

Wilson Asset Management Income Maximiser Second Q&A Webinar Transcript

Friday 21 March 2025

Speakers:

Geoff Wilson AO – Wilson Asset Management Chairman and Chief Investment Officer

Nick Kelly – WAM Alternative Assets Portfolio Manager

Bridget Thelander – Corporate Affairs

Transcript

Geoff Wilson AO:

Good afternoon and welcome everyone to the WAM Alternate Assets (ASX: WMA), or we'll call it WMA Interim Webinar. You'd all be aware we have this regularly – it is our opportunity to engage with you and thank you. We've had a good response in terms of shareholders that have sent questions in, but also people that are signed up and are currently in on the webinar. We want to take you through the last six and 12 months of WMA and really, again, talk about the future of WMA. Because of all the listed investment companies that come under the WAM brand, WMA is the best value currently in terms of trading, about nearly 20% below the value of the assets. So anyone who's heard me talk before, what we try to do is we try to buy as investors. You want to buy assets cheaply and with listed investment companies, you're really looking to buy them at NTA or if not at a discount to nta, because then you're getting a partial free kick in terms of. But just let's look at the performance of WMA over the last 12 months.

The portfolio has performed solidly. Now it's up about 8% since we took over. The portfolio is up, I think it's about 9.3%. We took it over from BlueSky, which ended up going. They had significant problems. The whole portfolio has been reconditioned and it's exciting. Today you'll meet Nick Kelly, our new portfolio manager that will be working with the Board and also the investment committee, which Dania remains on the investment committee. So working to the benefit of all shareholders in terms of today, I'll give you a bit of an intro, then I'll pass on to Nick, who will take you through a bit more of the details and then we'll open up a number of the questions that you already sent in, but also, you know, and Bridget, one of our senior comms people, will be asking the questions and any other questions you have over the day during the webinar, please send it in.

In terms of the performance, one thing you've got to remember with alternate assets is one of the beauties of investing in alternate assets is that the volatility is significantly less than the market. And in theory, what is volatility? Normally you assume the lower volatility, the lower returns. What this beautiful situation you've got with WMA is you've got low volatility and volatility, the markets. The ASX volatility in the last 12 months was around that 14% mark. So, jumping up and down a lot and we've seen that obviously more recently.

But the volatility with the WMA portfolio was about 3.4% over the last 12 months. So there was significantly less volatility and still provided a solid return over that 12-month period. In terms of another thing is the dividend. You would have seen that the directors slightly

increased the dividend and now there's a little over three years of reserves. So, without WMA making any more money, there's three years of dividends already on the company's balance sheet.

And in terms of WMA, it's not only trading at a discount to the value of the assets below the value of the assets, but it's also on a really nice good yield, a little over 5% and nearly getting close to 8% on a pre tax basis. What I'll do I mentioned earlier about Nick Kelly joining us and that's joining Wilson Asset Management and taking over from Dania in terms of as the portfolio manager. Now Nick, it's interesting.

Nick and Dania worked together for a period of time very closely and Nick was very senior at WTW or Willis Towers Watson where he was head of alternates and really had a really strong track record in investing in that space, identifying high quality investment opportunities in that alternate asset space. So, we're very excited to have Nick on board to drive this company over the Next, you know, two, three, five, 10 years because we think as an investment opportunity that the, this the ability to buy a listed investment company that gives you exposure to those alternate assets.

It's the democratization of getting exposure to alternate assets where I know personally, historically, that is a challenging place to invest in. So why don't I'll pass over to Nick now who will take you through the next part of the presentation. Thank you.

Nick Kelly:

Wonderful. Thanks. Thanks, Geoff, for the intro and the and the kind words. So as Geoff said, I'm the new portfolio manager for WMA. I'm really excited about the future prospects and the growth prospects for WMA. Now some of you may have seen the video that came out with the reminder for this for this webinar yesterday. And in that Geoff interviewed me around joining Wilson's and taking on this role and the first question he asked is what attracted you to joining Wilson's? And I think it's a useful place to start here this afternoon. And really the reason I joined is twofold. Firstly, the high quality nature of the WMA portfolio. This is I've sort of watched this portfolio from afar and admired it. It is a truly institution quality portfolio and secondly the Runway for growth.

And in many ways you can sort of think about the process we've been through with WMA in sort of two stages, if you like. Stage one was all around the sort of revitalization of the portfolio and repositioning it when we took it on from BlueSky back in 2020. Now that stage is largely sort of complete now. There's only 15 to 20% left in those legacy assets and we're expecting some of those to return capital this year.

And the next stage, stage two is all about the growth stage and that's what I'm here to hopefully deliver on. And that's around growing our nta, growing the profit reserve and ultimately growing the dividends over time. Now, rather than talking to the sort of slides in detail, I thought it might be useful just to sort of putting myself in your position as shareholders. What questions would you have for a new portfolio manager who's been in the seat for sort of seven weeks? And there's two that jump to mind. The first is, well, Nick, what do you think of the portfolio?

