly distributions, where we have quarterly. So we'll definitely have enough to cover that through the passage of time.

April Lowis:
Thanks, Matt. And the next few questions are more about the application and the offer itself. What is the minimum investment amount?

Geoff Wilson AO:
Yeah, the minimum investment amount is $1,500. You have the issue price. I think I saw some of these, issue price $1.50. Someone asked why did we - how do we come up with $1.50? It was really, you'd see there's a number of investment banks and stockbrokers that are helping us distribute this product. Pretty much the team we've worked with over the years, plus some newer ones today. And it was really discussing it through them.

Geoff Wilson AO:
In terms of the price you pick it really we could have picked $150. You know, we could have picked a $10, $20. Yeah, it's, there's no real science to it. It's. They just thought $1.50 a nice

position in terms of. And then obviously any performance. The other is from there. What was. What are any other questions?

April Lowis:
Yeah, so the next question is will there be a dividend reinvestment plan?

Geoff Wilson AO:
Yeah, the plan is to have a dividend reinvestment plan and we. And we have. You'll probably see in the prospectus, we have a bit of flexibility there whether we actually issue the new shares or whether we issue the new shares and then buy back on market. So that'll be a Board decision and we probably didn't cover off on the board and I wouldn't mind just covering off now. Know we've really got a really high-quality Board, you know. Well, maybe excluding myself, I put myself out of that as myself. Well, we've got high quality independent directors. Maybe that's a better way of putting it. Myself and Kate Thorley, the WAM CEO are on the board. Also JoAnna Fisher who's chair of Colonial First State. She's got a lot of debt experience, I think a decade of debt experience, decade of equity experience. And also Curt Zuber who was 16 years Treasurer at Westpac (ASX: WBC) and has significant experience in capital markets and debt markets.

April Lowis:
Thanks, Geoff. When does the new LIC commence trading?

Geoff Wilson AO:
30 April. Now the issue closes in three weeks from today, 11 April and it'll be trading on the ASX on the 30th.

April Lowis:
Is there a limit, an upper limit on the number of shares per holder?

Geoff Wilson AO:
That probably refers to more the entitlement, but in theory, well, we're only raising $510 million. So if someone wants to put in 600 million, then it's all done. So and, and we've got to look after our shareholders. So yeah, there's, but in terms of, and maybe I saw a couple of other questions come in about that. There's, you know, we put $180 million worth aside for, you know, the shareholders in the other LICs, because usually 65% to 70% of the money we raise in the various funds. I think when we did WAM Leaders (ASX: WLE), 65% of it came from our current shareholders.

And particularly I think I mentioned at the start, like of the shareholders that fill in the survey latter part of last year, 63% of them said that they're looking for a monthly income product. And we think, yeah, this is a really good monthly income product. The risk reward

equation, the ability to continue playing paying monthly income. It doesn't rely on the profit reserve to do that. It's the flow through yields we can pass out.

And as we build up, as we pay a bit of tax, then we'll get them to fully franked. Yeah, like we're pretty, we're pretty excited about this product, but in terms of how we allocate to our other shareholders, it's really looking at what they apply for. You know, obviously our preference is to look after our, our investors. You know, you guys have allowed us to, you know, to do what we love doing and you know, to make a difference in terms of investing and standing up for what we think.

Yeah, you want, you want us to stand up for. So yeah, we will, you know, we'll look very favorably on them. And it's not as if it's a fixed, you know, if you've got $10,000 worth of WAM, you can only get $10,000 worth of this. It's not that at all. Just, you know, apply for what, you know, you're comfortable with applying for in terms of dollars amount. And from our perspective is we'd prefer if the brokers that are raising the money. We'd prefer to cut them back and look after our shareholders and the other way around.

Matthew Haupt:
And Geoff, I was just going to say as well, we probably haven't clarified on the equity side, the WMX equity portfolio will be its own unique portfolio. It will not be a replication of WAM Capital or WAM Leaders or a combination of the two. The equity portfolio will have its own unique. The way we screen it makes it a very unique portfolio on its own but will be managed as a separate pool of capital with its own objectives. The objectives of the fund is to pay a monthly income. So, it does have a bias towards some of the income filters and quality filters. So again, it's a very different pool of capital on the equity side.

April Lowis:
Thanks, Geoff. Thanks, Matt. That was actually going to be my next question as well that was sent in. But just a follow up to that. What stocks will you invest in? Yeah, we've seen a few questions like that come through.

Matthew Haupt:
Yep, sure.

Damien Boey:
Yeah, no problem. So the sort of companies that we're looking at have got to be able to generate some pretty good free cash flow, not just yesterday, not just tomorrow, but they've got to be able to pretty sustainably do so over the course of several years. So free cash flow generation, and in particular the consistency of it is a big thing for us. Obviously we have an emphasis on companies that can pay dividends or have paid dividends.

We're also interested in companies that can offer dividend growth or free cash flow growth because the two essentially go hand in hand. We're obviously looking at the macro exposure of certain stocks. We want to see that the business model is actually inherently robust, no matter what sort of macro circumstances the company finds itself in. So we want companies with high return on invested capital.

So that gives a bit of a flavor for the sorts of companies that we're looking at. And once we've actually refined our list of stocks according to that sort of filter, then we have to ask ourselves, well, suppose that you get mining companies in that list, or suppose that you get banks in that list. How do we actually see the relative cycles between here and abroad? What sort of signals are we getting from management about what they're seeing in the economy, what they're seeing in their businesses, and most importantly, what they could actually do with distributions.

So they're the sorts of things that we look at in terms of picking the stocks that go into the portfolio.

April Lowis:
Thanks, Damien. And this question has come up a little bit as well. Is how is volatility impacting the way you invest and how are you thinking about markets at the moment?

Matthew Haupt:
Is this our view on market question or?

April Lowis:
Yeah, view on market and just view on volatility, I suppose, where WMX fits into volatile markets as well.

Matthew Haupt:
I mean. Yeah, like for us, obviously the volatility has come in through increased inflation uncertainty, policy uncertainty, and a slowing in Global growth. I mean from a, from a WMX perspective, you know, when we do our asset allocation between bonds and equities, it really starts to skew us towards bonds for a short-term tactical trade given the increased volatility. But again, from here on in we see the volatility not getting any worse because for things to get worse you need incremental bad news on top of bad news.

The same news will just not send the market down. You actually need incrementally more news. So unless it gets progressively worse, which we don't think it will, from here we, we think the largely the volatility we're seeing in the market is playing out as expected and maybe even be counterbalanced with some of the more productive policies coming out of the. I'm talking about Trump really about more balanced approach where deregulation, tax cuts, some of the good things he was talking about rather than just the really negative

things in the short term. But again, I mean that's sort of why we've come up with this product as well, because it's a monthly income, we want sustainable monthly income.

And having this mixture or having the levers to pull in times of stress or increased volatility is hugely beneficial. And meaning that's the advantage of this product is in highly stressed or volatile markets, this strategy does really, really well. So in this instance it's actually done. The model portfolio we're running is performing really well in this environment.

Damien Boey:
I should also add that the sort of volatility that we're seeing isn't just stocks have become more volatile, it isn't just that bonds have become more volatile, it's actually that the equity market, you could almost split it into different slices. And between those different slices within the equity market, there's become a lot more volatility in that. So one of the things that has really triggered a lot of market wide volatility is of course volatility in the biggest stocks in the index.

And a lot of those very large stocks, so called Magnificent Seven technology, very large, very crowded, very concentrated positions. And so a lot of the volatility that we've seen from them is actually volatility that might cause a bit of a drawdown in that portfolio. But the flip side is that that money has to find a home somewhere else. And so what you see is a lot of switching out of that crowded bucket into other buckets.

And typically what you find is that when you're investing for very long term growth, those are the sorts of companies that do well when interest Rates fall. When you've got a bit of uncertainty about interest rates, when you've got a bit of uncertainty about inflation, you find that those very long duration, long term investments, they start to, I guess investors start to look at income, short term income as being a natural alternative.

So there are many sensors in which the WMX portfolio is sufficiently refined with the way that we define our universe to actually be able to benefit from the volatility that we're seeing.

April Lowis:
Thanks Matt and Damien. Another shareholder followed up with this asking whether the volatility presents opportunities for additional capital growth or enhanced yield by buying things cheap.

Matthew Haupt:
I mean that's a very, it's a very topical question as well. I mean, depends on the environment. But the way we viewed it a few weeks ago, you probably would have been wanting to be longer duration, higher fixed interest exposure at a point because of the equities were coming from a really expensive place. So they probably weren't cheap

enough to buy on a yield expectation. That has changed obviously with the market drawdown. So again we're constantly assessing that. But it's really your view on where you think markets are going is growth slowing to a, a degree where puts dividends at risk and then if that's the case then you'd obviously want to be in the fixed interest world or having longer duration exposure. So it's very much dictated on the backdrop. But again, I think equities would another 5%, 10%, a lot of them would scream extremely well because the balance sheets are actually quite good.

