Wilson Asset Management Income Maximiser Second Q&A Webinar Transcript

Monday 31 March 2025

Speakers:

Geoff Wilson AO – Chairman and Chief Investment Officer

Matthew Haupt – Lead Portfolio Manager

Damien Boey – Portfolio Strategist

April Lowis – Investor Relations

Transcript

Geoff Wilson AO:
Good afternoon and welcome to the WAM Income Maximiser Webinar. As you'd be aware, this is our second webinar. Look, thank you very much. You'd be aware at our first webinar we had a record number of attendees, record number of questions. I think it was 300 plus questions, so we thought it made sense to have another one. You'd all be aware that we're starting our roadshow tomorrow. Actually, this is our Capital City roadshow. We start in Canberra tomorrow, Tuesday and then Sydney Wednesday and it goes on later part of this week and next week.

That's our annual roadshow where we go to see as many of our 130,000 shareholders that are available to come along and really to report to them. Because the companies we manage, we manage it on your behalf and they're your company. So that's why we make sure you have the opportunity to ask us whatever questions you have. Because the better you understand a company, then it gives you confidence in terms of when you invest with them.

Now, in terms of talking about WAM Income Maximiser today: what I'll do, is because we've got a prospectus that's live there and everyone would be aware, if you want to invest in the new product, or, the new listed investment company (LIC), then you go to our website and you can fill it in all online. And that prospectus is live. It closes on the 11th of April. Our lawyers want me to read out verbatim a disclaimer.

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.

Now, if you want to invest and you're doing it online, you actually have to tick the fact that you've read the prospectus and actually tick that you read the market determination as well before you can apply for any shares, obviously.

Because you are part of the Wilson Asset Management wider group, we have put $180 million of shares aside for anyone I think we classified as the WAM Family. And as I mentioned earlier, the offer closes on 11th April and the shares will start trading on 30th April. In terms of today, we'll do a really small presentation for you, so you get a bit of flavor about the company.

I'll give you a bit of an overview, then we'll pass over to Matt and Damien who will take you through the mechanics of how this company is going to operate. And then we'll pass over to April who's from our investor relations area who will take you through the questions and answers.

So, what is WAM Income Maximiser and what's its objective? The objective is to provide monthly frank dividends. You'd be aware anyone who filled out a survey the latter part of last year, our annual shareholder survey for years we've had a lot of people saying look, can you provide an investment opportunity that pays monthly income? And so, when we did our survey last year, I think 63% of the respondents said that like a product that provides monthly income. And we've been working on a company that can give you the maximum upside by reducing the risk as much as possible and provide monthly income and monthly income that's covered by the flowing through of the yields from the various investments.

And that's what WAM Income Maximiser is broadly it gives you less volatility than the equity market because it's a combination of equities and debt. It's high quality equity companies and it's investment grade corporate debt. And it provides you, what we hope as a board, a nice growing stream of franked income. What it does do also there's a bit of volatility in the market more recently. It gives us enormous flexibility in terms of moving the asset allocation from equities to bonds or bonds back to equities.

And I'm sure you'll hear from Matt. So in terms of to give you protection, I'm giving you that monthly income with good growth and also protection. And I'm sure once you've heard from Matt and Damien you'll get a much better feel in terms of how it will perform. You know, we've talked about in the prospectus. We talk about a, it's called a target income return and that was, you know, we're putting this into prospectus and what we're, what

we're saying is we'll do the reserve bank cash rate plus two and a half percent. At the moment that's about six and a half percent.

The dividend will start being paid in April. They'll be paid, sorry, not in April, they'll be in August and they will be paid on a monthly basis. In terms of what we hope to deliver over time, obviously we hope to deliver returns that are well in excess of that in terms of, and if you look at the benchmark, how the benchmarks performed and there's a slide along those lines, just even the benchmark, and this is assuming we haven't outperformed the benchmark. I think last year it was 11.97%.

Now that's, so that's, that gives you a bit of an idea of what's possible. What I'll do now I'll pass you over to Matt who'll take you through the next part of the presentation. Thank you. Thank you, Matt. I think we might have a little technology. We're just working through the technology.

April Lowis:
There might be some technology issues. Maybe in the interim, Geoff, I might just ask a few of the high-level application and offer questions that have come through. Does that sound good?

Geoff Wilson AO:
Perfect, thanks.

April Lowis:
What is the minimum investment?

Geoff Wilson AO:
Yeah, it's a listed investment company and it's $1,500.

April Lowis:
Great. And what will be the listing price?

Geoff Wilson AO:
Yeah, $1.50. And as the issue price now, you know, we could have picked a dollar, we could have picked $2, a dollar 10, a dollar, $1 60. It, it just, it's the, it doesn't really matter. But $1.50 is the price that's been selected.

April Lowis:
Thanks, Geoff. And how do you apply for the priority offer for a family member?

Geoff Wilson AO:
Yes, I mean, you'll see. There's a number of questions, I've been speaking to some shareholders who have been calling in. We're trying to call as many shareholders as possible, particularly people that have been interested and just take them through what you need to do. If you're a shareholder, you would have got sent out a letter which gives you a priority number and you put that number in the application. There's also another box you can tick which is, you know, you don't have to put that exact number in and you just say that you're part of the WAM Family and that's, and that's broadly, you know, some

people own shares in their super fund's name and they want to invest it in their own name or they've got it in a company or they want to buy some shares for their children, et cetera, et cetera. So you've got all you need to do.

And some people were shareholders and not shareholders at the moment. So broadly it's, it's anyone who's in the wider group we call the WAM Family, you just tick that other box and then you'll go into the priority offer. Now I mean, a few people have asked me, look, how does it work, the priority offer? The logic is to look after anyone who's part of the WAM Family broadly and whether that's look after in terms of specifically trying to give them their full allocation. That's the plan and we'd prefer to cut back the brokers and look after our shareholders.

April Lowis:
Thanks Geoff. And I think Matt and Damien are back on the line so maybe we'll cross to them to continue with the presentation.

Matthew Haupt:
Thanks April and thanks for everyone for their patience. A few tech issues there, so apologies and welcome like Geoff said, to the WAM Income Maximiser Webinar: round two. We thought we'd keep it brief on the overview of the investment portfolio and, and the process but we really wanted to highlight some of the benefits of this product, and it's really around having the combination of equities and bonds. Geoff touched on it around the so-called diversification benefits and you know, in this environment, Damien and I have been managing the asset allocation, and we had it around 50% equities and 50% bonds and bonds have actually gone up in this period for us on the paper portfolio. So again, just highlighting the, this product is a little bit different than the equity only products. It actually can trade through volatile periods. And I mean that's one of the reasons why we came up with this structure.

Like Geoff said, this product has been four years in the making. You know, we optimise for all the historical data we get within Australia. You know, what was the best structure to run money on for a monthly income fund? And this is the best structure we came up with and it's really the, the diversification benefits of having bonds and the freedom it gives us on the equity side too, we can position for not only income but capital growth as well. So it gives you the really good balance.

And then on the bond side, if you hold the wholesale bonds directly, you don't get the franking. Within the LIC structure we can provide franking and still give you exposure to the Tier 2 wholesale subordinated banknotes. The structure has a lot of advantages. The ability to stream and also frank is a very important part of the process. This is the only LIC of its kind in Australia with the combination of bonds and equities.

So, we again really think this is the most appropriate structure to deliver the monthly income. And you get the Wilson Asset Management skills on the equity side, plus Damien and I have significant experience on the bond side too. So, you get the best of both worlds there the universe, high grade equities, high quality equities and investment grade debt

that will be the core of the portfolio. So again, very much down the risk spectrum when you look across various asset classes as well.

And we're giving retail shareholders access to wholesale debt markets which is a real big advantage for this product because to access the wholesale markets really between $200,000 and $500,000 to get involved. Again, we will do that on shareholders behalf and also combine with equities and give you the fully franked rather than if you went direct in a subordinated bank debt you do not get franking. So again, the advantage of the LIC is quite clear for us.

Also, what we want to do for people is take away the interest rate risk. Obviously in a falling interest rate environment you are fully exposed to floating rates. Again, we have the ability to pull levers to make sure you do not get hurt on falling interest rates as it would bring down income you've been invested in floating rate note. There are a lot of advantages of the structure and why we're such believers in this structure.

As Geoff said, monthly dividend income is a goal. Our first dividend to be declared in August and paid in August. Franking: we hope to get into a fully franked position within FY26. Obviously at the initial stages we'll just ramp that up progressively. But that is the goal to be fully franked within the FY26 period as well as Geoff's mentioned, the income target of the fund is RBA cash rate plus 250 basis points. That is the running yield we're hoping to get with the securities of the portfolio and that we are achieving that with our model portfolio almost entirely getting that running yield from the securities we hold.

Obviously, that's not the end of where we pay distributions. Obviously, in a listed investment company, we have the ability to pay out realised capital gains. And again, if we took last year, for example, the amount of distribution available was 11.97%. So you can see that the potential there for significantly higher than the running yield and again, much better than hybrids, which are yielding 7.2-7.3%.

So again, we think the combination of equity and debt is a fantastic way to get a sustainable monthly income that is fully franked as well. I'll keep it pretty short because we've been through it before with you guys, but I might hand it to Damien now to discuss some of the investment process as well and talk about his experience as well, given he's relatively new to the WAM Family.