What are the gaps? Are there any gaps? And what's the focus for 2025? And secondly, Nick, what are you going to do about shrinking the discount? So on the first point, as I said, it is a high quality portfolio. I do think that it is exceptionally well positioned for the current opportunity set. That said, of course there are a few tweaks I'll be looking to make and so the areas of focus for us this year probably threefold. Firstly, we have a small allocation to debt within the portfolio, just under 5% and I want that to sort of shift up upwards closer to 10% over time.

Now we're very conscious of some of the cracks appearing in the private debt space. You will have seen there's plenty of press around at the moment. Now it's worth acknowledging that most of those cracks are specific to sort of residential development lending. So real estate lending. We do not have any exposure to real estate lending within this portfolio and I'm not planning on adding at this point in the cycle.

What we do have exposure to is lending to high quality corporates. Okay, so that's the sort of private debt opportunity and some of that noise does create opportunities for skilled investment partners. So we do think this is a pretty interesting space. The second area we're looking at is a potential additional allocation in infrastructure, which has been a very resilient asset class. Over the last few years.

This is a group that I know very well. It is a opportunistic sort of infrastructure strategy, but importantly, we can get capital deployed pretty quickly, so we don't have to wait sort of two to three years to get money invested, which is important. And interestingly, that strategy is a sort of thematic investment strategy. And the themes that they're targeting are very well aligned to the themes we're targeting through WMA.

And finally, we'll make at least one more sort of allocation to private equity this year. And on that, you might have seen that the current unallocated cash balance is quite low. So the obvious question is, Nick, that all sounds great, but where are you getting the cash from to go and execute on these new opportunities? One thing that you don't see with the bar chart around our current allocations is the expected cash that we will get back as we exit assets.

And so there's this sort of constant sort of churn, if you like, that you'll see in a portfolio over time, as it matures, we will receive cash back and exits from the underlying assets. And we need to redeploy that cash into new opportunities. We want to have a fairly sort of linear and disciplined approach to deploying that capital. We don't have a crystal ball. We don't know what markets are going to look like in a few years. And so we want to sort of be investing through the cycle and partnering with the very best investment partners to deliver for our shareholders.

The second question, narrowing the discount. What am I going to do? I've had that question already from a number of shareholders that I've spoken to, and it's a fair one. And as Geoff said, it is trading at a big discount at the moment. Now, I asked Geoff this question during my first interview, and I sort of thought Geoff might give me this sort of magic secret that he'd been keeping from the market for decades.

And Geoff responded and he said something that we etched in my mind forever. He said, nick, it's really bloody easy. We just need more buyers than sellers. So I've taken that on board and I'm going to do two things to help here. So, firstly, it's about engaging with our shareholders to help them better understand WMA and its role in a broader portfolio alongside equities. And secondly, I'm going to leverage the relationships I've built with advisors and wealth professionals in the market, hopefully add them to the register over time, and hopefully that buying pressure will result in WMA trading up, ideally to NTA or potentially a premium in the future.

Finally, just quickly on transaction activity and what the market, you know, how the markets are looking and what to expect for the rest of the year. We do think that transaction, transaction activity is going to tick up and that should bode well for WMA. On the one side we should see some, hopefully some exits come through both on some of the legacy assets, but also the newer investments that have been made.

And those exits are really important to help provide investors some proof in what we're building with WMA as we get to a more mature portfolio. The flip side is transaction activity also means there's some really good buying opportunities. Okay, so we're actually progressing with a new co investment at the moment that we received from one of our investment partners. I can't say much at this stage about this business, but it's pretty interesting. It's an audit services business in the self managed superannuation fund space.

Space that many of you would probably know quite well. And we really like this space. We think there's some pretty good dynamics at play, high barriers to entry and a recurring revenue stream. And importantly, it's in the small to mid market space where we have a competitive advantage over larger players in the market that would love to buy a business like this but frankly is too small and wouldn't move the needle for them.

So as I said, really excited about the future prospects of WMA. With that I'm going to hand back to Geoff who's going to talk a little about the premium target vote that's coming at the end of the year.

Geoff Wilson AO:

Look, thanks Nick. And shareholders, any questions you have, please file them in. There's never a question that's sort of not up to scratch because probably half the people on the webinar would like to ask that question no matter what it is. So please send it in if we can't because it's an hour webinar today and we've just got a bit of a time constraint at the end. We've got another webinar coming up after that.

Yeah, it'll be. Yeah, would, you know, if we can't get to your question, then we'll answer it later on in terms of the. As shareholders, you'd be aware when we took over, you know, the management of WMA, you know, one of the sort of agreements was for us to put in a premium target that, you know, the plan was to get the share price to trade at a premium, had to trade at a premium for at least three days over the five year Period and if it did then it wouldn't need to go to a vote to shareholders. Effectively, you know, the vote is, you know, whether the company continues or not or the assets are sold over time which as you'd be

aware would take a few years to sell those assets or the assets that have been put together because some of those investments are sort of medium term duration investments.