Damien Boey:
And we've seen, I described before, a very crowded bucket of stocks. It would look a little bit different in Australia to what it would in the U.S. but what we've seen in a very short space of time is that crowded names have become a lot of them have become uncrowded in a very short space of time. So to the extent that the volatility has actually created a bit of dispersion and pared back some of the favorites, then yes, obviously more volatility is creating more opportunity.

April Lowis:
Thanks Matt and Damien. Will the 60:40 split between equities and bonds vary each month? I know you touched on that just before Matt.

Matthew Haupt:
Yeah, the idea is that that's our neutral starting position. But yes, it can vary. Ideally, we can manage the risk within the equity bucket and the bond bucket without having to change the asset allocation. But I would describe the asset allocation as more being tilts rather than wholesale going to 90% bonds, 10% equities. I mean that would be a scenario where we're seeing a Very big dislocation event.

So I would expect tilts, you know, equities could go 60, 70%, 60 down to 50 and again the bonds could move around a little bit as well. But it'd be more tilting because within the buckets we can really change the profile of the risk as well, both on the equity side and obviously the duration on the bond side too. So we have a lot of tools independent of the asset allocation as well.

April Lowis:
Thanks, Matt. A shareholder has asked as bank hybrids are being phased out, where will the LIC invest for its fixed income? Will this involve private equity investments or private lending? Please clarify what corporate debt means.

Matthew Haupt:
Yeah, so for us, investment grade, we're looking at the, this is what investment grade is rated by the rating agency. So S&P Global Ratings and Fitch Ratings, it's essentially the

highest quality companies out there. The ratings you can get the, you know, we'll go to triple B which is the, the rating but essentially what you're getting is you know, the highest quality companies with the highest ratings. When you're talking private credit, I mean that's sort of out of the risk spectrum as well - mezzanine finance, all that stuff. Junk bonds, we're not touching any of that. We're talking about investment grade. And where predominantly we're going to be is in the subordinated bank debt which is essentially the hybrids were classified as a tier one instrument. We're going to be investing a lot in the Tier 2 instrument which is within the, the same vehicle like a bank but it's just at a different capital stack.

But again it's, I just want to say again it's investment grade. So if you look from an equity point of view, let's, it's like a blue chip I guess would be the, what you'd call on the, on the bond side if you were looking at equities. So yeah, definitely no private credit, no junk bonds. It's investment grade. So the best of the best.

April Lowis:
Thanks Matt. How do you see WAM Income Maximiser performing compared to other income earning entities? So some examples given were Metrics Direct Income Fund, JP Morgan Income Fund, Martin Currie Real Income Fund (ASX: RINC) , Plato Income Maximiser (ASX: PL8) and Vanguard (ASX: VHY). And why could you perform better?

Matthew Haupt:
There's a huge mix there. So I mean let's probably stick with the listed investment companies because that's sort of a like for like. I mean for us the, the difference here is the introduction of the investment grade bonds and the flexibility it gives us on the equity side to outperform. So it's really the, the history of WAM. What they can do on the equity side and the ability to outperform over the medium to long term.

And for me it's the structure. The structure is so beneficial on delivering the objective at a lower level of risk, I think for me is quite powerful versus an income backed solely by equities. I think the introduction of bonds really gives some diversification benefits and makes that monthly income in March a lot more sustainable.

Damien Boey:
I think that's right. So, you know, I guess the WMX product is different because it's a LIC that combines debt and equity. You won't really find another link that does that right now. So there is diversification within that. There is the flexibility to turn capital growth into dividends, all of those sorts of benefits. I think the key thing is to have multiple levers because what you tend to find is if you are a company or if you're a fund that purely invests in the highest dividend yield stocks, there's a little bit of a risk management issue because

one, you'll be taking on companies that are cheap, but cheap companies can stay cheap, particularly if they're cheap for a reason.

So that is a risk that needs to be managed through having appropriate quality overlays. The other thing is that often what you'll find is that very high yielding companies could actually have a lot of leverage in them. And so if they've got a lot of leverage anywhere in an environment where markets are stressed, that could actually be a problem. So you would want to be able to make money not only within that constrained universe, but obviously you want to have more levers.

So if, for example, we had a very strained environment, you would want to be able to profit from a view that interest rates would fall. If you only had equities, you wouldn't be able to do that. But if you had a bond portfolio and you could actually extend the duration of it, then that would be a different story. So I think having multiple levers and some macro analysis to be able to see exactly where the cycle is going, these are very, very powerful factors that distinguish the product.

April Lowis:
Thank you. Another question is whether this new LIC WAM Income Maximiser will use any leverage or borrowing?

Matthew Haupt:
No, we're not allowed to use leverage within the product. We can't short sell, so definitely not.

April Lowis:
Thanks. Do you see any liquidity risk compared to some of the other WAM LICs?

Matthew Haupt:
Liquidity from on the investment side, definitely no. On the equities there'll be high quality. So liquidity with high quality, generally that goes along with size. So on the equity side, very liquid. And then on the bond side, I mean the amount we're investing, we see no issues with liquidity. And you know, when we first deploy the money, you've been working very closely with Curt actually on implementing in a very smart way and a way where we can get set without leaving too much of a liquidity footprint. So no, definitely no issues with liquidity in the spaces we're playing. Again, at the high-quality end, that's not an issue.

April Lowis:
Thanks, Matt. The next question asks, there is a tendency for a share price to drop below the value of the dividend after it goes ex dividend. And that presents opportunities for contrarian investors. If WAM. Income Maximiser pays monthly, are there any examples to show that this will not increase volatility or suppress the share price growth?

Geoff Wilson AO:
You just look at it logically. The dividend you're paying is rather than a dividend twice a year that say, gives you that 6.6% yield. Each time it would be 3.3% of the value of the company that you're paying out. But if you're dividing that by 12, then the percentage you're paying out as a fraction of that. So therefore there's not a big dividend drop because the dividend amount you're paying out is a lot less. So yeah, I don't think that would be the case at all.

April Lowis:
Thanks, Geoff. This is a great question I think that you've all addressed, but it'd be good to cover it off again. Why are you doing this?

Geoff Wilson AO:
Yeah, the reason we're doing it is because over the years shareholders have been asking us or our investors have been asking us for this. Yeah, I mean there's a number of you that have, you know, that I've been communicating with that have been saying, look, can you give me a monthly income product? And to me it's been, this will be a different product to our other. A different LIC To our other LIC's.

The other LIC's. We need to make capital profits. A lot of the dividends paid from capital profits where this, the majority of the dividend will be paid through flow through income. And it's really, you know, also I mentioned at the start, I think 63% of our shareholders at the latter part of last year that we surveyed said, you know, that they'd like a monthly income product. So. Yeah. What does this mean? Yeah, probably the next question is that, does it mean you'll change how you pay dividends for the other funds? Well, that's not the plan.

I mean, the reason why this works really well is because we've started with a blank sheet of paper. Now we've created something that we think really gives you... Gives you sort of the maximum return while taking lower risks and gives you that monthly franked income. And we think it's a great product and effectively we've got the skills. Yeah. To manage it.

April Lowis:
Thanks, Geoff. The next question is about fees. What is the management expense ratio and are there any other expenses?

Geoff Wilson AO:
Well, yeah, I mean the management fee is 0.88% so the, you know, the total management expense ratio will be a little bit higher than that. And depending on how much we raise, it tends to be like another point for directors' fees, ASX listing fees, audit fees, maybe another 0.15 of a percent. So a little under the whole fees would be a little under 1%. And then if we outperform, then we've got to outperform the ASX 300 for 60%. And then the other one is

the. The Bank Bill Index I mentioned, plus 1%. We've got to outperform that. And if we do, then, you know, the outperformance is split - 80% goes to the investors and 20% goes to Wilson Asset Management.

April Lowis:
Thanks, Geoff. The next question is for Damien and Matt. I'm an investor in Commonwealth Bank of Australia (ASX: CBA), NAB (ASX: NAB) and Westpac hybrids. Do you have any information on when each bank will commence to redeem their hybrids?

Matthew Haupt:
From our understanding, they will just naturally let them roll off. They won't call them early from all our initial discussions because, I mean that was one of the things we were looking whether any of those vehicles would be suitable for us in the short term to collect franking and interest. But the biggest risk is you're paying above par, like maybe call it $1.03, $1.035 for something that could be redeemed at face value. But we think that risk is very, very low. So we're speaking to a lot of the bank CFOs and I'd say that risk is minimal at this point in time.

April Lowis:
Thanks, Matt. The next few questions are on premiums and discounts to net tangible assets (NTA). This investor says: my whole family are shareholders in WAM LICs. Their concern is that WAM Income Maximiser shares will quickly settle at a small discount to NTA of 5 to 10%, which is reflective of the current position of a number of quality LICs. What are your thoughts?