Damien Boey:
Thanks Matt, and thanks everyone. If we just go to slide 5, one of the things that's really important to note here is that while we are going for a hurdle rate, we want to deliver you an income of the RBA cash rate plus 2.5%. That's sort of like a minimum. Like we'd be disappointed if that's all we actually gave you. The reason why we are offering this sort of visual is just to show you that what we invest in the debt as well as the equity will pay us dividends and it will pay us interest income that will pretty much cover off that target.

So therefore, if we get a bit of capital growth on top, actually there is a little bit more than this RBA cash rate plus 2.5 that we can deliver. And that's obviously where the role of

active management actually comes in. So it's really important thing to note that actually the dividends that we are paying through this LIC will in fact be backed by cash. You're not actually talking about capital growth on the portfolio being repackaged into dividends, there is a dividend and interest component which is flowing through as well as the capital growth.

So with that in mind, really, we've tried to design this portfolio with a view to A, getting you a good dividend, getting you a good yield that's hopefully well franked, and then B, we also want to make sure that we can actually get capital growth in good times and capital preservation in the times which are a little bit more volatile. So to that end, I might take us to slide six. So slide six is just a diagram that shows the general investment process.

You might have seen this diagram before in the context of equities, well, we're actually just applying it across equities and debt. So the WAM way is obviously we take into account a lot of macroeconomic analysis. We do a lot of fundamental research at the security level, whether in stocks or bonds. And we're also very cognisant of valuations and market positioning. And it's really the synthesis of all of these three things that drive our active management process.

But as for the benchmark, if we had no active management, exactly what would we be investing in? The portfolio that we've designed is meant to be 60% equities and 40% debt. That debt is high quality, high grade, short duration, as in short term floating rate corporate notes. That's where that benchmark sits. And on the equity side, we're investing in companies that we think are A, paying dividends, but B, likely to pay us dividends tomorrow, and then C, maybe even those that could return us income in alternative forms like buybacks.

So we screen the investable universe according to free cash flow generation. We want companies that are actually generating cash in excess of their needs so that they can pay those distributions. We want to see companies that are able to maintain those distributions no matter what sort of macro circumstances we're going into. We obviously want to see those with proven experience of paying dividends or growing their dividends.

And we're looking for companies that actually do have a track record of giving you back capital or buybacks as opposed to raising capital, raising equity. So we're putting all of those things together and we come up with an initial screen of the ASX 300 that basically tells us what our investable options actually are. And then as per this chart, we start to apply the usual WAM way, taking the fundamental and the macro and the positioning overlays to better construct or better narrow down that portfolio list into things that we would actually consider high conviction.

And we do exactly the same thing on the debt side with slightly different factors and with a strong emphasis on quality. And that's how we come about our portfolio. Now, it's not a passive fund. We're not just going to leave the portfolio fixed and set and forget. We're actually going to try to manage around it. And we have a few different levers that we can pull. One is on the equity side. Sometimes we might weight certain factors as being more

important than others. For example, sometimes we might be more interested in companies that are paying me dividends now as opposed to those who will pay dividends tomorrow. Sometimes we might be more interested in companies that are actually doing buybacks, those will obviously all depend on macro conditions. And we have a suite of indicators that are actually able to help us to inform when we should be expressing different views.

But more generally than that, we have a lot of discretion when we consider management signals, when we meet with management and we understand what their businesses are about, and we understand at a very detailed and granular level exactly how they're planning to make money and how they're going to be positioning for the macro environment. That's obviously an extremely important part. We'll consider the positioning.

If some names are actually well known to income investors and overpriced or too cluttered in terms of their positioning, we'll obviously take that into account as well in determining our portfolio allocations. So we are very active on the equity side. We do take into account a wide range of information and we do adjust the weights on the different considerations to best generate returns for the macro environment.

We do the same thing on the debt side as well. And we look, for example, at equities for the debt securities. And we ask ourselves, is this a company that we would actually invest in on the equity side? Because if not, would we actually be comfortable to invest in it on the debt side? There's signals that the companies are actually delivering us on the equity side that can help us to inform whether we want to be in this debt security or another one.

The feedback loops can go the other way. And as I mentioned at the outset, our benchmark for investing is what you call a short duration portfolio. We are investing in very short maturity securities and their interest rates are able to go up and down with the RBA cash rate. Sometimes we might prefer to fix the debt book and get fixed rates rather than floating rates. And that would actually lengthen the duration of our portfolio if we took a view that interest rates would ultimately fall.

So these are the decisions that we obviously have to make in order to add value to this portfolio. And it goes back to Matt's point earlier that we really are interested to monitor interest rate risk so we can take our interest rate risk from the portfolio and best generate alpha through the franked distributions we're looking to pay out. So with that in mind, perhaps I might hand it over to Matt and we can talk about some of our best ideas for the current macro environment.

Matthew Haupt:
Yeah, great. Thanks, Damien. And we thought we'd put a slide together around some of the ideas we have on the equity side and then on the bond side as well. And two companies that really stand out at the moment for us, Telstra (ASX: TLS) and APA (ASX: APA). So when we talk about companies generating free cash or excess free cash, I mean Telstra is a prime example of a company which will be in a position for the first time in a long time to

actually have some excess free cash. So they've got a decision, do they hand it back to shareholders or do they reinvest?

And we really think know you'll get a combination of higher dividends and also buyback. So again, you know, our screening process says this looks good but then we do the fundamentals. We obviously meet with the Telstra the company and you know, walk through their plans for the next 12 months and going forward there is a big, a catalyst for Telstra which is the, the T30 plan which they're going to come out with around there, obviously their plan to 2030.

So we think there'll be some capital management plans in there as well which will give investors some clarity around what they're doing with their excess free cash. So for us, Telstra really fits into this WMX portfolio really well. It is got the combination of a high dividend and a buyback, which is a great combination to have. And also we touched on the macro view around a slowing environment, a slower growth environment.

Telstra and in particular Telco companies are a great sector to be involved in as we'd argue that the spend is almost non-discretionary now. People just will not cut their or turn their mobiles off because that's their connection to the world. So we're fine finding increasingly the, it's more non-discretionary than previously. So, getting more and more defensive.

Then also on the equity side we're talking about APA again when we look at the universe, we think you look at the forward interest rate projections, there's probably, well there is two interest rate cuts in the Australian market for this year, this calendar year.

On the equity side we don't feel like these defensive utilities are pricing interest rate cuts. So it feels like for us, APA had a terrific result. In February the market was a little bit skeptical around their ability to fund their own internal growth. We met with the company and their result showed that they can fund all their internal growth out of existing cash flow. Going back to the, a really common theme here is around that free cash can you generate free cash. And APA can definitely generate it and also invest at a good rate of return too. So we think on the equity side those ones look really, really good to us and fit the process with the screening, but also fit our view of a slowing growth environment.

Matthew Haupt:
So they look incredibly good on the equity side. Yeah, maybe I'll just talk on Scentre Group (ASX: SCG) as well. Scentre Group we've had in the WAM Leaders (ASX: WLE) portfolio and it's a company we've been monitoring for and investing in for a long time. What we saw on the recent known issue they did was an incredibly tight spread. So I think when they were going out trying to raise money, the spread was much higher and it came in really, really tight.

So the question we get to ask ourselves with WMX is do we invest on the equity side or on the debt side? And the spread was so tight it almost swung back the other way where you'd be investing the equity because they were refinancing very expensive debt after Covid. So at I think it was 4.65% over swap. So they replaced it with 2% over swap. So huge interest

rate saving. Really good for the equity holders who get there's about 1 to 2% EPS accretion. So again these are the questions we ask ourselves all the time is are you better on the equity or on the debt side of the equation? And we'd invest accordingly. Maybe on CBA (ASX: CBA) Damien, if you, you can talk about the equity and debt side and the. Yeah, also the notes rolling off.

Damien Boey:
Yeah. So you know, one of the big things that's happening at the moment is that the so-called hybrid securities, so debt instruments that are issued with the option to convert to shares at a set time, at least for the banks, they're being phased out. So we have a few of those notes, including a CBA note that are actually rolling off pretty, pretty quickly. And so naturally an investor in one of those sorts of securities will be asking well what's a like for like that I can actually go out and invest in.

And the usual answer that you'll find is that well you have to buy a bit of the bank share and then you have to buy a bit of the wholesale market debt, which is called tier 2 debt security, subordinated debt. And basically what that means is that the bank has issued within its capital structure a note raising some money at a particular interest rate which is above the government bond rate. And so some combination of that usually works.

Now what's really interesting of course is that Commonwealth Bank, as great a business as it is, has actually become quite expensive in the stock market. Expensive relative to its own history, expensive relative to stocks that are actually offering much more growth. And then expensive in the sense that at a time and even now it was actually offering a dividend yield which was not really great relative to the RBA cash rate.

So expensive equity, very crowded sort of name. And would you say that, you know, we're going into some sort of serious economic environment where, you know, the bank shares would sell off? Well, it's not necessarily an earnings issue. It's more just about the fact that it's so expensive and quite crowded a name. Then you look at the CBA debt, whether you're talking secured or whether the subordinated stuff and you know, it's not the highest yielding stuff in the world, but you are getting, you know, rates that are, you know, fives and sixes.