So that's coming up at the end of this year. The interesting thing is since Wilson Asset Management has been the manager the number of shareholders has grown by about 37 odd percent. I think when we took over the management of this company I think it might have been trading at around that 33 to 35% discount NTA. So a lot of shareholders bought in in the early days. We, we haven't traded at a premium NTA yet.

The, you know, we, we've got pretty close. I think we were within, I think we're 7 or 8% discount, you know, over the last, the interesting thing is over the last sort of little period the discounts increased to a degree. And some of the feedback we'd been getting from investors say like there's one big financial planning group that we're talking to, they said look, we're really not prepared to commit capital to this company with that degree of uncertainty with this vote coming up now we're pretty convinced. I know personally myself that I own sort of all companies associated with me own a reasonable holding in this company and I want the company to grow and prosper and I'd love it to now be trading at nta and to me I'm convinced it can trade at a premium dentier.

As Nick mentioned, it really is a supply demand equation and it sounds really easy. You have more buyers and sellers and then you get to nta. The fact is it's very hard because a, you know, your 4,000 odd shareholders, they all have to be happy and understand clearly what you're doing and then you need to get some more shareholders. And I think what happened since we took it over, obviously it was a Blue sky entity.

You can see how we've increased the number of shareholders but I'd assume a lot of the Blue sky shareholders had sort of had enough and so it was just a matter of time before they left and probably as I mentioned more recently, which I didn't necessarily expect but there's the uncertainty position votes coming up that people that Nick's talking about getting new investors but they'll want certainty if they're going to back Nick or back Wilson Asset Management.

Then everyone wants certainty. So some shareholders have asked us, can we bring the vote forward? Could have we brought it forward to last year's agm? Yeah, obviously that's an option. I tend to, to me, I suppose what. One of the reasons I wasn't that keen on that is because then people might say, oh look, you're bringing it forward for, you know, is it for self interest, et cetera, et cetera. So to me, the agreement was the votes in five years. Let's have the vote.

I'm very confident that it'll vote for the company continue and then we remove that uncertainty and we can focus on getting that share price trading at NTA because as I mentioned, it's nearly a 20% discount. So if it trades back at MTA, that's 80 cents going back to a dollar, hypothetically, you know, so you're, you're up another 25%, you know, so from here it's a, it's. Yeah, it would be. Yeah, well, we'd all feel a lot, you know, we'd feel as though we're, we're worth a bit more.

So Nick, do you have any specific comments on, on that target that we've got there?

Nick Kelly:

Yeah, just on the vote, Geoff. I think it is, it's an important one because I had the same question and I remember asking you in my first interview, you know, am I going to have a job in 12 months? Geoff? So I should have said lucky.

Geoff Wilson AO:

I didn't say it's a 12-month contract.

Nick Kelly:

Exactly, exactly. I made sure I signed a full time contract. So I, I got very comfortable through our interaction and also the interaction I've now had with our, with a number of our shareholders that there is a desire to invest in WMA longer term. There's a role for WMA in our investor portfolios long term and there's a real commitment to investing more into alternatives within the broader Wilsons business. So this isn't a, let's just see it out till the end of the year. There is a real commitment here to grow WMA over time and that's what I'm here to do. And so, yeah, I think it's a, you know, it's a fair question to have. And as I said, I had the same, I had the same question and through my interactions I've got sort of comfortable that we do have the support to get through this period at the end of the year and hopefully move forwards and grow the portfolio over time. So maybe just on that, Geoff, and.

Geoff Wilson AO:

Just on that, like in Terms of. Yeah, it's shareholders decision, so we'll put it to the vote. There's no. And then you know, what shareholders decide, then you know, then you know we'll work through after that.

Nick Kelly:

Absolutely. So with that conscious of time, so I might hand back to Bridget, who's going to run through our Q and A today.

Bridget Thelander:

Great, thanks, Nick. And as Geoff mentioned, if we don't have time to answer your question, we will contact you after the call. So to kick off, we've received quite a few questions on the profits reserve and how it works. Geoff, can you please give a brief explanation of what the profits reserve is, how it works and how it forms part of the nta.

Geoff Wilson AO:

Okay, thanks Bridget, and thanks for all shareholders. And probably the reason why we highlight the profit reserve is really to give investors comfort that the ability of the company to pay dividends, consistent dividends and obviously we'd like to have a growing stream of fully franked dividends. Just give them comfort around that. In terms of the profit reserve is any profit that the portfolio makes and that's realized or unrealized profit from accounting perspective gets moved to a profit reserve.

It's purely an accounting entry. We haven't necessarily sold any assets because as I said, it's realized unrealised profits. And yeah. And it is part of the portfolio. So yeah. And with WMA we've got, I think it's 3.1 years. So you'd have a lot of confidence that, you know, as I mentioned earlier, that we really don't need to make money for the next three years, but which obviously the plan is to make money and to continue to grow that profit reserve. Some people say, look, if you've got so much in the profit reserve, let's pay it out to shareholders. Well, as I said, it's realised unrealized and we'd have to sell assets potentially to do that if that was the case.