Geoff Wilson AO:
Well, just on our eight WAM LICs, there's five of them - as you're a shareholder, you'd know that five of them sitting at NTA or a premium to NTA. There's another product earlier on, I think someone was mentioning another sort of monthly income product that's listed on the stock market, the Plato income Maximiser and that's historically traded at a premium to NTA. So yeah, to me it's always a risk. I mean one of the good things is I think because the volatility in the market then actually I remember go all the way back when I floated WAM Capital, what 26 years ago, I had a shareholder that rang up and the issue was at a dollar and rang up, I think the week before is going to list on the stock market and said, oh,

do you think it'll come on at $1.10? And, well, I didn't expect it to come on at a $1.10, which it didn't. And so I knew he'd be a seller. So one of the good things is with the volatility in the market, you know, the people that are investing are the believers. So it's not, it's not as if to me that what's happened in the market is actually positive for the float you know, because

if the market had continued to go up as when we're investing, things would be more expensive now that they're cheaper.

And secondly is, you know, when the market's running hot, you get hot money into IPOs and some people invest and they don't know what they're investing in. So, you know, doing an IPO in a difficult market reminds me a little bit more when I think CSL was doing their IPO. I think, you know, it was, you could have nearly got as much stock as you wanted because it was a tough market. And yeah, so to me it's, you know, it probably bodes well for the aftermarket the fact that, you know, there is has been a volatility. So only the people that believe in what we're doing are the ones investing and that's. They're the ones we want them invest. Yeah, we don't want, we don't want hot money.

They're just investing because they think it'll come on at a premium. So to me that's good for it. And historically, as I said, the monthly income products that are listed have tended trade at premiums.

April Lowis:
Thanks, Geoff. The next question comes from someone that describes themselves as a committed discount to NTA investor they're trying to understand I think this is for LICs more broadly should we be buying opportunities as they emerge or is there a more scientific or historical basis to predict the future discount to NTA?

Geoff Wilson AO:
The logic for the future discount to NTA. Well in theory it's, you know, there's one logic that you know that you discount, you do an NPV of the management fee against the index. So that's one logic. Then the other logic is you've got to make an assessment of: will the fund manager outperform the market. So then you take the management fee off that and NPV back the outperformance and then in theory that's the implied premium to the manager. So that's probably the more scientific ways of looking at them.

The fascinating thing is, you know it really is, it's very simple, very simple but very challenging or very difficult because it's supply demand. So the NTA is the value of the, of the company and if there's, you know, if there's more selling than buying then a trade at a discount, if there's more buying than selling then eventually it trades at NTA if not a premium. And that's why you know, like we've got 13 or 14 people in Shareholder Engagement, Communication and that's a cost to us as a fund manager, you know, would be we'd have a significantly more profitable business if we didn't, if we didn't employ anyone in that area.

Well long term we mightn't have a business because know to me that's, that's sort of the moat you put around your business and when you're buying the discounts, you know what

drives an LIC obviously performance yield and treating shareholders, like all listed companies, treating shareholders well and probably the fourth thing is which a lot of them and there were 100 back in this last sort of growth in LIC's I think there was nearly close to 120 LICs and now there's a little under 90 LICS and that's because a lot of the managers that listed their LICs expected, that's just a pool of capital I managed and they don't have to do anything else with it. You've got to try to make sure all the investors are happy with what they've got and you deliver to their expectations and then also get more investors and so it trades at a premium. So the challenge is if you see someone at a discount then you've got to work out do you believe: why are they at a discount and do you believe they can get to NTA if not a premium?

So to me that's, that's a challenge for you.

April Lowis:
Thanks, Geoff. We've got a question on the line asking whether the returns from WMX will be as good or better than WAM Capital (ASX: WAM).

Geoff Wilson AO:
Oh, good question. We need Oscar here. Yeah, he. Matt, what would your, how would you answer that? Yeah, obviously WAM Capital going down the risk curve. Sorry, you're going up the risk curve - do you want to talk through that, Matt?

Matthew Haupt: Well, yeah, I mean, at 100% equity portfolio, obviously you have higher risk, so you would expect higher returns over a longer period of time. The benefit of WMX is lower volatility in a very sustainable income. So it's a trade off between risk return, which is naturally you're going to get a higher return potential over a longer period for WAM Capital, but a more stable, reliable return from WMX. That's the simple way to put it.

Geoff Wilson AO:
Yeah. And one of the things, it depends what's more important to you, like if you know the income, how important the income is to you? Because you look at WAM Capital and I look at our annual report, the history of paying dividends has been very good. We've paid very high dividends but the, you know, we're paying it out of, it's, you know, a lot of our return is profit that we make, realised capital gain that we're paying to you in WAM Capital.

And go back a number of years ago, we got to a situation where effectively we'd run out of profit reserve and so we couldn't pay a dividend for a period of time and then we've made money again, so therefore we could pay it again. And I think as Matt said earlier, the dividend on Income Maximiser, the monthly dividend is predominantly covered by the flow through of our dividend and yield on the equities and also the flow through of the yield on the bonds.

Now obviously, also I think slide 9, you'll see that Matt mentioned we've got the ability to enhance that. The cash rate plus 2.5%, that's 6.6%. And in terms of. And that'll be from capital we make and the plan will be to grow that dividend over time and have a significant amount of that sustainable that growth.

April Lowis:
Thanks, Geoff. A shareholder in WAM Capital and WAM Microcap (ASX:WMI) was looking for clarification on how much overlap there will be in terms of the holdings with WAM Income Maximiser. I think Matt may have touched on it earlier but would you like to clarify again?

Matthew Haupt:
Sure. I can categorically say there'd be zero crossover with WMI, the Microcap fund on WAM Capital. And just purely by the stock names there might be 10 to 15% crossover. I mean maybe 10% on the name. So, so very, very limited crossover with WAM Capital too. Maybe with WAM Leaders there might be between 40 and 50% crossover. But again it's really all the portfolio weights are different. The way it's managed, the mentality is different because the objectives are different.

So yeah, the only reason why it crosses a little bit more with WAM leaders is because like I said with high quality comes size generally a higher, a larger company.

April Lowis:
Thanks Matt. And I know you both touched on your experience previously but a specific question has come through. What practical hands-on expertise do you have for bond purchases, profit taking and risk minimisation?

1:10:56 Matthew Haupt: Yeah, like I can start with that. Like I said, I was managing a multi-asset portfolio during the GFC so I've done all of those things trading lines of bonds and moving them around. You know I had a lot of listed notes as well which you know if, if people have been around they would have seen them like, or watching them anyway like the ORCO notes and Babcock and Brown's of the world that all went bust.

Matthew Haupt:
You know Goodman Group (ASX: GMG) notes which were, you know again traded, they were GM, GM PPAs or I can't remember the code but you know they went from a $100 to $16. You know we've dealt with this through a very, very stressful period and that, that's sort of trying to show you the listed side too. But then on, obviously with, on the bond side it's, it's really just through the systems we use now like Bloomberg, you can trade bonds through Bloomberg and again we've got screens where we watch for discrepancy, you know between and advantages to take on roles like switching between some two and fives. If

there's a 30, 40 bip spread there and we want to roll into a, from a two to five year we take advantage of opportunities like that. So it's really just responding to market conditions and also looking at interest rate expectations. I mean that's the key.

We've got models which we've been using on equities and then I was using them during the times managing bonds as well. You're really trying to look for data or models which are more predictive than where forward market expectations are and that's when you can really make some significant money, when you have skills. And probably pointing out as well, like using equities or the access to management is one of the greatest tools we have around interest rate expectations because we're getting communication that is not showing up in data yet.

Matthew Haupt:
So that can really be advantageous when comparing our expectations to forward market expectation is in the right market market. So again, just triangulation of data and using it and then taking advantage of it when we see it.

Geoff Wilson AO:
Yeah.

Damien Boey:
So, you know, I could reiterate the experience that we've had that, I've had at the RBA working at my two former employees, Credit Suisse and Barrenjoey as well. But I just want to kind of make a broader point because the question did address risk management. So historically the way to do this is you say these are the different options that I have to invest. This is what their risk profile is, this is what their historical return profile is.

This is how they may or may not move together. And then what you do is you just get an Excel spreadsheet and you say this is my target return, give me the lowest volatility portfolio and then that's it. The trouble with that approach, and I'm not the only one that could tell you this, any practitioner could tell you this, is that all of the assumptions that are into that go into that sort of framework and that model are all yesterday's data.

They're not actually forward looking. If you did construct a more forward looking approach, you'd have to have a future expectation for the return of the individual things that you're investing in. You'd have to have an expectation for the future of those things and you'd also have to have an expectation for the future correlation or co-movement between them. So over the years there have been many, many different ways to kind of slice and dice this to come up with better approaches.

One of the things that I found really, really helpful is the approach that they call factor investing. Because that actually does try across many different asset classes to

understand exactly what sort of return and risk is on offer for different approaches and different sorts of securities. So that's kind of where I've lived for a long period of time, applying that trade not only in equities, but also other asset classes too.

It's a fantastic tool for understanding and attributing risk. It's, I think, a fantastic tool for managing risk and if used properly can actually be really very, very helpful in optimising a portfolio for the risk profile that you're after for the funds that you're after.