And so when we look at delivering our income target, we look at that and say, well, the debt is actually looking much more attractive than the equity. On top of that, within the debt universe, there's actually not a lot of diversity and something like Commonwealth bank, the quality of that debt is very, very high for the market that we are in. So CBA debt, we would certainly prefer over CBA equity.

And this is one of the really interesting things about having two different hats on. You can actually be bearish on the equity side, but actually bullish on the debt side or you could be vice versa. And so we want to be able to see across the entire capital stack the entire investment spectrum to become, to come up with very well-rounded views as to what we think is actually appropriate. The other thing about CBA, at least from a positioning

perspective is of course for many, many months investors have been quite bearish and pessimistic about China.

And that's not just in Australia, that's also across Asia Pacific. So what you've seen into the Australian market is that a lot of money has come in and it's, it's going into Australian exposures that are perceived as being more defensive than China exposures such as resources. And in that, what you've seen is that Commonwealth Bank has become ever more stretched in terms of valuation and it's basically been the go-to place whenever there is a bid for safe havens in APAC. What you're now seeing with an incredibly high degree of uncertainty around the world is that uncertainty brings inflection points and inflection points aren't good for crowds that are chasing a trend.

And so Commonwealth bank, being the crowd favorite and a market darling, is now starting to come under pressure, at least from the equity side. So there are a number of reasons from positioning valuation, relative value between equity and debt that we would actually prefer Commonwealth bank debt to the underlying equity.

Matthew Haupt:
That's great. And we'll hand back to April now to go through some of the Q and A because I know there's a lot on the line.

April Lowis:
Yeah, we've got lots that have come through. Thank you very much, Geoff, Damien and Matt. So as Geoff discussed earlier, please refer to the prospectus for further information including the key risks of the offer. And so thanks again for everyone sending through those questions. Why should I invest at the IPO and not wait until the first dividend later on in the year?

Matthew Haupt:
I mean, yeah, that's, that's a good question for us. I think the, the real benefit is the, we've got a couple months where we'll be building up the, the dividend or the income coming through the portfolio. So effectively we should be able to grow the nta, you know, obviously pending market conditions. But also you would see the other monthly income LICs in the market trading at hefty premium. So I mean, yeah, I think the Whitefield's (ASX: WHI) 10% and Plato's (ASX: PL8) 20% premium. So I mean that's a risk that we go straight to a big premium and then yeah, you'd be almost losing a year and a bit of yield from the, the premium going up if, if you're looking on a total return basis. So I mean that is the risk.

Yeah, we go straight to a premium like the other LIC's and I think Whitefield went to a premium before the dividend to being paid. So yeah, it's, it's up to the individual but that's sort of the way we're looking at it as well.

Geoff Wilson AO:
And Whitefield's and they, they just listed was it three or four months ago and they're just pure equity where equity and debt.

Damien Boey:
The thing to note about the premium for income funds, I think any security which is generating a decent income right now and is sustainable is that there's a structural element and there's a cyclical element. The structural element is that in Australia bank hybrids are obviously being phased out and so that money needs to kind of find a new home. And then when you consider that, you know, a lot of superannuation funds actually have very long government bond or duration type positions. They too also need to now start moving into alternative spaces and the credit space is just naturally a very, very attractive place.

So banks aren't able to issue hybrids at the margin anymore but they will be issued subordinated debt so there'll be much more supply in that, in that space. And superannuation funds have a natural Appetite for this. So this is a structural demand for anything income producing. And then when you think about the equity universe, what you've seen is that although we've had quite a lot of market volatility, it's really only one part of the equity market which is weakened.

It's the very crowded, very popular part of the market. Anything which is sort of short duration income producing, that's actually held up very, very well. And so the flavor of the times at the moment is actually in favor of something that's very income producing on the equity side. And yet you've got all these structural forces as well. So this I think explains a lot about why income funds and income related LIC's are actually trading at Premier at the moment.

It's a really, really important point.

April Lowis:
Thank you. Just moving on to some application and offer detail questions. Will there be a reinvestment plan, a dividend reinvestment plan?

Geoff Wilson AO:
Yes. I mean we just think it's fair because some people like buying these for their children or buying them and taking a 10 year view and just letting it the money reinvest or as Warren Buffett, I think in one of the good books, the snowballing effect.

April Lowis:
Thank you. And I think Geoff, you mentioned this earlier, but when does the new LIC commence trading?

Geoff Wilson AO:
Yeah, 30th of April. It'll start trading.

April Lowis:
And is there a limit of the number of shares per holder that someone can invest?

Geoff Wilson AO:
Well, we're only issuing $510 million worth of shares. So if you bid for more than that, then

we’ll have to cut you back. So. No, the. Well it just again, it’s supply demand. We’re only issuing. That’s the maximum we can issue under the prospectus. Yeah. So if we have demand of more than that, then the board has to decide who they give it to.

April Lowis:
Thank you. And will there be scalebacks? Oh, this is just to your point then if it’s over subscribed.

Geoff Wilson AO:
Yeah. If it’s over subscribed there will be scalebacks.

April Lowis:
And someone’s asked.

Geoff Wilson AO:
I’ve already just on that, just on that last. Like, like never never. It’s sort of like when you’re, when you’re investing in a IPO or. Yeah. For us, when we’re investing in a placement or you only bid for what you have the money to pay for because you know, you just got to be comfortable that if you get it, you know, you must, it must be, you know, you must be sort of relaxed that you’re happy to get that.

So yeah, I Mean, I wouldn’t bid for more than you’re expecting, hoping to thinking, oh, you might get scaled back.

April Lowis:
Thank you. And then I think we’ve also heard people say the other direction that they might be worried about it being scaled back so they put in less. So equally put your kind of best foot forward, your realistic amount.

Geoff Wilson AO:

Well, yeah, just, just bid for what you’re interested in because, you know, the people that are on this call sort of in that, you know, in the group that, you know, we’re focused on and looking after. So, you know, we allocated 180 million of the 510 million to that, you know, so, you know, we’re very, you know, we’ve got enormous flexibility and as I said earlier, we’d prefer to cut back, you know, the, you know, the brokers or, you know, the other people.

And just if that, like, if you’re, you know, there’s a number of brokers on the, on the issue that, you know, that are helping us raise the money. So if you have a relationship with them, then, you know, feel free to communicate with them. I think the broker firm allocations, they finish at the end of this week, but ours is open till, as I mentioned, up until the 11th. Or the General is open till the 11th.

April Lowis:
Thank you.

Geoff Wilson AO:
On the priority, the priority for WAM Family deal is open to the 11th. Yeah.

April Lowis:
I've already completed my application. Can I go back and invest more?

Geoff Wilson AO:
Yes, you can. Yeah. And in terms of how you do that. Yeah, that's past my pay grade. How do you do that? I think you just have to have to fill out a new application, won't you? Or unless you ring the register. Yep. Oh, so you go, April.

April Lowis:
Yeah. So we actually spoke to Boardroom about this this morning. Who's our share registry? And they said that you actually don't need to reload your application. You can just send more the next amount and that'll be treated appropriately. So you just need to make sure multiples of $1.50. And if you're ever unsure, please just contact us and we can double check that everything's okay. And how is WAM Income Maximiser different to a bank hybrid?

Matthew Haupt:
Actually, that's a good question. What's different is it is an actively managed portfolio. So a bank hybrid is a passive investment. You invest in the bank hybrid and then you really have the mercy of what interest rates do. So we all saw after Covid with effectively they call it ZIRP, zero interest rate policy, where rates went down to 25 basis points. If you're in a hybrid, your, your income follows that, you know, at the appropriate spread over, over the, over the swap rate.

So what is different with WMX is an actively managed portfolio of high quality equities and investment grade bonds. So very, very different. You know, our goal is to manage that interest rate risk for you and to make sure we pay a dividend in all market environments. I guess the other question is on the T2 bank notes, which is the replacement for the hybrids. If you invest directly in those, you need to be in a wholesale investor.

They're also unfranked as well. So you know, really big differences between what we're trying to achieve here and what you get through a hybrid and a, you know, a tier 2 bank note. So I'd say WMX is a enhanced version of, of a hybrid or it's the combination of, you know, equity in and debt and it's actively managed. So we're trying to pull all the levers through the cycle to make sure that the dividend doesn't fall like it would with a hybrid.

Geoff Wilson AO:
Go ahead. That and Damien's point, you know, I mean there has, you know, there's $44 billion in hybrids which over the next. How many years have we got now? Seven years, is it? Or nine years? No, seven years. The next seven years. That, that, that'll all, they all disappear effectively. So that 44 billion has to go somewhere. And I think, you know, as Damon said earlier, I think that's why a lot of the, you know, the, or Matt said, you know,

the other income, pure equity income plays, you know, where equity and debt and the first in Australia in this structure while they're trading at premiums.

Damien Boey:
Just to give you a hypothetical example as well, with the hybrid, if I wanted to recreate one of the CVA pearls hybrids that's rolling off at the moment and in the best way possible because you can't exactly mirror it. Then what I'd have to do is buy some CBA shares and I'd have to buy some Tier 2 subordinated CBA banknotes. That would be the way I do it. But if I did that, I have to be careful of a few things.

