

Wilson Asset Management Income Maximiser Investment Portfolio Update and Q&A Webinar Transcript

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Speakers:

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Matthew Haupt – Lead Portfolio Manager

Damien Boey – Portfolio Strategist

April Lewis – Investor Relations

Transcript

Geoff Wilson AO:

Hello, my name is Geoff Wilson and welcome to the WAM Income Maximiser Webinar. I'll give you a little introduction at the start and then I'll pass over to the people that are managing this new pool of capital, Matt and Damien and then April from the Investor Relations team. April will be running the Q&A. We've already got a lot of good questions that have been sent in, and if you have any more questions, please send them in.

Many of you will already know why we created WAM Income Maximiser. We've been looking at a product that gives monthly income - fully franked monthly income - for a number of years due to significant shareholder demand. You've probably heard me say before, but in the latter part of last year when we did a survey, I think about 63% of shareholders said they're looking for a product like this.

The beautiful thing about WAM Income Maximiser is that everyone who put money in during the initial public offering (IPO) is now making some money. The WAM Income Maximiser capital raise coincided with a very volatile market environment. There was the Trump tariff tantrum impacting the stock market, and generally a lot of nervousness - amongst investors. Much like Paul Keating said years ago (and I think Postecoglou, the great soccer coach said last night, when his team won): "This is one for the true believers."

I think everyone who's invested in Income Maximiser can be pleased with its trajectory and is looking forward to continued growth. A growing stream of fully franked dividends will begin on a monthly basis once we start paying them in the latter part of this year. Now I'll pass over to Matt and Damien who are in the next room, and they'll take you through the next part of the presentation. Thank you.

Damien Boey:

Great. Thanks very much, Geoff, and thanks everyone for your time. What we might do is just talk a little bit about how the world has changed since the last time we met, and then we'll give you a bit of an update in terms of how we're actually tracking in this slightly more volatile world. So, in terms of economics, one of the key things is, of course, that interest rates have been cut by 50 basis points, down to about 3.85%. What you're finding from the Reserve Bank, in terms of its rhetoric, is that it's probably going to cut further. So, it wouldn't surprise us at all to see the cash rate cut further, to around 3.6% - maybe even lower - in the next few months. Obviously, that has relevance to us when it comes to Income Maximiser, given that we are looking to get a premium over the cash rate. In terms of why the RBA is doing this, there are a few things that stand out. First, it's pretty clear that the RBA has a view that even on purely domestic factors, (stripping out all the things that are happening globally) there is a case to get interest rates to a less restrictive and a much more neutral level. If we run through some of the frameworks and the models that we think the RBA would be cognisant of, you get a number around the 3.5% mark as to where things would settle. If a sharp slowdown were to occur, as the RBA was expecting, you may see rates fall below that. - though if you don't believe that there will be much more slowing, then one would expect the cash rate to settle around the 3.5% mark, and our base case is a cash rate in the range of ~3.2-3.7%. In turn, what that means is that when we're screening the 'investable universe', looking to return the cash rate + 2.5%, we are exercising a bit of caution in the way that we look at straight dividend yields.

There might be stocks that aren't necessarily offering the highest yield in the world, but if we're entering a world like the RBA is picturing, where there's a little bit more turbulence, and a little bit more volatility, we have to be a bit more mindful of quality. So, these are the various ways in which the signal that we're getting from the central bank matters. Here are some examples as to how this is actually playing out and in the way that we're thinking about the portfolio. As we've said from the outset, our approach to investing in equities is very much driven by, by a holistic definition of income, so we're not just interested in the people and the companies that were paying dividends yesterday. We're not just interested in the high dividend payers from yesterday's newspaper, but also in the companies that can offer us dividends or distributions in the future - this is where having an eye on quality really matters. You might see a sheet that says that, look, this company is offering you a really high dividend yield, et cetera. But why aren't we there? It's because if the central bank is cutting interest rates, it is a bit of a cautionary sign that maybe we should be trying to separate out the wheat from the chaff and look at companies that can sustainably pay up their dividends or maybe even grow their dividends into that backdrop.