April Lowis:
Thanks Damien. And I've also had the privilege of working with Damien at Credit Suisse Barrenjoey, and now in Wilson Asset Management, the next question is from a participant asking whether you will invest in international companies.

Matthew Haupt:
The prospectus does allow that but the goal here is to be Australian equity and Australian investment grade debt. But again we do have a flexible prospectus but don't expect that from us unless it was an amazing opportunity. But again, it'd be like a tiny subset of what we're trying to do here. It's really going to be focused around the ASX 300 and then the Australian investment grade corporate bond market.

April Lowis:
Thanks Matt. Is WMX permitted to hold cash? If so, what percentage and for how long?

Matthew Haupt:
Yeah, we're permitted to hold cash. We could hold 100% cash but again that is not the goal or the target at all. You know the beauty of having another asset class is we have traditionally within WAM we have within the traditional LICs we've always had the option to hold cash as a very defensive tool. Now with another asset class if we move into maybe a risk-off environment where we think things are slowing and obviously that will follow interest rates falling, obviously we're going to increase the duration of the portfolio, know put out the 10 year, maybe the 5 year fix. So we have a, another beautiful lever to pull in times of shock. So I wouldn't expect cash to be used in a great deal within WMX.

April Lowis:
Thanks Matt. And this one's probably for Geoff. We've got a few on the allocation. Well, can I keep topping up as funds become available?

Geoff Wilson AO:
Oh yeah, it's going to list, it'll be listing on the stock market. So therefore, you know, initially it's $1,500. Yeah. As the minimum and then it's really what your broker will, you know, allows you to buy and you know, and the cost you, you know if you're buying on, on market definitely can. Yeah, it'll trade and yeah so there's volume on a daily basis.

April Lowis: Thank you. And do we need to be an existing shareholder of other WAM LIC's to participate in the priority allocation.

Geoff Wilson AO:
Yeah like obviously the priority allocation where there's like there's a lot of people that have, that have followed us for a long time that have been shareholders and aren't shareholders. You know we're; we're sort of, I think we call it in the prospectus it's the Wilson Asset Management Family. You know we're, we're very broad. You know, people that are interested in what we're doing.

You know, we encourage, you know, I mean, for anyone who's wants to hear more, we're doing a state by state roadshow which we do once a year, just reporting to shareholders. So come along. We encourage our shareholders to bring other interested parties. So yeah, it is a very broad assessment. So, assuming we can't allocate to everyone, then obviously the preference would be for people that have shares.

Broadly. If you're on this webinar and yeah, I mean, we're happy to. Then we say in this prospectus that it includes people that are current shareholders, that are previous shareholders that are on our email address. Sorry, are on our email. We've got 90,000 people on the email and I assume if you're on this webinar, then you're on our email. Yeah, you must be on our email somehow. If not, sign up to the email and then you're on there. So you're included.

April Lowis:
Thanks, Geoff. We also have a question that I can quickly answer. When do we expect the priority code from Boardroom to be sent to shareholders? This has already been sent to existing shareholders via email and a letter. So please let us know if you haven't received it and we can send it through again.

Another question is on franking. What percentage of franking will be credited to the monthly dividend payments?

Geoff Wilson AO: Yeah, I think initially Matt said that initially it'll be about 30 or 40%. Now that's just an estimate. That's the flow through franking. A lot of the franking is a June - June year. So by the time the issue closes in three weeks' time and then we invest in the market, if there's fully frank dividends we receive or if there's profit we make before June 30th and tax that we pay on the profit, then that generates franking as well.

So the plan will be to get the dividends to fully franked as soon as we can. And that's a function of the flow through franking that we get from the shares that we've invested in, which Matt talked about that 30 to 40. But it also is a function of the profit we make and the tax we pay on the profit we make. And that's how we'll get it to fully franked.

April Lowis:
And Geoff, will there still be a profits reserve in the WAM Income Maximiser?

Geoff Wilson AO:
Oh, that's. What's the answer. What's the answer, Matt?

Matthew Haupt:
I was hoping you could answer that one, Geoff, but the tax rulings starts to go by above my head.

Geoff Wilson AO: We won't have a profit reserves like we. Like we do in the other ones. Now obviously if there's a capital gain that's made broadly. Broadly with where the accounting of the. Our ability to pay the monthly income is different to our other funds from an accounting perspective, the monthly costs which is effectively management fee.

You look at the revenue side. It's the monthly cost versus the income that comes in from the bonds and the dividends we receive. So that's broadly our monthly P&L and allows us to pay our monthly distribution. And then the, the assets being the equities and the debt, any movements in the assets that are realised will then go through go into the P&L. But it's not like all the other funds where effectively when they're they only in WMX they'll only go into the P&L once they're realized. Where the other funds they go into the P&L whether they're realised or unrealised.

So therefore the, well, as I don't want to say use the word security of the dividend, but as sort of Matt mentioned or we mentioned before, that the majority of the dividend that we'll be paying will be covered by dividends and income that we received from our investee bonds and equities.

April Lowis:
Thanks, Geoff. We have a few macro questions. How likely is it that the current U.S. political scene will cause a recession which will impact adversely on Australian securities?

Damien Boey:
Yeah, I'm happy to take that one. So what you're seeing in the U.S. is quite a lot of uncertainty which is causing both households and corporates to exercise a bit of caution in the way that they spend. You're also seeing a little bit of fiscal restraint because, you know, the Trump administration is looking to cut the size of the government and it does have a mandate to try to limit inflation. Now, do we think that all of that will lead to a big US. .recession that will have global implications at this stage?

We don't think that that's, you know, that that's not our base case. The issue here is that, you know, if we do get a bit of certainty, that is, you know, we get less volatility coming out

from policy announcements that will be a positive in as much as the higher uncertainty was a negative. Also, as Matt alluded to earlier, there is a little bit of a sequencing issue happening in America where what you're seeing initially are all the announcements that, you know, tariffs or fiscal restraint, things like that, that seem to be much more attributed, much more associated with a slowdown in demand and the economy.

But equally there are a whole lot of other measures that the administration could implement that could speed up the economy like deregulation, tax cuts and things like that. And it's just that so far the administration has put through the negative ones before the positive ones. So it is not baked in that the US economy will go into a recession and that that will have global implications. The other thing that's worthwhile noting is that, you know, there are a lot of parts of the world that are actually doing better than what we thought.

So for example, China has got a stimulus package ready and is implementing that as it starts to see more tariff related volatility. And Europe of course is now starting to up their defence spending because of all the geopolitical risks that they're seeing. So there's actually quite a lot going right in the world and what's happening in the U.S. is probably more temporary than not. Obviously there's data dependency. There could happen.

One other thing I should also add when it comes to the U.S. is that although there is a degree of fiscal restraint coming through at the moment, that can always be offset by the private sector and credit creation via the banks. So what you are seeing is that banks are telling you that they're actually still quite happy to lend. There's no restriction on credit, we've got lower interest rates which will support more borrowing.

And then finally, if you're looking at corporates, corporates as of today still actually have a lot of cash. They still have a lot of optionality to spend. So these are the things that I think go into our base case that actually we don't have to fear the worst. Having said that, there are a lot of obviously other issues that people are worried about like inflation or valuations and things like that. And you know, we take those on board too.

Matthew Haupt:
Yeah, I would just put as well that the dialogue we're getting with companies as well, they all talk about air pockets. This uncertainty has created some economic slowdown, but we're in a slowdown phase, not a, not a panic phase or a big step down yet. And we're not seeing anything in the current forward looking data or models to suggest we're in for a larger downturn. But again, the longer this uncertainty goes, the more damage it causes. So we really need, like Damien was saying, around that sequencing some of the good stuff to offset some of the bad stuff at the moment from the Trump administration.

Damien Boey:
The other thing is a lot of people are worried about recession because one of the Federal Reserves, the Atlanta Fed has a model which tries to tell you right now what's happening with GDP growth. And that turned sharply negative in the first quarter. The reason why it turned sharply negative was because net exports, the trade balance turned very unfavorably against the US and the reason why net exports turned very unfavorably against the US is was actually because there was a surge in gold imports.

That doesn't actually go into the final number. There's a bit of cleaning up of the data before you get there. And so what the Atlanta Fed has now started to do is produce now costs of what activity is doing excluding that gold effect. And what you'll find is actually on that basis there is no recession.

April Lowis:
Thank you. Would WAM Income Maximiser by Wilson Asset Management other LIC shares or preclude itself from buying them?

Matthew Haupt:
No. Preclude.

April Lowis:
Easy answer. Thank you. This is probably for Damien or Matt. Do you see the 10-year bond in Australia falling as lower interest rates will benefit Income Maximiser as bond prices rise from lower yields?

Damien Boey:
So a few things to say on that. First, the portfolio by the benchmark is short duration and it's largely floating rate. So if we wanted to profit from a view that interest rates would fall a lot, we'd have to fix the interest rate component or use some sort of swap to basically extend the duration of the portfolio and we could profit that way. On the flip side, if you thought interest rates would rise, we would maintain that floating rate benchmark and we would look for the sorts of stocks and securities that would actually do well when interest rates rise.