One is my entire portfolio is invested in cba. What about if I decided instead of holding CBA shares, I put in BHP shares or I put in the market index, I'd get a lot more diversification. So what WMX does, even before we consider active management, is offer you that diversification. As Matt highlighted before, on the debt side, we actively manage it and One of the key levers that we pull is the duration lever that is fixed versus floating.

So as Matt was saying before, when it comes to hybrids, most of them are floating rate notes. So if interest rates fall, the amount that you're getting paid every quarter basically drops as well. So if we were to fix the rates on a debt portfolio, we would basically be insulated from that risk. So it's the levers that are within WMX to be able to manage interest rate risks and then the fact that we are very active in the way we want to pick and choose the securities that really sets the product apart from just a standard hybrid.

April Lowis:
Thanks for that earlier. But what yield will do you expect to provide to shareholders? And does this include capital gains?

Matthew Haupt:
Yeah, I mean we try to walk through the building blocks of, you know, what sustainable yield would look like. It's really around. We talk about the RBA plus 250 basis points. That's the income we're receiving. So that is around 6.6% income we are generating from the securities within the portfolio. But like the question hinted at, we can actually pay out realised capital gains as well. So as of the last period where we did the using the benchmark of that 6040 split, it was 11.97% was the available amount to be distributed. That's probably on the high side, I would have thought.

But you can easily, if we walk through the building blocks, let's call RBA plus the 250 basis points is 6.6%. If you assume the equity market goes up by call it 10% and we are at that 60% of equities, that's another 600 basis points of potential that could be if that was realised. So that's. You'd assume that wouldn't all be paid out. So even if it was half of that was paid out, you're getting around nine and a bit percent.

So if you walk through the building blocks, you can really get between, you know, 8 and 10% quite easily if in a normal equity market, in an up equity market. So that's before even active management has kicked in. So you can really walk through the building blocks and slide 5 in. The presentation is probably the best illustration of what we're trying to say here

and give you the building blocks of and you can really plug your own numbers in what you think is a reasonable expectation. But we've done that and like I said, 11.97% was the amount available to be distributed if it was realised last year.

April Lowis:
Thank you. And we've Touched on this earlier, but just to reiterate, how soon will dividends commence and at what rate? And will the first year of the leak cover.

Geoff Wilson AO:
We lost a little bit of your April or Matt, did you lose a bit too?

Matthew Haupt:
I lost it as well.

April Lowis:
Yeah, sorry about that. How soon will dividends commence and at what rate? And will the first year of the listed investment company have a lower dividend?

Geoff Wilson AO:
The answer to all those is yes, yes, yes, probably, isn't it? So first of all, like the dividend will start paying the dividend in August. The plan will be. And one of the great things a few people have asked me, Ollock, how is this different to your other listed investment companies? For our other list investment companies, we have to make money, as in capital, profits to pay or profits to pay the dividends.

With this company, and this is one of the reasons why we structured it this way, that pretty much all the dividend that's being paid initially comes from the flow through income from the debt securities, the interest being paid, and also the fully franked dividends that we received. So pretty much all of the dividend we're paying out, and that's at the gross level, we're talking about 6.6%. Now, as you'd be aware, one of the good things about the market volatility at the moment, the fact the market's under pressure, that when we start investing, which is in two or three weeks time, we're effectively buying everything 10% cheaper than we would have been a couple of months ago, or there may even be better value than that.

So there's potential, there's capital gain and any capital gain on the equities and also the debt, then we've got to. Then we can provide that to investors over time. So you'd assume that the dividend in the first year would be. Yeah, you'd assume it would grow. I think that answers that part of the question. Did I cover them all?

April Lowis:
April, you actually even covered another question that I was going to ask. So I think that's perfect. Will the dividend be fully franked and how does this work when part of the investment is made up? Of course, corporate debt.

Geoff Wilson AO: Yeah. Matt, do you want to.

Damien Boey: Yep, sure.

Matthew Haupt:
So the way it works within a listed investment company, first of all, the goal is to be fully franked. And in the FY, the financial year 26 period, the way it works within a listed investment company, even the interest we receive on our bonds is taxable. So there is obviously tax paid there. So franking is available within the company. Structure the flow through franking we get from our equities is running between 30 and 40% at the portfolio level. So we get a lot of flow through franking as well.

And then realised gains both on the equity and on the bond portfolio are a taxable event as well. So it's really the LIC structure and paying company tax that allows us to fully frank. Well you know the goal of to be your fully franked dividend payer. So the combination of that, so it's a tax paid on income really where a lot of people wouldn't think about that as another source of franking. So multiple sources of franking to distribute.

April Lowis:
Thanks Matt. Another shareholder has asked my concern regarding monthly dividend paying structure is the possible loss of capital over time. How will you.

Matthew Haupt:
Yeah, I mean that's one of the, it's a really good question and one of the reasons why we went with this structure and Geoff touched on it before around the income producing nature of having bonds in the portfolio because the goal is to have a high running Yield. So that RBA plus 250 basis points or 2.5% that is income generated without having to dig into the capital of the, of the company. So the goal is as well to have outperformance on the equity side and also on the bond portfolio side giving us extra capital growth. So the goal is to have an income producing fund that actually can grow its nta which I think is a to the question is a very important reason why we went with this structure as well. We want to grow the nta.

We don't want a product that has to eat itself by chewing into capital all the time. So that's why you know, having the bonds from a safety perspective as well as a diversification benefit is a another reason of having the high running yield of the portfolio providing support. So very good question.

April Lowis:
Thanks Matt. And how is volatility impacting the way you invest? And.

Matthew Haupt:
I just lost the last bit of the question but I'm assuming it's around volatility. So you know, how does it, how does it affect the portfolio like the beauty of, of the WMX portfolio? I mean we are running a model portfolio now in anticipation of investing in, you know, when we get the money in a few weeks time. But the beauty of having bonds like we've said many, many times is the, the countercyclical component that it gives to equity portfolio too. So on the, on our bond portfolio it's actually perform extremely well.

And you know we were running an asset allocation level of 50% equities and 50% bonds. So is held up extremely well through this volatility. And we actually like volatility as an active manager. When volatility like Damien spoke around, it really reduces crowding. So we're seeing a huge amount of crowding unwind. And the areas we invest in are more on the quality end. So quality on the equity side and you know, we're seeing a big reversal in that space as well. So we welcome this volatility.

We like it. And having that extra lever on the bond side through not only what we invest in, but also how much we allocate to that side really absorbs a lot of the pressures we see in equity market. So this product is a little bit different than equity only where you're relying upon both a smaller amount of income and higher proportion of capital to be paid out to back the income, the monthly income. This doesn't require that.

So it's much, much more cushioned through these bouts of volatility. But as an active manager, we always welcome volatility. So it's an opportunity for us and you know, for as we go into this next few weeks, if the market fell, I mean, it's a great opportunity for us to deploy in a lot of high quality names at lower pricing. So yeah, we like this opportunity.

Geoff Wilson AO:
And Damien, Matt, maybe just on that, I mean, can you just give, you know, the people that have called in just your view of the market, you know, what you're looking at in the sort of short term and then also, you know, your view and the medium term, the next couple of years.

Damien Boey:
Okay, yeah, sure. So one of the things that characterised, say the 21 to 22 period was that you had both equities and bonds selling off together. That was very unusual. Usually what you find is that bonds are government bonds are safe, equities are the riskier option, and if people don't want the riskier stuff, then they go for the safe stuff. But at that time, because we had inflation and we had central banks raising rates and causing all sorts of concerns about economic growth, actually you had equities and bonds sell at the same time.

So fast forward to the present now, I suppose the question is, are we in a similar sort of regime? Because we do have inflation pressures from tariffs coming through, particularly in the U.S. the sentiment surveys are pointing to some sort of slowdown. It's not apparent yet how real the surveys will play out in the real economy, as in, you know, just because you survey people and they say higher inflation and lower Growth, Whether that will actually happen, there's a bit of a debate about that.

But there are some concerns out there that, you know, we could see inflation go up in growth slow. Now, what's really interesting in all of that is despite the volatility that we've seen in bond markets and interest rates in the last little while, despite the fact that the dynamic looks unusually like what we saw in 21 and 22, actually, the bond market is now deciding, you know what, at the end of this, central banks will have to cut rates.

What they're saying is that tariffs right now might be adding to inflation, but they're weighing on global growth, they're weighing on the consumer. And ultimately, if that happens, then you get disinflation. There is also some degree of fiscal restraint coming through from the government, which will ultimately lower inflation as well. So we just have to kind of see through a period where inflation mechanically rises because of tariffs.

Growth might slow a little bit, and then eventually inflation and growth both come off, which will allow central banks to cut rates. So that's kind of the roadmap going forward. What you're seeing now is the in between phase, where the inflation pressure is elevated and the economic growth is slowing, people are concerned about how much it might slow, and that's where the volatility is. Once we actually get a bit of comfort that as economic growth slows, inflation will also come off, that will actually be when central banks can really cut rates. And that will be the signal, or the anticipation of that will be the signal actually, for markets and equities to rally.

So our view is that this volatility that we're seeing is normal, it's natural, it's explainable. On the flip side, it's not out of the ordinary. It's not something that we haven't seen before, and we just have to understand the sources of it to get a bit more comfortable. Obviously, as you're talking about the Trump regime and all sorts of noise and headlines about different sorts of tariffs or different sorts of geopolitical relationships that might change.