And also because it's realized and unrealized, there's usually when you're paying dividends to shareholders, you're better off paying them fully franked dividends. And you know, there's with if the, if it's realized unrealized profit, then you only pay the tax when the profit is realized. So there's usually a mismatch between the amount of franking, there's less franking usually and more profit reserve.

So, the plan is to pay out fully franked dividends, a growing stream of fully franked dividends to shareholders. So as we realize assets pay the tax now, then we've got the profit reserve and the franking to pay the fully franked dividends to shareholders.

Bridget Thelander:

Great. And Geoff, we'll stay with you. This next one's from Philip. He says can you please explain why wham. Alternative assets share prices remained flat over the past four years and NTA growth has been limited. Given the LIC's objective to preserve capital and provide steady dividends, do you believe it has delivered on its mandate?

Geoff Wilson AO:

Okay, well there's two or three parts to that and, and there's observations. What was the. You have to break it up. Thanks, Bridget. Four questions there.

Bridget Thelander:

Yeah, yeah, potentially.

Geoff Wilson AO:

There's a comment. There's a comment.

Bridget Thelander:

Yeah, yeah. We'll start with the share price being flat and NTA growth limited over the past four years.

Geoff Wilson AO:

Well the, the share price, you know, well since we took it over, you know, the share price was trading, you know, well below where it currently is. So the, I mean over the last few years is. Well first of all when you're paying out say currently it's a little over 5% now, fully frank. Then you, then you need to make I think the gross top yields a little, you know, just, just over 8%. So you've got to make 8% a year on a pre tax basis to pay that as a fully franked.

So for the last 12 months I said we've done about 8% and since we took it over I mentioned we've done 9.3. So if you're paying out nearly on a pre tax basis, nearly everything you're earning, then you don't have a great deal of capital growth in terms of, I think I mentioned earlier as well about the risk you take when you invest, say you invest in equities and the volatility is 14%. So it goes up and down a lot where WMA's volatility has been 3.4%.

So it's incredibly low volatility which is a measure of risk and solid returns. So and also in the first, well probably up until the last year or so we inherited a portfolio of assets the blue sky were managing historically Blue sky, the manager as you'd be aware, went under and we ended up taking over the manager of these assets. So in private equity, when you're. Oh sorry in alternate assets, which includes private equity, various other areas.

But in alternate assets then it takes time to sell what you want to sell and put the portfolio together that you want. So it just takes time. So that's why that is. And so in terms of going forward, what should you expect? And to me, what is happiness? Happiness is, or sort of the difference between what you expect and what's delivered. And for shareholders, if you're expecting big volatility, then you're not going to get it in WMA.

If you're, if you're expecting, you know, like, like 20 and 30% years, the. You won't get it in WMA. You know, you'll get those type of performances over time and Nick will probably talk about a little later. Might be a question on it. The. The various positions that Daniels or WMO is rolled out of now, they've been selling them at 30% above what we're carrying them at the books, in the books at. So there could well be some latent value in the portfolio.

What's WMA? It's exposed to alternate assets. You're taking seemingly less risk and getting a good return. And that's what we're sort of focused on.

Bridget Thelander:

Yep, absolutely.

Geoff Wilson AO:

That was one part of the question. What are the other parts?

Bridget Thelander:

Do you think that the LIC has delivered on its objective to preserve capital.

Geoff Wilson AO:

100%? Now, obviously, that's the NTA. You as a shareholder, you might have bought an 8% discount and now it's trading, you know, closer to 20% discount. So you'll feel as though you haven't. Hasn't delivered for you. Now, the fact is the NTA is the nta and I'd assume once we get past this vote and there's clean air, then obviously then that just removes a level of uncertainty. So I'd assume that tightening of the discount NTA will occur once this votes, you know, once the uncertainty has been removed.

Bridget Thelander:

Thanks, Geoff. The next question's from Stuart. Do you believe there will be more activity this year in private companies?

Nick Kelly:

Yeah, sure, maybe.

Geoff Wilson AO:

Yeah, that's Nick. Nick, you're the expert there.

Nick Kelly:

Yeah, sure. So, short answer. Yes, we do think there will be more activity. Transaction activity has been fairly muted for the last sort of couple of years. There has been lots of, lots of folks sitting on the sidelines and we're starting to see some of that converge and some greater agreement on price. The recent rate cut does help, and so we do think there will be an increase in transaction activity. And as I said before, we think that will be act as a bit of a tailwind for WMA, both in terms of exits, but also new buying opportunities as well.

Bridget Thelander:

Great, thanks, Nick. Next question is from Brett. Geoff. How do you generate franking credits in WMA and pay these out as fully franked dividends to shareholders?