That is sort of value high dividend yield, short duration type exposures. So that's just a bit of a word in terms of how we would position for either one. Now in terms of the view for the 10-year bond in Australia, most people estimate that the neutral rate for the RBA, the long term neutral rate is around 3.5%. And you're seeing right now that the bond yield is obviously trading in the fours.

So it looks like bond yields are well above neutral and it looks like there is actually an opportunity to exploit there where if you buy bonds at the currently high yield and the yield

falls down to three and a half, you should be able to generate some capital growth that way. The difficulty is that there is an argument that that gap between bond yields and neutral rate, what they call the term premium should actually be a little bit higher globally for a number of reasons.

And one of those reasons has got to do with the plumbing of the system. Because nowadays what you'll find is that the uncertainty about rates and inflation is a lot higher than it traditionally has been. So take the point that there is actually a medium term opportunity to profit from the view that interest rates fall a lot. But before we get there, we actually need to resolve a lot of the uncertainties that people are telling us about inflation and rates and those sorts of things.

April Lowis:
Thanks, Damien. Can you please discuss the duration of fixed income portfolio expectations?

Damien Boey:
Yes. So as I said, our portfolio is expected to be relatively short duration floating rate notes. Pardon me. So in, you know, we're operating in the high investment grade end, which is largely financial, so insurance and banks, we can take on other sector exposures provided that we're happy with it. But back to the issue of the expectations for duration because it is sort of floating rate note, we could be taking on notes that actually have three to five years maturity, but the effective duration is actually much shorter than that because of the fact that they're running on floating rate interest rates as opposed to fixed.

So our expectation is actually that the benchmark for duration of our portfolio will actually be quite short.

April Lowis: Thanks, Damien. We've got a few more questions coming in. Will the dividend be fixed based on the RBA interest rates? If the RBA interest rate drops, so will the WMX dividend?

Matthew Haupt:
No, the dividend policy of the WMX will not be linked to the RBA. Effectively that's our income generation ability target, we're saying of the underlying securities is that RBA plus 250, where we're hoping to deliver income within the portfolio at that level, the dividend paid from the WMX is totally independent of that income generation target. So obviously it makes it harder to generate. You'd have to use more capital growth component to keep the dividend the same. If we went into a ZIRP, like a zero interest rate policy or a very low interest rate policy setting, obviously that would drag down the income generation ability of the portfolio. But then on the counter you should eventually have the environment where

risk assets do better and we can wind up the growth component of the portfolio. So you have a nice balance here. When rates are low, ultimately you get a pickup in economic activity and you can actually get great returns on the risk side, on the capital side as well.

April Lowis:
Thanks, Matt. How will you manage the debt investments given its of short duration and the Impact of a shift to an inverse yield curve which I think you've touched on a little bit.

Matthew Haupt:
Yes -

Damien Boey:
So if we did get into an inverted yield curve regime, you know, well a, there would have been money to be made already because the yield curve is currently not inverted. So if you had a long duration position or what they call a curve flattening trade, you could make money from that already. So that's number one. But let's talk more generally about the sort of environment where people would position that way.

People would basically be saying that there'd be quite a sharp slowdown in the economy, quite a lot of disinflation coming through and rather large rate cuts. So if we were short duration and we kept it at that, obviously we wouldn't. We'd be watching the interest rate on our bond portfolio go down and down and down which would be making it harder and harder for us to actually outperform our income targets.

So what we would hypothetically have to do in that instance is to get onto that early and basically say, look, we would start to swap out floating rate notes for fixed. We would have to take on more long duration exposure like government bonds or related instruments to try to profit from that. The good news is that we have the flexibility and the tools a to anticipate that but also to be able to position for that. But it would require us to take an active position.

April Lowis:
Thank you. What do you expect the annual equity turnover to be compared to say a passive ETF?

Matthew Haupt:
Yeah, I mean again where our models are projecting, we'll have turnover around 100%. So it is very, very active. It won't be as active as like the WAM Capitals and the WAM Leaders, but it's still very, very active around. Our best guess is around 100%. So not passive at all. Very much aligned to how we invest at WAM. Just the starting position is different because we screen for the specific companies for WMX. And again WMX is its own equity portfolio and be managed according to its own objectives. But yeah, it will still be very active.

April Lowis:
Thank you. We have someone messaging in saying government debt is not low risk. How do you factor in risk when investing in government debt?

Matthew Haupt: Yeah, it depends on how you define risk. If you invest in equities, government is very low risk. I'm not sure like if, if you got. Government debt is essentially backed by a printing press at the end of the day. So it is very, very, very, very low risk. I'm not sure if you've got any.

Damien Boey: Yeah, the comments but yeah, so the thing about government debt like, so we live in Europe, where In Europe in 2012-15 they had a crisis and the crisis there emerged because the governments there didn't have access to a printing press. We don't have that situation in Australia. It's not the case in Japan, the us, most developed economies. So that's number one. So you won't really see, I guess, bond yields rise or bond sell off in Australia because people think that the Australian government is not worth lending to.

They won't. It won't be because it's a bad credit. If there is risk in bonds, it's actually because A) there's uncertainty about where interest rates could go, significant uncertainty, and B) that usually will occur when there's a lot of inflation or a lot of inflation risk. So the main risk factor with government bonds has got to do with the cycle and inflation views. Now as I mentioned, our portfolio, the benchmark level, so before we take any active decisions is short duration.

What that means is if you get a big sell off in 10 year bonds, the magnitude of the sell off in our portfolio should actually be rather limited because it's short term in duration, not long term. The second thing that's worth noting is if you did get a selloff in government bonds and it is because of higher inflation or higher inflation risk or higher policy uncertainty, typically what you find in that environment is that the economy is going okay.

And typically what you'll find is that credit is actually doing reasonably well. So remember, we're not in government bonds strictly, we are also in, we're predominantly in corporate notes. So we wouldn't be exposed to the big sell off in 10 year government bonds from inflation going up. And actually we'd be profiting from the fact that the credit markets are actually doing quite well and we'd be earning a nice little premium with our yield over and above what the government rate would be.

So yeah, that's all very manageable.

April Lowis:
Thank you. Will derivatives be used to add income?

Matthew Haupt:
Not in the traditional sense, like probably people when they think of income, think of covered calls or some sort of option writing strategy that is not going to be a tool we use in WMX. Derivatives could be used like we were talking about, if we want to swap the exposure from fixed and floating and vice versa, we could use a derivative essentially called a swap, but that would not be a significant part of the portfolio either. So in essence derivatives are available but won't be an active part of the income generation.

April Lowis:
Thanks, Matt. And I think you touched on this in your presentation, but what range do you expect for the grossed-up dividend yield?

Matthew Haupt:
Yeah, I mean based off the last bit of data we have, it's going to be sitting between that 6.6% and 11.97% - that range. That's if. If we don't outperform. Obviously if we outperform, there could be additional capacity on top of that. But I mean, in that range would be. Based off history, it looks like a reasonable range to expect a dividend yield to land.

April Lowis:
Thanks, Matt. Is this the type of investment for a retired person?

Matthew Haupt:
We can't give advice around what product this is suitable for, but on the road, like when we were talking to a lot of people, they were like, this really makes sense for my allocated pension or, you know, people requiring steady income. So I mean, that's just anecdotal feedback we've had from a lot of people. That very suitable for a pension person was comments we heard. Again, we can't provide advice on who it's suitable for, but that was just conversations we've had.

Damien Boey:
I mean, the Reserve bank has an inflation target of through the cycle between 2 %-3% and so call that 2.5%. And this fund is attempting to always get you 2.5% over whatever the cash rate is. So essentially it's offering you inflation protection and different demographic groups have different levels of demand for that.

April Lowis:
Thank you. Why would I buy now with no income until August rather than buy on the market in August?

Matthew Haupt:
Yeah, I mean, that's a great question that we've had a few times. The way I look at it is we've kept this deal size very manageable and we've had a huge amount of interest, so we think

the after market will be incredibly well supported. The other reason is you're coming in at $1.50, there'll be no dividend paid. So we're going to grow this NTA in the interim as well. So you might like the other products have traded at a premium, so it always seems like a good idea.

I'll buy it cheaper. That's not a foregone conclusion either. So in the three, four months we'll be building the NTA, we'll be going up and up and up. With any luck, with the way markets are performing on the debt side, we're getting all the coupon payments coming through, so we will be building that NTA up. So yeah, it's a strategy. You could wait and see if you could get it cheaper, but our goal is to grow that NTA before that first dividend and then those people will be rewarded at that point in time.

April Lowis:
Thanks Matt. The WAM share price has been falling since mid-2022. What safety mechanism is built into WMX so investors do not suffer a capital loss like WAM.