That's also weighing on people to the extent that it makes them feel uncertain. But really the main game is about how are we going to resolve inflation going up and growth slowing in the long term? How long will it take before we can actually have central banks cut rates because they can't really cut rates while inflation is elevated? It becomes a bit hard. You have to have a view that economic growth will slow and eventually bring down inflation to get the cuts happening.

Now, what's really interesting from that perspective is that how do you position into that sort of environment? We mentioned before the uncertainty and the uncertainty is one of those things which causes the crowd favorites to underperform and the, the companies that have been a little bit less loved to outperform. So that's one positioning play to navigate the uncertainty. Another one is to look at say longer duration corporate or government bonds.

If you think that ultimately the direction of rates is down, even if it's a bit uncertain now, perhaps the entry point to get into some of these assets is actually looking pretty good. We're looking at names like Matt mentioned before, an APA and some of these infrastructure names. And the thing about them is whenever bonds have actually done well or interest rates have looked like falling in the previous cycles, it's actually not these bond proxy stocks which have rallied. It's been the long duration growth stocks, the crowd favorites like Magnificent Seven in the US or Aussie banks.

So we've got this complex of stocks that do well when interest rates fall and they've just been sitting there on relatively low valuations and they're actually a very cheap and very efficient way to, to express a view that interest rates will fall, albeit with a little bit of noise

in the near term. So we actually think this is a very exciting time to be investing because if we understand the roadmap, we understand the sources of this volatility and we understand that it's not unusual and we have seen this before, there are playbooks.

The main thing is having the levers to be able to execute on those playbooks.

Matthew Haupt:
Yeah, I'll just echo Damien's view as well. It's just, it's a crisis of confidence at the moment, which is you've seen in survey data, the real economic data hasn't really, we haven't really seen it to any great extent yet. So what we're seeing is just that crisis of confidence. So which is created from uncertainty, uncertainty around tariffs, uncertainty around inflation. Will we get a resolution around those? Well, effectively you could say April 2nd we will get a partial resolution unless Trump doubles down on tariffs.

So that will resolve itself and then inflation is obviously going to be ongoing, I would have thought for three to six months the debate around where that's going to land. But ultimately we don't think that's too much of a concern. And if there's any softness in the labor market, they'll be met with rate cuts independently of inflation, most likely as well. So medium term we're relatively constructive on equities.

Could it get worse? 100%. But what we're looking at the moment, it doesn't appear like that's the case. What you've seen over the last few months is, I'd call it a rotation rather than a broad based sell off, a rotation out of the US into Europe and China. So money, it's money flows going away from crowding the crowded trades, which Damien spoke about. Crowded trades. As soon as you get uncertainty or volatility, increasing money flows directly out of those and we're seeing not only a reason to flow out because of volatility, but actually a positive story out of Europe and China as well. So there is some positive news out there.

We think this is a rotation and a growth expectation slowdown. So it's just a resetting of growth expectations. It really was post Trump coming in, everyone thought it would be off to the races with global growth, deregulation, tax cuts. He started off on the bad stuff first, the tariffs and he will eventually come through with the deregulation and tax cuts. But it's just been a heavy handed first few months. So that's distorted everyone's view of what was going to happen. Everyone knew tariffs were going to come in, but it was being offset by some of the positive aspects of tax cuts and deregulation.

He just hasn't really pushed too hard on that. He's leaned on the, the bad stuff, the, the bad lever quite early. So the market's just a resetting of expectations. So it's not, you know, we're not calling for a recession or big drawdown phase. It's more of a resetting of expectations lower. And like Damien said, you really, we need resolution on the uncertainties at the moment, the tariffs and inflation tariffs, arguably it could be as early as April 2nd.

Inflation would be, I think, a three to six month debate because we're going to get inflation ticking up in the short term. So that will add to the debate around that. And what, what can

central banks do while inflation's printing hot? Probably not much. So you know, but like we say, we, we're not that worried about the environment. We, we see opportunities and for us, you know, with the, with the bond portfolio, we have a lot more options and a strict equity portfolio, although you can move the equity portfolio around as well.

But the bonds really give you that diversification benefits which that asset class can offer. So overall, short term, let's ride through this volatility. Unless we see any other data coming out, we don't think there's a huge amount of legs to the sell down post the next few months.

April Lowis:
Thank you. And to your point just now, will the 60:40 split between equities and bonds vary much month to month?

Matthew Haupt:
Yeah, I mean another good question there. What we're saying was that the 6040 is a theoretical level which we, we did a lot of back testing and work and that was really around our neutral level. So it will vary. Like I mentioned before, the last time we had a portfolio meeting on WMX we moved to a 50 50. So 50% equities, 50% bonds. The way I'd view that is it will really be tilting around those levels. So it's not.

You won't see us in the absence of a, you know, predicting a global financial crisis which arguably we had warning signs on that but where you could move to a more aggressive asset allocation. But there's a lot of work you can do within the sleeves, the equity sleeve and the bond sleeve before you move asset allocation. But yeah, I'd expect. So let's call it a 60 40. If we're moving 15% each side of the midpoint, I'd say that's a reasonable guy to the tilts we would be applying in a normal market cycle.

April Lowis:
Thank you. And while we can't give financial advice, someone has asked will this myself and it's super fun.

Damien Boey:
I'm sorry April, I think you might need to repeat the question.

April Lowis:
We can't give financial advice but is WMX suitable for a self-managed super fund?

Matthew Haupt:
Yeah, we can't give advice the way on the, on the, on the road show we've had a lot of people talking to us about what they think is suitable. So not what we think is suitable but they. Anyone that likes reliable income fully franked. A lot of people have said to us that they liked it for say their super funds. Obviously it depends on your tax situation but as they said in their super. It made sense for them.

It made sense for allocated pension people that they. That's the common feedback we've got. But again, you know, these are not recommendations, these are just feedback we've

got from people on the road. But then again we've had some feedback as well for, for the younger people as well that won the regular income.

Damien Boey:
Yeah.

Matthew Haupt:
So it's really, yeah up to each individual to get their own advice but we can just give you the feedback we've heard. So it's been quite varied to be honest.

Damien Boey:
Yeah, I mean I think the idea of taking out interest rate risk from a portfolio, it's a big job. But it appeals to people at many levels. Whether you're someone in pension phase that needs an income obviously to get an income that's sustained net of inflation even if rates fall. That's a very attractive sort of proposition. And equally, if you're a younger person and you've got too many sort of longer duration growth stocks that pay you maybe something in the very long term, but not necessarily today, maybe it's a good way to diversify.

So, you know, there is an appeal to everyone. But the overarching message is we're looking to take out interest rates from people's portfolio risk factors.

April Lowis:
Apologies for the tech issues, we're trying to resolve them now. How is this different to other monthly income products, for example Plato and ETFs.

Matthew Haupt:
Yeah, I mean the big difference is the, the structure of the portfolio. So PLATO and Whitefield, a equity only based monthly income fund. For us, you know, when we did the, the work around the income fund, you know what was the best sustainable income? And it was really around having a level of dependable income coming in. It's really around bonds. And once we introduce bonds as well, the volatility of returns decreased by a large degree. So an equity only portfolio we model as having 15% volatility and by combining bonds at that 60:40 ratio we get the volatility down to 8.8. So for, for me, and I can speak on behalf of Damien as well, it feels like this is the superior structure for our monthly income fund having that certainty around a higher running yield versus relying upon capital appreciation.

And especially in markets like this where you've got equities under short term pressure, our bond portfolio is actually working in the opposite direction, is actually outperforming. So yeah, for me the big, big difference is obviously the reliance upon equity and capital growth versus WMX which has that portfolio effect of combining equities, high quality equities with investment grade bonds. So we think that's a superior combination, both long term sustainability reasons, but also the allowing us to express more capital growth opportunities on, on the equity part of the portfolio. So we think that is the best structure for us. It was a clear, clear winner.

Damien Boey:
Yeah. And I just want to also add within the equity portfolio, so I won't comment specifically on the funds that you mentioned, but you know, in general what you find with a lot of income type funds on the equity side is that they pursue what you call dividend harvesting strategies. That is, I just get a list of the stocks that have offered the highest yield in the last 12 months and I focus on them.

Matthew Haupt:
So what we're trying to do is.

Damien Boey:
To be a lot more holistic in the way we look at distributions. Looking at yesterday's dividend yields is a factor that you should look at, but we're also interested in tomorrow's payers. So that could be low dividend payers today, but maybe bigger dividend payers tomorrow. They could grow their dividends, that sort of thing, or alternative forms of distributions. And the reason why we're free to be able to take that more holistic view of income is because we have in the background a debt portfolio which is already generating income.

So that is a big, big difference. We can avoid a standardised practice of dividend harvesting because we have more than one asset class to be able to play with.

Geoff Wilson AO:
Hey, the exciting thing is I get to look at the questions. Due to technical issues. April and I are now sharing a screen like you guys, so I haven't looked yet. Go, April.

April Lowis:
Hi, everyone. A shareholder has asked. They're trying to predict whether WMX will trade at a premium or discount once at least. Is there anything that you can add to help the shareholder?