Geoff Wilson AO:

Yeah, in WMA, it's pretty much tax paid. So WMA makes a profit, realizes an investment, makes a capital profit, pays tax, you know, 30 tax on that, which obviously there's franking attached to that profit. Just on that. Nick, is, is the, is the much or anything in the way of, of flow through franking from any of the investee companies or, or.

Nick Kelly:

No, not, not, not much. There might be a little bit, but not, not a huge amount.

Geoff Wilson AO:

Yeah, yeah, it's pretty much from tax that we pay inside the company on profit that we make and that's realized profits.

Nick Kelly:

Great.

Bridget Thelander:

From Sandra, are you considering a share purchase plan to increase the investable amount and grow the fund?

Geoff Wilson AO:

Good work, Sandra. At this discount. Well, currently the plan is, is probably not a share purchase plan. It's interesting someone suggested do we, you know, do we do a contributing share, you know, which is a partly paid. So but anyway, like the, the plan is, the plan is to, for Nick. Well, the plan is to make sure all shareholders are happy effectively and that's if everyone's happy, then there's no sellers and then it's to get some more

buying and then that's for the share price then to trade at nta and then that gives us an opportunity of growing it.

Doing a share purchase plan, doing a partly paid or it gives you a lot of options.

Bridget Thelander:

Thank you. Next one's from Nathan. Can you please talk a little bit about the liquidity of your investments and how this affects the way you think about cash in the portfolio? Once all capital in the portfolio is committed, will you need to raise more funds in order to invest in additional opportunities?

Nick Kelly:

Yeah, sure. So the underlying investments are all liquid investments. The one exception to that, and excuse the pun, is the, is the water rights because they are actually quite a liquid asset class. But all of the underlying investments are largely illiquid. And so when we're committing capital, we're committing capital over a number of years that then gets drawn down and will be returned back. So the typical term for these commitments is a lot of these funds are sort of 7 to 10 years funds that we're committing capital to.

And then the, the second part of that was therefore how do we manage cash? And it's a, it's a really good question and it's something we, we have to manage each and every day. So we have committed of the 22% holding that we currently have in cash, the majority of that has been committed to future strategies which will be drawn down over time. But as I mentioned before, because of the way the portfolio matures, we will receive cash back from exits.

Okay. So as that cash comes back, it will top up the cash account which then can be drawn down for future commitments. So you have this sort of cycle that occurs within the asset class, but there is a need to have some cash on hand to meet those capital calls as they come through.

Bridget Thelander:

Thanks, Nick. We have a question from Julius. WMA's share price spiked at \$1.13 on 24 September. Can you comment on the reason for this?

Nick Kelly:

Yeah, sure. So just on that spike, as I understand it, a new advisor had come into the market and bought WMA on behalf of a number of their clients. And so that's where we're seeing the convergence, I guess, of our sort of traditional retail shareholders, but also financial advisors coming in and looking at WMA and the role it can play in their client portfolio. So that was the reason for the spike.

Bridget Thelander:

Great.

Geoff Wilson AO:

And that's, you know, that just sort of emphasizes once this vote, we've had the vote, then

it just removes that level of uncertainty. And of course then we'd like a lot more buyers. Then the share price moves up and past nta.

Bridget Thelander:

Great. The next question's from Phil. How do you work out the one year return of over 5%? The share price was \$0.96 on the 20th of March, and with a 5.2 cents dividend, that only works out at less than 2% annual return. Are you able to explain how it's calculated from Phil?

Nick Kelly:

Yeah, I can cover this one, Geoff. So the investment return that's quoted there is from the investment portfolio. It's not the total shareholder return. The total shareholder return over the one year though is about five, five and a half percent. And that's the dividend yield that's effectively paid throughout the year because the share price is largely unmoved over the one year. So the return that the investors have received is the, is the dividend yield.

Bridget Thelander:

Thanks very much, Nick. A question from Stan. Calculating NTA requires you to value many different unlisted assets. What methods do you use to do this?

Nick Kelly:

Yeah, sure. So the valuation approach is sort of, there's two stages to it. So we have our own approach that we need to undertake on both a semi annual and annual annual basis. And being a listed company, there's obviously a fair bit of rigor around that. We have audited financial statements. Okay. So we go through a process, semi annually to go through all of the valuations we've received from our underlying investment partners on the assets that we own.

Now the approach that they then use to value the assets will differ depending on the asset class. Okay, in private equity, for example, they typically assets or companies are held at cost for the first 12 months and then as those businesses start to perform, they tend to use a capitalization of earnings approach and at times may use discounted cash flow. In real estate and infrastructure a discounted cash flow approach is used and also comparable sales in real estate is quite common.

And in real estate and infrastructure, I should say as well that the underlying investment partners will have their assets valued externally by an independent party at least semi annually. So there's additional rigor there. The agriculture assets are valued on a sort of future commodity price of the asset itself multiplied by the expected sort of harvest or tonnage from the assets. And then water is a little easier because it is a traded market.