Matthew Haupt:
I mean that was really WAM capital really blew out to a huge premium and then you obviously had shaky markets and then you had a reduction of the premium. So there is no mechanism within WMX to account for a strict mechanism. But obviously the Board has discretion around if they choose to do any sort of capital management. But we think this product will be different because I think Geoff hinted at it before as well. It's always come dividend every month you're going to get a dividend. So that incentive to trade around dividend periods doesn't exist with WMX. So we think it will trade really well. And then the other products which are listed are all trading at big premiums as well. So we think the, the steady state nature of this product with the. The sustainable income will make it less volatile I'd say. I mean we can't control the premium if it went to a really silly premium like 30% premium. There is always a risk of. Of a reduction in that premium. But we're, we hope it trades at a nice premium and just stays there.

April Lowis:
Thanks Matt. What are the brokers paid for this deal and do shareholders bear the cost?

The brokers. There is a small origination fee. I think from memory it's 1.25% but that is worn by us, not the shareholders. So that is something that comes out of our pockets, not the shareholders pockets.

April Lowis:
Thank you. And what fees do the Directors get paid?

Matthew Haupt:
I actually do not know the fees of the directors at the moment but judging by history they

are never really high director fees. So we would make sure that the minimum we can get away with like other WAM products.

April Lowis:
Thanks Matt. We'll circle back on that one with a specific answer in a minute. Could you close the offer early?

Matthew Haupt:
Yeah, we're just getting the Director fee was $40,000 for the independents and $10,000 for the non-independents. So that's what the Director fees are. Could we close the offer early? I mean that is a possibility if it was or does get over subscribed early. I mean that is a possibility. 100%. Yep. But again, the plan would be not to close it early because we want everyone to get their bids in and allocations in and make sure we look after everyone.

April Lowis:
Thank you. How much of the $510 million capital raise hasn't been taken up. So how much is left?

Matthew Haupt:
I don't think we can talk about the book's size at the moment, but yeah, it's. I mean, we've had significant early demand, so that's probably how I should leave that question.

April Lowis:
Sounds good. This is quite a specific tax question which you may not be able to answer, but we can circle back. If so, would foreign investors be liable to pay any tax on the monthly dividends and capital appreciation of the units?

Matthew Haupt:
Well, that would depend on your jurisdiction. So it'd be totally dependent upon where this person is coming from on their tax and their citizenship. There's a whole range of questions we need to work through before we could give an appropriate answer there.

April Lowis:
Thanks, Matt. Yeah, that's a tough one. We've got a few questions just on ESG. Do you have an ESG policy on the investments made and are you planning on having any green or ethical companies in the LIC?

Matthew Haupt:
There is no strict ESG policy like all the other WAM products, but obviously we take into account when we're looking at, you know, because one of our filters is quality. Normally if you're a high-quality company, you have all your ESG covered. So generally, all the companies we invest in are pretty well compliant. We don't have any exclusions for

industries from a product point of view. But again, we always look at: is there sufficient buying and selling demand or weight on individual security. So it does, it does come into our equation when we look at individual securities. But we don't have a strict ESG or policy which prescribes in or out things.

April Lowis:
Thanks, Matt. Will WMX start with a clean sheet that is cash only, or will it already be invested?

Matthew Haupt:
We will get the cash. I think it's about a week before it gets listed. But we'll essentially get all the cash and then our job is to deploy that cash. We should get the equity side of the portion deployed within a couple of weeks. Then on the debt side it really gets down to the primary issuance sequencing when these new primary issuances come out. But our best guess is we could get set within a couple of months.

But in the interim, we can go into short term things like negotiable certificates of deposit to get interest going in the background. So yeah, essentially, we get the cash and then we can deploy it. When it comes to IPO, the equities will be well upon their way of being invested by then too.

April Lowis:
Thanks, Matt. And this is a good question that's probably worth explaining. Can you explain what Tier 2 debt is and how is it different or riskier than Tier 1?

Matthew Haupt:
So it's effectively a bank has to hold a certain amount of Tier 1 capital and a certain amount of Tier 2 capital. And the definitions of what constitutes a Tier 1 instrument and what constitutes a Tier 2 is quite complex. And for our purposes the best thing to say is it's just really what APRA and what the banking system is like, how they group different securities into different buckets.

Does it one mean it's riskier than the other? Well, APRA is saying they're getting rid of the Tier 1 hybrids because they are a riskier product than people think. Because inherent in those Tier one securities is the ability to turn that into equity and call upon retail investors capital, a cash call and they can actually lose their money. So APRA are saying those instruments, the Tier 1 instruments, don't make a lot of sense and it was really a function of the Credit Suisse saga in Switzerland when the cocoa bonds effectively blew up and were worthless.

It's just a technical definition. It doesn't really describe whether one's more risky than the other. It's just the detailed capital stack of a bank and where different securities are

grouped. For us, the Access to Tier 2 is a subordinated bank debt. It doesn't really matter from an external point of view, the difference between Tier 1 and Tier 2, it's just banking capital standards.

April Lowis:
Thanks, Matt. We've got a few questions for you, Matt, now on just your role in WAM Leaders and WAM Income Maximiser. Can you manage both roles? And someone said it seems like a lot of work.

Matthew Haupt:
Yeah, I mean, effectively we're just using the same information, so the application is a little bit different. And I mean, that's why Damien again, probably should have introduced Damien to the broader WAM Group as well. Like Damien joined in January of this year to Wilson Asset Management. And I've been working closely with Damien for over 10 years through different employees he's had. So we've worked together like we pretty well chatter daily for about 10 years because we both love markets and I mean that's why Damien is here as well to help on Portfolio Management and also a lot of the macro frameworks and the models and dealing with the debt side as well. So again, we have extra capability now and the application of you know, between Leaders and WMX, a little bit of a different mindset on construction, but the information is universal. It's the same.

So yes, it is more work, but it won't be at this, at a sacrifice of either or. It's just really a little bit more work on my plate. I'll just have to put in a few more hours every day, but that's fine. We love this stuff. So we're really excited about it. Yeah.

Damien Boey:
And there is a broader team of analysts and portfolio managers as well that will. Obviously we can always call upon them if we need to.

Matthew Haupt:
Yes, correct.

April Lowis:
Thank you. As you'll be working on multiple leaks, will the management costs of other leaks, for example, WAM Capital, reduce?

Matthew Haupt:
I mean, that's a question Geoff always gets asked about, you know, when we do capital raises, will he reduce fees? And I think his answer is always no. I mean, that's not to be flippant and say no will not lower fees. But just to be aware this, this WMX does have a lower fee than the other WAM products. Not because we're charging less for just the

management, but on the debt side we are charging less. So the way we start with the portfolio is a 60% equity portfolio, 40% bond portfolio.

We're charging 1% for the equities and then 0.7% for the debt. And then you combine the two and that's how we got to the 0.88%. So you are effectively getting a lower fee for WMX, but it's just a combination of a lower management fee for on the debt side rather than the equity side.

April Lowis:
Thanks, Matt. Damien touched on this a little bit when he was talking about the screen for the equities portion of the portfolio earlier. But is there a dividend payout ratio threshold for the companies that you will be investing in?

Damien Boey:
Not strictly. So I guess the ultimate constraint is that we want to be able to deliver that monthly income. And so our bias is always going to be towards companies that do pay, but they don't have to pay strictly through a dividend. Some companies might be growth companies that don't really pay dividends, but we might assess that actually they've got a fair chance of returning capital through a buyback.

So, yeah, it'd be easy to have a payout sort of screen, but unfortunately it's not going to be that simple because we want to consider other forms of distribution. The other thing about payout ratios, by themselves, it's good to have a high payout ratio, but if your earnings drop, then that's no good either. So it's important to have a multifaceted approach that is actually able to consider what the E in the payout ratio is doing as well as the alternative forms of distribution.

April Lowis:
Thanks, Damien. Would you consider companies like New Hope, (ASX: NHC) or GQG Partners (ASX: GQG)? Both of which have good free cash flow and paid grossed up dividends.

Matthew Haupt:
I mean we would consider most companies, I mean New Hope again we'd have to take a view on the next few years on the commodity price which we're happy to do, which we do often. You know coal is. There's a little bit of an oversupply out of China in the short term but again we've seen recent chat from Trump about ramping up coal usage again in the U.S. so potentially, I mean coal maybe the pricing looks, the environment looks not too bad over the medium term. So yeah, I mean something we could look at GQG's one again it's a market slings business so we're probably.

The variability of cash flow is a bit higher than we'd probably like to see. So that is one area where we probably be a little bit more cautious on the GQG. Whereas a New Hope, I mean that, that is something we look at and quite a few resource companies come up in our screen as well, which we look at, I mean the Rio's (ASX: RIO) of the world and the BHP's (ASX: BHP). So we're actually not hesitant to invest in resource companies but we've got to have a good understanding of supply demand characteristics which obviously we do through, you know, our other portfolios within WAM.

April Lowis:
Thanks Matt. And will a list of companies that WMX invests in be available for investors?