Geoff Wilson AO:
Oh, good question. I didn't even have to look at that to know the answer to that. Well, I mean, one of the, one of the good things about, you know, the, the company is one is the, you know, the equity market's lower than it was. And also what. Because the markets has come off, then any of that sort of any of the hot money, you know, that the people that will invest in, in this product are the ones that, you know, want to invest in it.

They're not putting their money in hoping or bidding for more than they need, hoping that it'll come on at a premium, they'll sell some. So I actually see that as a, a very, you know, this uncertainty in the market is actually very good for the aftermarket, you know. So to me, the only, the only reason it trades. Yeah. Would trade below, you know, the issue price is because someone who's took it in the issue then sells it.

But if you remove all that hot money, and it reminds me, I'm sure there'll be a few people on the call that were CSL (ASX: CSL) investors in the IPO. It reminds me of the CSL IPO It was very hard to raise that money. It was just a really tough time. CSL obviously did quite

well after that and it's actually done incredibly well since then. So I mean, to me, you want to be for an ipo, for an aftermarket, it's best when there's no hot money.

Geoff Wilson AO:
And to me I don't think there'll be any hot money in this. Well, I don't know if by saying that I've now created some hot money from people. But yeah, the Whitefield example, which is the most recent one, which is trading at a premium. Yeah.

Damien Boey:
As we were discussing before, there are structural forces and cyclical forces which are supporting income producing assets in Australia at the moment. And so I guess the main thing to note is that you know, this is a generic trend and we're hoping that with a really robust product design we can be participating in that.

Matthew Haupt:
Yeah. And to add to that the obviously we got the one of the CBA pearls rolling off in early April as well was $750 million. So you know that that money needs a home as well. So you know, and ANZ have already had one runoff this year as well. So it's just the start of the, like Damien's saying, the start of a, a multi year structural trend.

April Lowis:
Thank you. How do management and performance fees compare to other WAM LICs?

Matthew Haupt:
Yeah so on the management fee the way we've done it is like our 60, 40 is our starting position for the equity and the debt side. So on the equity side we charge the 1% which is the way and the amount we've charged for all our equity products and then on the debt side we've got a lower fair at 70. And then when you blend the two you get 0.88% that is the, the fee of the product. So it's lower than the other WAM listed investment vehicles. But it's just a combination of, of the lower amount of on the fee on, on the debt. Because on the debt side it's probably, it won't be as active as, as the equity side. So it's going to be charged at a lower fee. We're still going to be very active, you know, turning the portfolio over.

You know we envisioned 30 to 40% through the cycle and obviously you know, inflection points it will probably go up towards that 100%. But again yeah, it's just the combination of different fees for equity and debt to give you that blended fee of 0.88.

April Lowis:
Thanks Matt. Another question on the line is would my return be better by investing in WMX or WAM Capital?

Matthew Haupt:
I mean that's a great hypothetical question as well. What, what would your return be over time? You would say if you were looking for capital appreciation, WAM Capital (ASX: WAM) over the medium to long term should give a higher level of return. WMX will give you a more sustainable and a lower risk dividend yield. So the trade off with risk and return is you can

never rewrite that. That's something that's always written, higher risk, higher return, lower risk, lower return. But still the, the yield on WMX is not going to be low, it's going to be a high yield, high yield fund.

So yeah, just by the nature of having 100% equities over the medium to long term, by definition you should have a higher rate of return. But yeah, obviously that comes with high.

Geoff Wilson AO:
Risk and it depends what your timeline is, isn't it? Because one is, you know, you're getting it at nto and I think there's a question that I saw somewhere else, you know, and let's cover that off now is oh look, yeah, it's $1.50 I'm paying. But what about the costs? Effectively, you know, the manager, as in Wilson Asset Management, we bear the cost. So you're investing $1.50 and you start off with $1.50.

But if you buy shares in WAM Capital, they're trading at a little bit of a premium at the moment. So if you're taking a short period of time then obviously you're that far behind because if one's trading at a, say a 6% premium, then you're 6% behind.

April Lowis:
Thank you. And further to what Matt was saying earlier, we've got a question that says, that asks on a safety spectrum how safe is investing in debt?

Matthew Haupt:
Yeah, so if you use the word debt, it's a bit of a catch all phrase. So the way we like to talk about it is bonds. So and we're talking about investing in investment grade bonds. So that is on the risk spectrum, it's a very low risk product. I mean equities on the risk spectrum are high, so it's much lower than equities. There is a contractual arrangement in place or to pay a distribution on the debt on the equity, they can turn that off at any time and in the event of a wind up you just have no protection because you're at the bottom of the pecking order. So you're actually, when you talk about debt it is effectively lower risk. But of course you can go into high risk debt as well. Like you know, some of the trends we're seeing now in unsecured lending and private credit and mezzanine finance, I mean that, that's, that can be incredibly risky. You know, no diversification benefits.

We're talking about investment grade here. So the, the safe end of the spectrum on debt. So much less risk than the equity side.

Damien Boey:
Yeah, that's right. So if you think about, you know, a worst case scenario where a company winds up who gets paid out and in what order, what you'll find that the people who lent the money to the company, they're usually the ones that get paid out first and the shareholder is what is the one who gets whatever's basically left. And then within the debt sleeve of the, of the balance sheet for that company you've got some that are senior secured as in, you know, they've actually got a claim on a physical asset within the company like the land or something like that and then you've got the unsecured ones that don't have their claim backed by something that they can repossess and then sell.

So within debt there are different types. But then more generally what the ratings agencies do is they say that this, the, the highest quality to type of debt is what's called aaa. And then as you go towards A, the company is still high quality but it's a little bit more vulnerable to the cycle. Then you get to the Bs and in particular the triple Bs. So the triple Bs are the highest rated within the B category and that's pretty much companies that are likely to, very likely to pay the coupons that they are saying.

But they do have a little bit more economic sensitivity. Triple B is about the line in the sand for investment grade. Everything else below that. So if you go to double B, B or triple C which is junk or even D rated that is below investment grade. So we are concentrated pretty much around the double A mark. We are the high investment grade debt side of things. And importantly it's exposed to companies, it's not exposed to single assets. Like we're not, you know, we're not buying the debt of a property out in Double Bay or something like that of a property developer. Like we're buying companies that are well diversified and actually deserve the rating that's been described to them by the ratings agency.

April Lowis:
Thanks Matt and Damien. Are the portfolios yourselves, portfolio managers investing in the fund and if so, approximately what percentage of net personal investment assets?

Geoff Wilson AO:
I'm in for five mil. But I, I haven't, haven't done a tally of my personal wealth, my equities. I'm just trying to think how much of my equities is. My logic is well actually I probably can't say more. It's, it's invest that and if If I can buy it cheaper, then I might invest some more. But I can't. I probably can't say that.

Matthew Haupt:
No. Well, definitely we're both investing into. Into the farm. I've just finished building a house, so my cash balances are on the low side. But from excluding their house as a percent of net wealth, what I'll be putting in of my other assets, It'll probably be 50%.

Geoff Wilson AO:
Geez, that. Good work. It reminds me when I started Wilson, that's. Imagine 27 years ago, besides my house, I put 100 of my money.

Damien Boey:
Yeah, I'll certainly be in there as well. And the thing that makes me believe in it is I think the product is actually very suitable for the times. And we are living in very volatile times. And you know, a paper portfolio is only a paper portfolio. But everything that we're seeing at the moment shows that when you get to those moments where we are hitting volatility and different sorts of shades of uncertainty, that actually this is a fairly robust strategy. But you know, really we have the signals that we follow quite religiously to track the cycle and more importantly, we have the instruments.

How often does a portfolio manager see a macro circumstance and say, if only I could buy a government bond or if only I could buy this. But it's actually not within their investable universe. Well, this has a broader range of options to be able to express your views.

April Lowis:
Thank you. And we've had this question a few times. Come in. Will the leak invest in global equities? And another question is, what equity markets will you be investing in?

Matthew Haupt:
Yeah, so the core investing will be done within Australia. You know, we have the ability within the prospectus to go into international.

Geoff Wilson AO:
But.

Matthew Haupt:
It would be at a, at the, at the fringes. But another reason why we've got that as well is say some of our companies do euro denominated bonds and also US dollar denominated bonds. So we wanted the option to follow some of the issuances offshore from our domestic companies. So that was the reason why we left the prospectus open where we can do international because we can invest in some of the issuances offshore for our domestic companies.

April Lowis:
Thank you. And I think we touched on this earlier, but what is the difference between securing an allocation of shares now or simply buying on market in a couple of months time?

Geoff Wilson AO:
Well, first of all, you pay brokerage, which can be a negative and it just depends where it's trading versus the $50 issue. Price could trade at a premium, could trade at a discount.

Matthew Haupt:
Yeah, I mean, yeah, I'll just say you're guaranteed NTA by taking up of the ipo. And if you want to take the risk, whether it comes in at a premium or a discount, that's your call. But with the IPO you're at least you're guaranteed nta. And we did talk about some of the structural reasons why these are at a premium. So again that's the risk for each individual.

April Lowis:
Thank you. And how much of your equity exposure might be outside of the ASX 200?

Matthew Haupt:
It'd be very low. Like we talked about on the first webinar, the screening process we have which is really around quality and when you go higher quality by nature that draws up the size factor as well. So we end up being predominantly ASX 100 stocks. That is generally the universe where we'll be hunting. So yeah, I'd say majority will be ASX 100. But then again like if we get a market dislocation, like the beauty of this product is we can pivot.