We know what a water entitlement is worth at any point in time. So it is a little different depending on the underlying asset class. And as I said, it's a, it's a sort of two stage process. Both the process the underlying investment partners go through to validate the market value of those assets and then the process go through to sort of challenge them on those valuations and ensure they represent fair market value.

Bridget Thelander:

Thanks, Nick. Question from Michael. What is the approximate net return of private debt and why do people borrow this sort from this source rather than just use a bank?

Nick Kelly:

That's a really good question. So the returns differ quite a bit depending on the strategy, the strategies that we, that we invest in within WMA and what we'd be looking to invest in the future. We'll be returning sort of cash plus 3 to cash plus 5 on average. So we're not seeking out. You'll see some private debt funds in the market promising, you know, 15% plus returns. We are not looking at those.

If you're earning 15/ percent returns, you're probably taking equity risk, not debt risk. And so, you know, if it sounds too good to be true, it probably is. And that's where some of the issues are in the market. And the other part of the question, why not just go to a bank? It's a really good question. The reason for why this market exists is it has become more challenging for banks to do the sorts of lending they have traditionally done because of the regulatory regime that they face and the capital they need to hold against the loans they make.

And as a result they have sort of left a bit of a void in the market. There's been demand for borrowing and so asset managers have raised Money to come in and fill that void in the form of private debt. The other thing to remember here is private debt is. Is typically much more flexible capital. So any of you that have, most of us have dealt with banks during our life and you've got a mortgage and things like that, there's usually, you know, a checklist that the bank goes through with you. And if you can't tick one of those boxes, they don't want to know you. Now, that doesn't mean you're not a good borrower. Right. And that's where private debt can play a role because they can provide more flexible capital and see through some of the issues that the banks, you know, they find it hard to do because of the regulatory regime they face. So it tends to be a more flexible type of capital.

Bridget Thelander:

Great. And from Saranjeet, what is the potential to increase the dividend payout?

Geoff Wilson AO:

Well, obviously that's the board decision and the. Yeah. There is a profit reserve there that we talked about. So hypothetically, it wouldn't be fully frank, but a dividend of three times the annual dividend could be paid because you need profit for it, to be frank, you need tax paid, which provides the franking. So the plan is, I mean, one of the great things about listed investment companies. And there was a good piece on Livewire, you know, just recently, and if you're interested, we can send it to you, which talked about people looking at listed investment companies versus ETFs.

Yeah, I call a listed investment company a thinking man's etf. If you don't know anything about the market, then probably just invest in an etf, which gives you the market return. The beautiful thing about listed investment companies, they do trade at discounts to NTA

and they do try to premiums to nta. And we have eight wham. Listed investment companies and five of them traded at premiums to NTA and three of them traded discounts. So.

And our plan will be the three that are discounts, you know, get them to NTA and eventually get them trading at a premium. Yeah. So to me, it's a. Yeah, like that's one of the beauties.

Bridget Thelander:

Great. A question from Leon. Can you speak a little more about the legacy assets, especially their quality? For example, what is the current percentage of the portfolio that they represent and what do you hope this figure will be within a year or two? Are there likely to be some sticky assets?

Nick Kelly:

Yeah, it's a good question. So the legacy assets make up just under 20% of the portfolio as it currently sits. Those Assets sit across venture capital, so private equity, the agriculture assets and water rights as well. Now, water rights are probably an interesting one. Whilst it's a legacy asset, it is an asset we will continue to hold, but we will hold it at a smaller weight than it has historically been held within the portfolio.

So at the moment, I think water rights or water entitlements make up about 18% of the portfolio. Now we are looking to bring that down to about 10 to 12% and we think that's the right sort of weighting to water in this portfolio. Water is a wonderful diversifier and so we do want to hold it long term, but at a more appropriate weight than it has traditionally been. The agriculture assets, we're looking to have those exited hopefully this year.

In speaking with our investment partner now, the question there around is some of that the stickiness of assets. I think they're a good example of that. Agriculture assets can be challenging in the sense it's not a particularly deep market. So you might have a really good agriculture asset, you might have a really strong sort of operating partner, but it can be difficult if there's no buyers for it. It.

Now, we don't think that's the case with these assets. We think we will, our investment partner will be able to exit these assets, but they're the ones that we'll, you know, they could be a bit stickier and take a bit longer to exit and hopefully get NTA or above 4. And then the venture capital assets, we're hoping that those will be exited this year. So over the next 12 to 18 months, we're hopeful that we can sort of reduce the weighting to the legacy assets in the portfolio.

Bridget Thelander:

Great. And the next one from Greg. Of the 12 portfolio exits displayed on slide seven, how many were in the past 12 months?

Nick Kelly:

Yeah, sure. So as we referenced, the transaction activity has been a bit muted recently. So only one of those exits is in the last 12 months, which is Birch and Weight, which I think we've given some details on previously, which was a really strong exit. That said, some of those exits that have occurred prior to 2020, we will have received cash in 2024. We clearly

don't receive cash the day these assets are sold. And so there's always a bit of lag between when the exit occurs and when we receive cash back to then redeploy.