Matthew Haupt:
Yeah, sure. Like the plan is to do an NTA monthly like the other LICs and you know, ad hoc. We could even do a list of the screen companies potentially. I mean we're open to ideas from shareholders but again, yeah, 100% will give you. We probably haven't decided upon the exact format but I would have thought a top 20 every month is a possibility. And then obviously on the debt sleeve would be around the same as well we could give a top 10 or top 15 but again, we'll take feedback from shareholders as well, how much detail they'd like to see.

April Lowis:
Thanks Matt. There are very few Real Estate Investment Trust's (REIT's) that have a yield above 6%. Will REIT's be likely or unlikely to be purchased?

Matthew Haupt:
Yeah, I mean REIT's do feature in our model portfolio that we've been running. They do have a low level of franking as well. But again, we'd have to see a story both on their NTA, you know significant upside to invest in a REIT. But again there, there was a couple that figure quite prominently in the model portfolio for example MIRVAC (ASX: MGR) is screening quite well but historically you look at the share price over the last versus the last 10, 15, 20 years and it's at a significant discount whereas the Stockland (ASX: SGP) is obviously trading much higher.

Again, MIRVAC is a little bit caught up in the issues around development which happened during COVID obviously escalation costs but that's got better now. So the development looks good in their office, books look good. So that's one that looks okay. The other one would be Dexus (ASX: DXS) again at a big discount to NTA as well. So significant upside of a lower rate environment and affirming occupancy rate as well. So yeah, REIT's do feature but they're not a huge part of the model portfolio.

April Lowis:
Thanks Matt. With the price of gold as high as it is, how will or can you take advantage of this in WMX?

Matthew Haupt:
Yeah, I mean gold – we've used gold throughout various portfolios over the last few years. But we're starting to make a - it's really hard to see a huge bull case here for gold especially while you've got us fiscal discipline kicking in. So yeah for us a lot of the easy money has been made in gold. For gold to go much higher here you'd have to have a significant step down in global growth which required us to pivot from their fiscal position on what it thought would be one.

One way it could go up. You really want gold as a belief when the fiat system is under stress from here inflation's not really on drive at high because it's really elevated based off a lot of uncertainty. So I can't really make a bull case for gold.

Damien Boey:
Yeah. If we break down the macro drivers of the gold price rather than just looking at the gold price itself, what makes gold go up? Because you do need gold prices to be rising in order to buy gold stocks notwithstanding their valuation. So one set of circumstances is obviously the US dollar is weak. Another one is that US inflation adjusted yields 10-year bond yields are falling and a third is that longer term inflation expectations are rising.

So if you break it down that way, is it possible within the constraints in the universe of our portfolio to position for each of those? Yes, it is. But does that mean that we would buy gold stocks? Not necessarily.

April Lowis:
Thanks Damien. Matt. Will there be a minimum market cap of the equities that you'll invest.

Matthew Haupt:
In our universe is the ASX300. So essentially that is ASX300 company is the minimum market cap we can invest in but we talked about, we use our screening process which is a seven factor screen which we can obviously talk to through to people that naturally pushes you up the market cap. So we're predominantly ASX 100 I'd say generally for the bulk of the equity portfolio. So yeah, that's our main hunting ground basically off the. Because we're after those quality filters.

April Lowis:
Thank you. I know you've touched on this before but we've had a few questions coming in

on whether you'll be investing overseas. Could you just maybe repeat what you mentioned before?

Matthew Haupt:
Yeah, like that is not the objective of the fund. It's predominantly going to be Australian high grade corporate debt and high quality ASX 300 companies.

April Lowis:
Thank you. So if capital growth is directed towards franked income, is the growth in the NTA anticipated? Is it likely to trade the likely to trade differently from the other WAMI LICs because of the emphasis on the franked income?

Matthew Haupt:
I think it's really around dividend expectations how it will trade. Theoretically the NTA should grow given that we've got a high proportion of the dividend backed by distributions coming from the investment securities. So and again depends on the board. But I'd say the entity should grow over time while still maintaining a high dividend. That would be the most obvious answer I'd say.

April Lowis:
Thank you. And just circling back on the question about foreign investors paying tax, our CFO has clarified that the offer is only open to Australian investors. So on an ongoing basis after the IPO, foreign investors wouldn't get the benefit of the franking credits paid on the monthly dividends and then depending on their jurisdiction, they'd have to pay certain tax at their own prevailing income or capital gains rate, which is what Matt mentioned before.

In the future, would Wilson Asset Management create a LIC which pays zero dividends and concentrates on reinvesting earnings in order to maximize NTA and hence the capital growth of the LIC and its share.

Matthew Haupt:
We have strategy sessions where we write all these ideas down on boards and we've never had that one, to be honest, given the love of franked income that you know, a lot of our shareholders love. So I mean, I'm just trying to remember if we've actually ever discussed it potentially, but it's not high on the list of objectives at the moment. So I'd say it would be a fairly long way away that one. But no, it's a good thought because we often think you know, with the younger generation do they want full blown capital growth but you know, given that a LIC plays capital company tax, is it the right vehicle for a full blown capital growth model? I'm not sure.

But yeah, it's a good thought. We'll discuss it at the next strategy session.

April Lowis:
Thanks Matt. And there is also the Founders Fund which is a different structure, a trust structure that's a bit more angled towards the capital growth but not, not a LIC. How does Wilson Asset Management manage the key man risks? Particularly in the event that some something might happen to Geoff and they said not that we would want it to happen or if Geoff decides to retire.

Matthew Haupt:
I mean just like every other business there's multiple layers. I mean that's why Damien's here as well. You know, like within, not all our teams we have you know, huge amount of talent and depth. So I mean it's just like every other business is redundancy plans in case something happens to key people. You know it's a risk we often think about but I just say there is a huge amount of talent and it's very wide.

So if anything happened to an individual everything would function pretty normally. Not to take away from credit of individuals but yeah, we do have large redundancies in place if anything bad happened.

April Lowis:
Thanks Matt. And we've got a question. Are bonus dividends possible? So I think they might be referring to the potential for a special dividend.

Matthew Haupt:
Yeah, I mean it's definitely possible. Again we're sort of stepping into Board territory here but my initial thought is that probably smooth it but like if we have an amazing year and you know like if I'm just thinking of like a downside scenario like if equities were to roll and we went long duration and just absolutely creamed it by 20-30%. You know there is 100% possibility a special could be paid in addition to, you know, topping up the regular dividend. But again, it's totally a Board decision. But yeah, it's definitely possible.

April Lowis:
And then we've had another question. Are future SPPs, share purchase plans, expected?

Matthew Haupt:
I mean generally these products, these monthly income products trade at a premium. So as long as we were trading at a premium we think this, this product could be the largest product at WAM. I mean it has the, the structure, the, the liquidity, you know the, the ultimate demand. People are really calling it out for this product. So for, for us 100%. Like this structure could be used to support, I mean, the largest vehicle at WAM.

So are future SPPs expected? I'd say yes. But again, this is up to the Board for capital management, but there's no reason why this vehicle couldn't be much larger.

April Lowis:
Thanks, Matt. And another question is whether the investment manager is paying the IPO fees. I'm not sure if you know that one.

Matthew Haupt:
Yeah, like. And that is taken out of the. Yeah, we bear the cost of that. Of all the fees and associated costs with the raise.

April Lowis:
Thanks, Matt. And we have a few questions on the portfolio and the process which Damien might be able to answer. Can you explain what the proprietary model is that you mentioned earlier and whether there's an opportunity that AI could improve the modeling?

Damien Boey:
Yeah, that's a great question. So there's not just one model. We use quite a lot of models and for different purposes. For example, we have frameworks that are designed to tell you where interest rates are going to be near term, longer term. We have frameworks which try to basically forecast where we think credit spreads, credit conditions and things like that go equally. We have tools which basically are much more about the stock market.

Where do we predict earnings are going to be based on macro drivers, where do we see the valuations? And we also have models that basically cut the world completely differently, where we don't just look at the world through the lens of equities and bonds and credit and commodities. Instead, we might look at them through different buckets, like quality and growth and value across the board. So we have a lot of those sorts of frameworks.

We're not wedded to these. Like, they're inputs that go into the process. And, you know, understanding the systematic aspect of investing is always very important. But they're only inputs. They're not the key determinants of the things that we buy and sell. So we have quite a lot of those sorts of frameworks. It's probably more than I can go through now with the time. Can AI help those? Absolutely.

Now, AI and machine learning, I think, are incredibly useful tools, partly because they are really helpful in, I guess, giving your frameworks and your models the full workout. So you can break up samples, you can shake them up, you can put them through a battery of tests that you wouldn't ordinarily be able to do because you can run all sorts of simulations through the data. The one thing is also another thing that AI can do is it can say, well, maybe this rule or this framework or this model works at a certain point in time.

But if things go too far one way or the other, maybe the relationship becomes not so linear or straightforward, they can do that too. The problem with AI, and it will always be with any sort of machine learning process when it comes to investments, is if you ask, for example,

a very simple question. How does the sensitivity of this forecast change with respect to another variable? And if you ask even to understand what that sensitivity is doing through time, it's actually not that straightforward.