Matthew Haupt:
If we get a market dislocation on the equity side, we can obviously hunt for some of the knockdown mid caps as well. So we do have that flexibility. And just before on the when we talk about market volatility, we've seen no market volatility in bonds. This is an equity only story at the moment. The credit spreads, they've moved a little bit but they're below historical trends. So when we talk about volatility we're seeing volatility that's on the equity side. The bonds we're seeing nothing.

Matthew Haupt:
So it's an important point to talk about it too. It's really an equity story at the moment.

April Lowis:

Thank you. And another participant has asked, does the 6.6 return include franking?

Geoff Wilson AO:

Yes.

Damien Boey:

Yes it does.

Matthew Haupt:

Correct.

April Lowis:

And then we've got a few more questions coming in some markets related ones. Where do you see the All Ordinaries in 12 months time in light of the appointment of Donald Trump?

Matthew Haupt:

I don't think we ever really do 12 month returns or forward looking returns on the equity market where we really assess the data coming in. But you know, we think the next month is probably fairly volatile like we talked about. We got to resolve a lot of issues but overall we're reasonably constructive. So I don't think I don't have a target for the the ASX. But yeah, I would have thought we're up by the end of the year from where we are now.

Damien Boey: One way of valuing the equity market is what they call the rule of 20. So what you do is you Take the market price to earnings multiple forward, backward. It's up to you how you want to do that. You add inflation and if you want to be really fancy, you add what is called the credit spread, which is basically how much does a triple B rated company trade, the yield trade relative to a government bond.

Damien Boey:

When you do that sort of exercise, it's called the rule of 20. So if the sum of those three things is above 20, you have a problem. The equity market's too expensive. What you're finding at the moment is that that sum is around about 20, but it's falling through it. So you know, we're getting a healthy correction and that will create opportunities for capital growth again in the right sort of options down the line.

April Lowis:

Thank you. And another participant has mentioned Warren Buffett moving into more cash. The shareholder asks should more of us follow Buffett into cash and perhaps place ourselves in position to buy more for less when the market hits the bottom for us?

Matthew Haupt:

I mean we think that's where this fund will really come into its own because we have the option of effectively a cash like instrument with higher yielding than cash on the bottom side. So yeah, I mean he's been very conservative and it's proven to be right. Like a friend got off the phone with Stanley Druckenmiller the other day. The, the, the major global macro trader that's most people know through George Soros and he's, he's got a long bonds too. So you know, from being very risk on earlier.

So you know we think, we think cash bonds is a good way, that good, good way to weather the storm at the moment. But again for us our goal is to make money on the bond side and then pivot into the equities when they're ready to take off as well. So you know, I'd say put the trust in us and, and we can make that decision for you switching between asset classes but you normally have to phase in. It's really hard to.

And Geoff, you would know this through the GFC you get maybe four or five goes at it and each of them wrong and then eventually you get it right at the end. But it's quite hard to cycle between the two asset classes. But normally you get a few false runs and we're seeing that now like a. Equity markets rallied a few times but the, the resolutions aren't in place yet for a sustained rally. But we might get that next week so, or this week actually.

So yes, cash is a reasonable investment at the moment like but again you've got to be quite bearish on the world. You know, we've increased, increased the allocation to bonds to 50% in our, in our model. But you know, equities are looking cheaper and the earnings yield on equities is increasing, which is the important thing. It didn't really make a lot of sense before. There's about a 200 basis points, a 2% spread between earnings yield and the bond yields we were getting.

So it's compressed a lot now, which is making equities look better. So, long story short, I'd be looking over the next month or two or three about whether equities increasing equity exposure.

Damien Boey:

The I think it really depends on what levers you have to pull to deal with equity markets experiencing a bit of volatility. So if you're only invested in equities and you thought that the

equity market would go down, then yes, you'd have to increase your cash allocation. But if you had more instruments than equities, then potentially you can make money from the equity market going down. There are lots of different ways to do it, but historically government bonds have been a way to do that and particularly the longer duration sort of stuff.

Damien Boey:

So, you know, cash is good, but if you're going to be investing in cash and you have the flexibility to invest across equities and bonds, then you're really saying that I think both of those asset classes will sell together. And you're really howling back to the period 2021 to 2022 when we had inflation, we had tightening and we had slowing growth. The question is, are we in a similar sort of circumstance now?

Damien Boey:

Some people would say yes. Our answer is yes, but it might be a short term picture, but it may not. It's probably not the longer term picture.

April Lowis:

Thank you. Another question is the WAMS stable has a lot of funds operating now, all going very well. By adding another fund to the stable, aren't you reducing your ability to do thorough research, to manage, to best manage all the funds?

Matthew Haupt:

I mean, that's an interesting question and one we give thought about. And you know, we would never do a new product which would be at the detriment of others. The way we look at it is really, I mean, for this product as well, obviously you got Damien, who's new to the group, he joined in January, but I think we said on the first call, I've been talking to Damien almost daily for a decade through various positions he's been in. So, you know, without a capacity to the group, you know, we have a big investment team as well.

But the reality is the thought process is exactly the same for this product as well. You know, we've, we've developed a proprietary screen for, for this product which is by itself and the equity portfolio will be unique to this product. But the decisions or the, the framework on how we look at the world is exactly the same. It's just how we express it. So there'll be a little bit more work for, for myself on the construction of the portfolio, but not overly excessive, but it's really bringing extra capacity into the group and I mean Damien has been a great hire and you know, brings a wealth of experience across decades on both equities and bonds and at the rba. So, you know, we have bolstered up our intellectual capacity, you know, in anticipation of this fund as well. So I think I can confidently say that we've got the skills and there'll be no detrimental effect to any of the other products.

Geoff Wilson AO:

Also what we've seen is as we've grown, like when you, when you've got a really small pool of capital and you say you're investing in really the bottom end of the market like the microcaps or the nano capsules, then obviously the size of capital restricts you. But what I've seen, and Matt, you've seen as well, I'm sure over time is as we grow then we actually get more access. And what I've learned is sort of in this game the people that get the best quality information usually do the best and as you get larger then you get.

Geoff Wilson AO:

Yeah, you go up to another level in terms of the information you can, you can collect to make sort of really good investment decisions.

Matthew Haupt:

Yeah, I mean great example Geoff as well has been Center Group last week where they were doing the note issue. We managed to use that information to make money on the, within the leaders portfolio because we get access to a different cohort of the Senate did a, a call to their debt holders or the debt holder Syndicate Group. We got to listen to that. We, we wouldn't, we never got the access to that previously because now we're plugged into all the, the, the debt market teams. We get access to every issue within Australia.

Matthew Haupt:

So we had to listen to what they're asking the companies and we get to see the book builds and how the pricing is going which has, has an impact on the earnings of the equity company. So for that example, you know, before the product is launched, we've already made money for leader shareholders by having access to debt market or not companies. But the, the different cohort of people and network. So it's, it's, it will be a huge benefit for the group as well. That network effect where, you know, like for Tap Corp, they've got a debt meeting coming up. You know, we weren't invited to these things before, but now we're getting invites to every debt meeting, every raising on the debt side, which will benefit the equity side. So there's going to be synergies not only within the WMX product, but across the whole group, which we, again, going back to your comment around this game's about information.

Matthew Haupt:

We're just plugging into another network that we were not plugged into before.

Damien Boey:

I think the other thing to note is there are lots of different investment styles with lots of different research, research intensity. And I'm not saying one is better than the other, but some people will choose to invest by just knowing everything that there is to know about a lot of individual companies. And that's a fine approach, but the issue is, are we actually tracking the biggest lever which will drive the stock or portfolio structure?

Damien Boey:

Nowadays, a lot more of the world is moving to what I would term a bucketed approach where, you know, based on some macro signals, based on some micro signals and understanding of a company, you say, look, I like this company because it fits within this basket or this basket or this basket. And when you activate that basket, depends of course, on the macro conditions and things like that. So they're both equally valid approaches. They come from different ends of the spectrum.

But when you're coming top down rather than bottom up, there's an efficiency with the way that you process information. And on top of that, when you're doing the macro analysis across different asset classes, there's some real synergies there. So I'd say, yes, I believe we have the capacity to be able to intellectually analyse a lot of these companies. But I think also the approach that we have is designed for maximum efficiency of effort.

April Lowis:

Thank you. If the cash rate goes down, does that mean the monthly dividend also reduces?

Matthew Haupt:

So not necessarily. So what. What would reduce would be our running yield, but what the goal of the fund is, we can identify before interest rates fall, make capital gains on the bond side and then also position on the growthier side when equity markets are ready to run off the back of interest rates. So the mix between capital and growth income and growth income and capital, sorry, will change. But that's the role of the portfolio management of WMX is to make sure we can provide a consistent dividend through different cycles. So it's really the ratio of income to capital which has changed. That's the goal of the fundamental.