So one large exit in last year and we're hoping, we're looking at sort of hopeful that we get sort of three to four exits on the portfolio this year.

Bridget Thelander:

Thanks, Nick. From Ian, what are your thoughts on the value and opportunity in WaterUp going forward?

Nick Kelly:

Yeah, so as I mentioned, we do think water has a, has its place in this portfolio. It is, as I said, it's a, it's about a good, a diversifier as you can get. It doesn't matter what Trump says, it's not going to impact whether it rains or not. Right. So it is a wonderful diversifier in the context of a portfolio, but it needs to be right sized. There has been the, you know, the government buyback program now that will, will probably act as a bit of a political handball coming into the election. And so depending on the results of the election, that may impact the price of water entitlements. So the background there is that the labor government alongside the Greens has promised to buy back water.

That therefore takes supply out of the market and should drive up price. And we understand that some transactions have occurred at sort of 10 to 30% premiums to current traded water prices. And as a result there's lots of holders of water in Taiwan scale sort of sitting on the sidelines to see what happens with respect to the election. So time will tell, but we do think that they have a role in the portfolio.

And as a longer term thematic around, you know, one of the themes that we're playing through WMA is around sort of the scarcity of food and natural resources and water is a core attribute of that. So there is a longer term sort of reason for holding water to play that theme.

Bridget Thelander:

Great. And Trent had a very similar question on border rights and you've covered most of it, I think. Nick, potentially the last part. Are there any political risks associated with the elections?

Nick Kelly:

Yeah, so I think, yeah, we probably covered it. I mean, the flip side is obviously if liberals get through, I don't think it acts as a huge negative to the market. What it will do is remove some of the uncertainty and we'll have some more, you know, we'll have increase in trading and entitlements because people, as I said, have been sort of sitting on the sidelines. So we might not see the big jump that we might get if labor get through the election.

But we don't think it'll be a negative for the portfolio.

Bridget Thelander:

Perfect. From Greg, what was the past 12 month return on the water rights?

Nick Kelly:

Water rights have been fairly flat for the last 12 months. It has been a challenging environment. We've had some wetter periods and that hasn't helped. So if we backtrack for some of our investors who've been around from Blue Sky Days will have experienced exceptionally strong returns from water rights. So from sort of 2017 to 2019, water rights delivered sort of 20% plus returns each year. And I think investors sort of became used to that, thinking that was normal.

It wasn't. Those were sort of outsized returns and the reason for that was they were particularly dry years and we had some severe droughts around the Murray Darling. So now the last year or two have been particularly wet and so that's hurt. And so somewhere in between those is where we see water performing longer term. But for the last year I think returns have been around 1% from water, including the yield and capital movements.

Bridget Thelander:

Beautiful. The next question is from Stephen. Is the portfolio of the ideal size to fulfil its mandate or would it ideally be larger? Why and if larger, how much?

Nick Kelly:

Yeah, it's a good question and Geoff may have a view on this as well. So it is large enough to fulfill its current mandate as a result of its size. At its current size we can be very, very nimble. But the opportunity set in private markets is huge. Right. So if we were multiples of the size we are now, we would still have no issues deploying that capital. Now at the moment the portfolio is all in largely Australian assets.

There is nothing stopping us from going global. But we sort of haven't needed to to date and there's obviously been a lot of work that's gone into sort of reshaping the portfolio that we've got today. But if we think forward, I think the opportunity here would be at some point to potentially if we get this, to trade up to nta perhaps raising capital and going global at that point to tap the broad private markets or alternatives opportunity set that exists offshore because it is a very big opportunity set. As I said, I don't think we're missing out on anything at our current size.

But at a much bigger size we probably, we open up global markets and can increase the size of the portfolio over time.

Bridget Thelander:

Great. The next question is from Tony. Can you explain to the audience why WMA is trading at such a high price to earnings ratio?

Geoff Wilson AO:

Oh, to me, let me have a go. I mean what happens is, and you look at all listed investment companies, the, the effectively the earnings is the change in value of the assets. So the earnings, well it'll be after tax earnings. So say we talked about the last, just the 12 month

period just gone to December. We said the assets are up 8% pre tax, so tax that. So they're up a little over 5% after tax. So What? That's, you know, how do you turn a Yield into a PE?

It's 100 divided by that. So it's nearly about a 20 times PE. So if the portfolio was up, say 30% and then you paid 30% tax, then the portfolio is made about 20%, which is a P of about five times. So you tend to find. And say the equity market does 10%. So on average, this putting. Not talking about alts, talking about the average listed investment coming, so it does about 10%. Then you tax that at 7% after tax and then what's that?

Yeah. So It's. Is it 15 times? Would it be what's 100 into 7, 15 and a bit. Yeah. So it'd be on a 15 and a bit times PE. And so you'd say, well, that's expensive on a 15 and a bit times pe. Yeah. So you don't look at listed investment companies on PEs, because we know operating businesses, you want to buy them sort of on PEs of 6, 7, 8, where illicit investment companies, you look at the assets.