It moves around in ways that are not necessarily transparent. So it's like, yes, absolutely, these things can be used to improve a process, but you've got to have a very good fundamental understanding of what's going in in the first place. What I'd say is, when it comes to looking at the world, if things, the relationship between different variables is going to change and you're relying on AI to be able to predict those changes, that could be a dangerous exercise.

It's much better to be able to say from fundamentals if the relationships are going to change, that we actually understand that ahead of time. AI can be a tool on that path, but it is only a tool.

April Lowis:
Thanks, Damien. Can you please give an example of short duration floating rate bank debt?

Damien Boey:
Yeah, sure. So, for example CBA, all the banks have got these notes which will basically offer you a coupon of say six and a bit percent and it will be say for the next three to five years. And what will happen is that the coupon, it might be 6.5% now, but it's actually free to move up and down as interest rates change. So in that way what you're getting is effectively like a variable rate term deposit that has a premium over what you see with the normal cash rate.

So there are lots and lots of those examples around where the interest rate can actually vary as the cash rate or the bank bill swap rate changes.

Matthew Haupt:
Yeah. Every quarter there is a reset date where there was a snapshot of the bank bill swap rate and then the margin on top and then it will reset for that period and then just resets every quarter.

Damien Boey:
That's right, yep.

April Lowis:
Thank you. And can I get your view on CSL (ASX: CSL) and whether it would fit into this portfolio potentially?

Matthew Haupt:
Yeah, that's an interesting question because. So, let's start on CSL as a stock. Now we

really like CSL. Like we met up with management when they were coming through town, there was a bit of a concern around the stock. Given the weakness of the Securus division, which is their flu division, it had a bit of a weak spot Also with the talk of RFK coming in the US as well around his anti vax stance, whether there'll be some weakness too and then also some negative center around obviously the Mexican immigration given that the large proportion of donations come through there. So you know, a few question marks. But when we met with management, we walked through all their issues, we were like, you know, Securus will obviously tick up again. There's a really bad flu season in the US at the moment and generally what happens was when you get a bad flu season, then vaccinations tick up the next year. So we're quite comfortable on that front.

We're comfortable on the competition front. There's a few competing products which were taking share. So all in all very comfortable. In the $2.50's we've been buying the stock. When it was low $2.50's I think it got to higher $2.40's we were buying the stock. I think outlook looks pretty good for that. For WMX - it's an interesting question and it goes back to the model we said how you can have high yielding stocks but also stocks which have the potential to buy high yields or generate excess cash. And CSL is generally invested a lot of its cash into R and D, you know, billions of dollars per annum into R and D. But they had a big drug, CSL112, which didn't meet its primary endpoint and they've been winding their R D back. So it's actually generating a lot of free cash.

So it actually would screen okay in WMX. And again we the the beauty of having the bonds there is we can explore some of these growthier companies within WMX without worrying about the underlying yield. Because you wouldn't buy CSL on a yield basis. But from our perspective we may buy it from a excess free cash flow generation point of view and the potential for capital management at a point in time.

But always cognisant that it is a research company. They do spend a lot of money on research but it definitely will come under consideration for WMX.

Damien Boey:
Yeah, yeah.

April Lowis:
Thank you.

Damien Boey:
I mean it's a company that screens very highly for quality. So that's a big tick. It's got the free cash flow generation at the moment and it's one of those where I suppose if you're looking for the income from it, well either you're looking for dividend growth, I mean it's only

paying a percent and a bit. So either it screens well for the dividend growth or because it can return capital through a buyback and all of those things are possible.

April Lowis:
Thank you. If the government introduced changes to the treatment of franking credits as it proposed to do two elections ago, how might that affect WMX?

Matthew Haupt:
I mean, yeah, it's. Again, what changes? I mean, I mean, the biggest threat I guess is to the franking system, which we've sort of seen. An example like we think even this removal of hybrids is sort of an attack at the franking system because banks can stream out franking through the tier ones. What happens now is we think there'll be a lot of captive franking credits on the bank balance sheets going forward and the ability to pay the amount of specials might be limited.

So I mean, that's an indirect attack on franking. But we're seeing. Do we think it's a risk? We think it's a low risk. We think we've seen previously it's lost elections for people as they take away or try and attack the franking and the. They've had repeated attacks which obviously Geoff and you were saying Geoff and Jesse, our CFO, repeatedly push back against. So is it a risk? Yes, but again, it creates so many other issues, the sustainability, the, the capital structures of companies.

But we think the, the way they're attacking franking now is at the company level, not at the individual level. So we think those squeezes will continue at the, at the corporate level, which we think the, the, at the, the hybrid is sort of a indirect attack at franking.

Damien Boey:
I mean, I think the other thing going back to the comments about how we invest, so I think, you know, no doubt if franking laws were changed, that would have an impact on the way that we invest. But keep in mind that there are multiple levers available in the portfolio construction to be able to make up money in other ways. So based on the current levels of franking, the pass through the flow through dividends and the flow through interest from the investments that we already have will pretty much cover the target yield.

If you had a change in franking, you might have to change the composition a little bit. So you might have to depend a little bit more on capital growth. Now, on the issue of franking and systemically why that's important from an investment perspective. As we said, if you are just interested in buying the highest dividend yield stocks at any given point in time, you're usually buying companies that are cheap.

And often companies that are cheap are cheap for a reason. And a lot of them can fall into what we call value traps. What you need to keep yourself out of value traps are either some

sort of quality filter that basically says look below this level of quality, we're not going to go into that sort of company. Or you need to be seeing earnings upgrades cycle so that cyclically it's okay. Or if you're happy not to mitigate any of those risks at all, essentially you rely on franking to pay for what you lose on value traps.

So we're not pursuing that strategy. We're not pursuing the strategy of saying franking will pay for our value traps and excuse value traps. We are preferring organically within our process to try to manage that to get high yield. So we're reasonably confident that yes, a hit to franking would be an issue, but at the same time we have levers.

April Lowis:
Thank you. Will the dividend be consistent each month once WMX begins to pay its first dividend?

Matthew Haupt:
I think from the first dividend you'll start to see a progressive ramp up to a more terminal level. I'd say so it's likely going to be inched up gradually until we hit that, that terminal level. So yeah, once it's at that terminal level, then it's going to be consistent. But yeah, there's probably going to be a. Well, there will be a, a gradual ramp up of that dividend.

April Lowis:
Thank you. Will you be charging a performance fee on negative performance?

Matthew Haupt:
No. The way it works is there's obviously a high watermark too within the fund too. So any underperformance has to be recouped before we can go back into performance fee territory. I'd have to double check on the negative performance whether there is actually a. Because sometimes you can have a component but we can double check on that for the person if it actually stops it in negative or not. But we'll get back to them on that.

April Lowis:
I think potentially it can be. But that's where that we would still be outperforming the benchmark and the benchmark is negative. But that we would, as you say, we would still have to recoup any underperformance of the benchmark where performance fees are paid as well. So it's the same as WAM Leaders.

Matthew Haupt:
Yeah.

April Lowis:
For anyone - for everyone listening. And what is the maximum allocation that you'll make to a particular equity?

Matthew Haupt:
So we have a maximum 10% limit on an individual security before it had to be has to be reviewed. But again, you know, a 10% level would be very abnormal at a security level that's of total portfolio. So even like at the equity level, if it was 10% of the equity portfolio, that's only 6% so you can sort of see a 10% would be abnormally big position within the portfolio. So yeah, 10% and then board review if we wanted to go above that, but I doubt it.

April Lowis:
Thanks, Matt. And does the priority offer that's open to existing WAM shareholders rank equally with the broker firm offer?

Matthew Haupt:
It's an interesting question. What do you mean does the priority offer.

April Lowis:
Yeah, it's a little bit confusing, but I suppose it's important to say that they are two different parts of the 510 million. So, the priority offer for the WAM family is strictly. Yeah, the $180 million. So hopefully that adds a bit of context to the participant.

Matthew Haupt:
Yeah, that's, that's put aside for, yeah, the, the WAM family and that will not be taken by any of the brokers.

April Lowis:
Great. Well actually I think that wraps up the Q&A portion of the webinar. So it's been a mammoth, but we're very grateful for everyone submitting their questions, so thank you very much. Also, I just wanted to say to stay informed with our latest investment insights and we recommend that you join our community of 90,000 subscribers and then you can also follow us on LinkedIn, Twitter or Facebook or visit our website. I might just pass back to Matt for some closing comments.

Matthew Haupt:
Yeah, thanks April. And thanks for everyone for joining us. We're incredibly excited about this new product, WMX. We think we the combination of high-quality equities with investment grade bonds really gives it that defensive characteristics to make this a really reliable monthly income product and to get to be fully franked. So we think it's a great structure. Really excited about it and really look forward to everyone joining on this journey with us. So thank you all for your support and continued support and yeah, thanks for your time. Appreciate it.