Damien Boey:

So hypothetically, for example, if we were to drop to zero interest rates by the end of the year, and you had that strong view and you got it right, then what you'd actually be doing is buying a lot of fixed rate notes, probably government bonds, and then you. As interest rates fall mechanically, these instruments actually gain in value, their prices go up and then that would basically be a capital gain which could then be used for a little while to sustain some payments in the form of dividends that we could stream out. But equally, when, when, when interest rates hit zero, I mean, that's only looking at the fixed income side. When interest rates hit zero, you're going to see a response at some stage in the equity market, you will see a response in the economy and you will start to see some very attractive dividend yields be worth pursuing.

Damien Boey:
So no matter how the cycle actually goes, there are always opportunities to do better than the cash rate. And our hope is to actually grow the dividend ahead of the cash rate on a very consistent basis.

April Lowis:
Are there any assets in WMX at the moment?

Matthew Haupt:

No, no, we don't get the funds until about a week out from the listing on 30th April. So no securities in WMX yet.

April Lowis:

Do you intend to invest in retail companies led by Solomon Liu, like Myer (ASX: MYR) and Premier Investments (ASX: PMV)?

Matthew Haupt:

Yeah, within our screen. They don't feature at the moment. So, you know, from, from. I think WAM Capital does have those, but that's from more from a capital growth point of view. So for us, they don't fit our screening process. So unless they got to a evaluation where they did, unlikely at this point in time. Would that fit into the portfolio?

Damien Boey:

I totally understand the question, given the yields that are kind of on offer, but I suppose the only question is we're not just interested in today or yesterday's dividend yield. We're also interested in what they could actually do tomorrow or the capital management. So when we look across a variety of different factors, looking at economic sensitivity and things like that, at this stage, no. But would you rule it out if the economic circumstances change? No, of course you wouldn't.

Damien Boey:

But right now, no, that's not the way it is.

April Lowis:

Will the portfolio be passively managed or highly active to take advantage of momentum?

Matthew Haupt:

Yeah, I mean, the role is, the goal is, sorry, to be highly active. And like everything we do at Wilson Asset Management, we're active investors. You know, the goal is to make Money in all environments. The goal is to we see money to be made on the day we'll take advantage of it. So on the equity side we envisage around 100% turnover which is very, very active. And then on the, on the debt side or the bond side would expecting between 30 and 40% turnover but again around inflection points that could really flash up.

So the goal is to be highly active, opportunistic when we can make money and like all the other WAM products, very active.

Damien Boey:

I think, I mean momentum is a very interesting term. It means different things to different people. But I guess the most common understanding of it is just, you know, depending on

the ebb and flow of market sentiment, can we actually position for that and make money from that? And the answer is yes. It understanding the swings and roundabouts with global growth, inflation sentiment, all sorts of asset allocation signals, they're key parts of the framework that we use.

Damien Boey:

And we can express that within the stock universe, we can express that within the bond universe and we can express it across stocks and bonds. So we are very macro aware and we do see those opportunities and we will try to take them as best we can. Obviously when you're paying a monthly income the priority is to be able to pay and sustain the monthly income first. But we believe that we've actually got the tools to free ourselves up to be macro aware in the right ways.

April Lowis:

Thank you. And what is your default maturity profile for the debt component?

Matthew Haupt:

There isn't really a default component but most of the stuff we'll be looking would be three to five year. And again like the goal is to actively manage that. So we can, we'll change the duration when we feel it's appropriate but that's where the majority will sit. Obviously there's some longer 10 of stuff like 7, 10 years. I mean there's no real goal, it's more around the structure, you know, fixed versus floating.

Matthew Haupt:

And we look at the portfolio might be a bit complex but on a modified duration level where what sensitivity does the portfolio have to move in interest rates. And that's where a lot of our focus will do be around rather than just strict tenure of the paper. But yeah, most of the wholesale bank stuff will be around that five year, you know.

Damien Boey:

Yeah, so because it's floating rate note, like if it were a fixed rate note and we were buying three to five years then the duration would be three to five years depending on how much interest where actually the interest rate is, but probably around that level because we're on Floating rate notes. What happens is that the duration shrinks from being closer to the maturity date to basically being to when the next coupon is actually paid.

Damien Boey:

So that's the concept that Matt just put forward about modified duration. It really depends on your interest rate sensitivity, the actual interest rate payments to determine how long lived your interest rate risk actually is. And because we're floating rate at the benchmark, it is very short. But as Matt also said, we have the discretion to actually take a longer duration view by going from floating rate notes to fixed.

Damien Boey: That would be the active management component, but nonetheless a very important lever in the way that we're going to make the debt portfolio work.

April Lowis: Will there be weekly or monthly reports on what has been bought and sold?

Matthew Haupt: We're going to be reporting monthly like the other leaks. The, I mean it's still up for debate around what we do as far as the communication goes for this product, given that it's a, I guess a monthly income fund and you know, level of detail, what we go down to. But obviously we want to give as much detail as we can. So yeah, the goal is monthly communication with NTAs. And obviously an important thing for us is to keep the level of communication up while we're investing before the first dividend.

Matthew Haupt:

So we really want to give people an update on around, you know, maybe the percent of the portfolio invested, where it's been invested, the amount of interest received so far and you know, dividends received and make sure there's some real confidence leading up to that August dividend declaration and payment. So yeah, the goal is to be really high on the level of communication early while we're investing.

April Lowis:

And will you be employing the dividend stripping strategy?

Matthew Haupt:

No, that's not the goal of the fund. We think the, you know, given the stripping, obviously you'd be losing franking if you were pursuing that strategy. But we think we, the way we structure the portfolio is we don't think we need to do that. We don't need to strip dividends. We've got a more holistic, enhanced way of looking at the universe through our screening process. And then our, our fundamental process and our dynamic weightings will drive the portfolio weights rather than trying to time it around or strip dividends.

Matthew Haupt:

That's, that won't be a core feature of the product at all.

April Lowis:

Thank you. And this is the last question that we'll cover off today. Do you think the outcome of the federal election will impact WMX and markets? And what would you anticipate if either liberal or labor parties won?

Damien Boey:

Yeah, So I think that the set of election outcomes is not quite binary. As in, like you could get hung Parliament or you could get minority governments, you could get all of those sorts of outcomes. And therefore, and given that the election race is so close, you know, you wouldn't rule any of those outcomes out. So what you'll find is that most people will say,

look, if there's a better than average chance actually that we end up with a government that can't really completely fulfill its agenda, then maybe the economic or cyclical impact of the election is not so big.

Damien Boey:

The only thing that I'd caution about there is that, you know, the impact of government policy on the economy is one thing, but the impact of whoever's in power on how the RBA operates and monetary policy and how bonds are priced is another. Because we know that the RBA's mandate was sort of redesigned under the labor government. And we also know that under a liberal party, you know, if the agenda might be there, I won't say no, but the agenda might be there to try to apply a little bit more fiscal restraint.

Damien Boey:

So to the extent that markets at the moment are sensitive to inflation and worry, and to the extent that people are worried that inflation might be high for longer, so central banks can't ease and economy can't benefit from easing, you know, obviously that sort of risk is something that we would worry about. But if you have a longer term view that actually a lot of these inflation issues can be resolved through enough slowing in the economy, through enough freeing of spare capacity, then actually it's not too bad.

Damien Boey:

Now that's sort of the absolute view. What I want to suggest is that no matter what the outcome, we actually have the levers to position for that environment. So if we end up with a regime which is more inflationary than not, then we have the means within our portfolio to tilt towards more short duration type securities within the equity portfolio. And obviously we'd have to manage the duration risk on the debt side depending on where we actually see the RBA cutting. Maybe the RBA wouldn't cut so much in that environment because fiscal stimulus, longer term from tax cuts and things like that might prevent, might put a flaw in how much the RBA can cut.

Damien Boey:

If on the other hand, we get a bit of fiscal restraint and you get more slowing in the economy and interest rates do fall, then we could actually take a longer duration position. Obviously within the equity portfolio, we might need to be a bit careful with taking domestic cyclical exposure for a little while. As the, as company earnings feel the effect of that sort of fiscal restraint. There's a lot of different scenarios. But I guess what I want to suggest is that, you know, we have the means to be able to position for them.

Damien Boey:

To the extent that there's a lot of uncertainty in general, I wouldn't say that there is necessarily, but not like what you're seeing globally. But if there is a heightened degree of uncertainty, whether domestic reasons or global reasons, then what Matt said before is spot on. Rather than try to pick the eyes out of, you know, who are the winners and losers,

maybe we should actually just take an aggregated, aggregated approach and say, look, high uncertainty hurts the trends, high uncertainty hurts the crowded positions. So that's broadly how I'd go about answering any sort of election related question. It is and is depends sort of answer.

Damien Boey:

But you know, have a very clear plan and the means to position for different sorts of regimes. We can do that.

April Lowis:

Thanks Damien. That's all we have time for today to stay informed with our latest investment insights. Join our community of 90,000 subscribers. You can also follow us on LinkedIn, Twitter and Facebook or visit our website for more information. And we've also relaunched the weekly email last week and again this week so.

Geoff Wilson AO:

Due to popular demand and that includes.

April Lowis:

Market updates, stock views and I think.

Geoff Wilson AO:

We get over 50% open rate. So thank you everyone that's interested and any other ideas. These are your companies. Please feel free to feedback to us and thanks for your time. And there was still some questions that we may have missed that we'll make sure we get back to you and answer them. Thanks very much and see you all on the road starting, starting tomorrow in Canberra.

Damien Boey:

Thank you.