Bridget Thelander:

Thanks, Geoff. From Margaret, she says, will WMA consider a social housing investment or a super fund partner?

Geoff Wilson AO:

Yeah. And just before you, Nick, just a bit of history. WMA has looked closely at social housing. I know. Anyway, that's. Nick, sorry, you can answer that.

Nick Kelly:

No, you're right. It is a space that I've invested in previously. There is a small number of sort of skill groups operating in this space and obviously the regulatory side that you need to get comfortable with. So we could consider it. So absolutely there's nothing stopping us from doing something in the social housing space if we thought that it would be additive to the portfolio. And so really, if we think about investment opportunities, there's sort of two.

I guess there's two pieces here. There's what's the opportunity set? And is it a, you know, is the opportunity set ripe for investment? And then secondly, do we have a skilled investment partner who can capitalise on the opportunity set and sometimes we might find one and not the other. Okay. And so it's marrying those two things up. So if we thought the opportunity set was particularly ripe for investment and we found the right partner, Absolutely. We could consider investment and perhaps invest into that space.

The second question around partnering with a superannuation fund, it's worth saying that for a number of our underlying investments with our investment partners, there are superannuation funds that have invested effectively alongside us. So we are sort of institutional capital alongside superannuation funds. If the question was around superannuation funds sort of actually buying WMA, clearly, given its size, that's not been the case.

They could, and that would obviously drive up, drive up the price of WMA. But most of the organizer, most of those superannuation funds, and that's a world that I know well because that was my sort of traditional client base in my old role, they would be investing

in a similar way that we are investing in the same sort of investment partners. So they have invested alongside us or we've invested alongside them in a number of our underlying strategies.

Bridget Thelander:

Thanks, Nick. The next question's from Raymond. Do your assets usually sell below their NTA value and if so, does this lead to WMA shares also trading at a discount?

Geoff Wilson AO:

Yes.

Nick Kelly:

The short answer is no. So on that slide I think we showed before slide 7, we've had 12 exits in the portfolio since we took over from BlueSky back in 2020, October 2020, and those exits have averaged out at a 34.5% premium to NTA. So the exits that we've experienced have been at a significant premium to nta. Now clearly we can't guarantee that in the future, but often with these assets there is some latency in the way in which they're valued and then exit. So sometimes we can get a pop on exit.

But yeah, the experience to date has been that exits have been at a premium, not at a discount.

Bridget Thelander:

Great, thank you. The next one's from Trent and Geoff. This one's for you. He says, Geoff, on the premium target vote, what management fee will Wilson Asset Management be putting to shareholders?

Geoff Wilson AO:

Yeah, just to me, there's no change in the management fee. Just in terms of a bit of history with. When this was a blue sky, it was blue sky alternates. The management that were managing the portfolio then put a proposal up to. So they charge one and a half percent management fee and I think a 7.5% performance fee be. And the reason why we got involved in, in, in. In potentially putting our name in the ring to manage this portfolio was one is I just thought what an incredible opportunity it was to invest in alternate assets in a listed form, which there's no other alt.

No other opportunity, you know, to do that. You know, Australian majority of Australian alternative assets. So. And also the fact that the proposal that the previous management were putting up, I thought, you know, the, you know, with, with their historic performance to ask for a 1 1/2% fee and a 7/2% performance fee was. That was a little on the high side. So we put a proposal in, said that we'd manage it for a 1% fee. And we said, we'll put the vote in there in five years time.

And we said we wouldn't take a performance fee. And always talking to the largest shareholders back then was we said, look, let's give it five years and you see how we've gone in terms of performing with the money and then we'll talk about putting a

performance fee in. Currently, there's no proposal to change the structure, so to me, the plan is to keep it as it is and there's no performance fee.

Bridget Thelander:

Thanks, Geoff. I'll actually pass back to you in a second. That looks like we have answered all of the questions. Just a reminder to shareholders to stay informed. Please subscribe to our email insight and you can follow us on LinkedIn, Twitter and Facebook. But, yeah, I'll pass back to you, Geoff. Thank you.

Geoff Wilson AO:

Look, thanks very much, Bridget, and thanks very much, Nick. As you know, all the shareholders, this is your company. Thanks. You know, there's a lot of shareholders that have called in. If you do have any additional questions, please contact, ring or email or contact us because it is your company and we're exciting. Manager. We're excited that we have the opportunity to manage this. It's very unique and one of the good things is that I'm very confident that over time that we will return the share price to trade at nta, if not a premium.

Geoff Wilson AO:

So thanks everyone for calling in and look forward to seeing you. Well, well, our road show is coming up. You know, for anyone that hasn't registered, please register for the roadshow because I know that, you know, there's, there's significant interest. You know, we're, we're doing a new fund and there's significant interest. So, you know, we want to make sure we can. Everyone's got a seat. So thanks very much and look forward to seeing at the roadside.

Nick Kelly:

Bye.