To recap, our holistic definition of income takes into account free cash flow generation. It takes into account the sustainability and the quality of earnings. It takes into account what dividend yields were yesterday. We are also looking for buybacks. When we look at the world as it is, there is a lot of uncertainty. But one of the interesting things that's happening is that China's borrowing costs have fallen significantly and Chinese policymakers are now

in the process of stimulating their economy. You also have a bit of concern about diversification in portfolios and some people are thinking that maybe you can find that in commodities. So, a really high yielding name that we think is quite interesting at the moment is of course a mining name like Rio Tinto. So that would screen very well on conventional metrics. Most income funds would follow, but a slightly left of center name might be something like CSL (ASX: CSL). CSL does not offer a particularly high dividend, but it does have tremendous free cash flow generation. It does have the ability to sustain and maybe grow this in the next little while. And most importantly, with that free cash flow, it might not choose to do dividends, it might instead do buybacks. So that's just a bit of a working example as to how we apply our holistic process to try to pick stocks that we think are appropriate for the times. As the RBA is cutting interest rates, we need to be wary of the signal that's actually coming from that. I will hand it over to Matt to talk about how Income Maximiser is going in its first month.

Matthew Haupt:

Thanks Damien, and thanks for everyone joining - like Geoff said, the true believers, you know, we do appreciate your support through a very volatile period. As we said, this product was designed for these types of environments and that's why I'm pleased to give the update today around the opportunities we've deployed capital into. While we have this turmoil in the background on the debt side, we've been able to deploy that much quicker than we expected.

When we did the presentation, we talked about being deployed in six months. I can now tell you we're fully deployed on the debt side within four weeks. It's been an amazing opportunity and we've actually benefited from spreads narrowing after a period of volatility. We were 75% invested by 7 May and as of 14 May we were 90% invested, so I'd largely call 14 May fully invested. The important distinction though is the risk within the portfolio. We have a much-reduced equity exposure despite equities doing very well recently. We think that it is overextended now. On an asset allocation basis, we are roughly 60% debt and 40% equity. The debt is comprised of ~50% of the Tier 2s, 10% in hybrids which are still available and giving us good yield and franking. The remainder 40% is in equity so very conservatively positioned. People will have seen markets sell off last night, which is one of the reasons why we have been on the conservative side. You're getting a bit of a global rates push up now, which is tied back to a lot of uncertainty around policy decisions, especially in the U.S. There is a degree of skepticism around the fiscal restraint in place and the amount of duration that needs to be issued (the amount of paper that needs to be issued over the next period). Yields are on the rise, but we don't think that's a long-term phenomenon, we think it's going to be shorter term. We are looking for opportunities tactically to profit from the rise in rates in the short term. We have done a few tactical trades recently in government bonds, trying to capture some of the movements in yields which we've successfully done.

We're in the process of implementing some tactical hedges, increasing the duration into this rate selloff at the moment. We were pleasantly surprised by the speed of execution and were able to get the money to work. We've been able to generate a lot more income than previously thought and a lot more income at a higher rate than we would have envisaged.

When we spoke around the IPO, we were talking about putting the money into short term NCDS or term deposits. We have been dealing very heavily in the secondary market to get the funds deployed at those advantageous spreads - again, way ahead of schedule. It's been a pleasant surprise for us and, and we hope we can show that through the income generated over the next period when we come out with our NTAs, and as we go into the period around August where we pay and declare a dividend.

As we sit, both of us are pleasantly surprised ahead of expectations, and the opportunity set in front of us has been a huge surprise to the upside as well. Despite the volatility, we think we're positioned well, I'd say we're positioned defensively with equities down at a lower allocation at that 40% level. This is the beauty of the product. We have the ability to be more dynamic on asset allocation, and we are looking for opportunities for when we deploy or wind up the equity allocation, but we can't see it in the very short term.

With that, I think that's about it for the wrap up of the portfolio - we have the Q & A now where we can take questions around the fund and deployment. Thank you.

April Lewis:

Thanks Matt and Damien and thank you everyone for submitting your webinar questions. We had a few questions that were submitted ahead of time. The first question is on markets and the portfolio looking to the year ahead. If trade negotiations between the US and China destabilise further, what impact could this have on the US and Australian stock markets?

Damien Boey:

That's a great question. Most people would think that if there is another round of shock tariffs or, you know, the 90 days of pause suddenly morphs back into what it was, that obviously you'd get a little bit of risk aversion set into markets. What complicates this is that there's a little bit of concern about just having US dollar assets among large global pension funds at the moment. It doesn't need to be taken to extremes, but there is a little bit of a concern there. Ironically, this is actually very positive for Australia because to the extent that people are concerned about the fiscal and debt sustainability dynamics that are going on in the U.S., well, you have exactly the same concerns happening in Japan. Europe is not really an area which has a lot of growth, but the course of this year so far has been viewed as a safe haven, a place to rotate into China at the moment, people have a few question marks, even though we are quite optimistic.

The net result of that is that actually a lot of money goes into the closest, safest neighbor and that's actually Australia. So, we're seeing a lot of flow into the Australian market. Now,

this is a great problem to have because what it means is that a lot of global funds are putting their money in the index, essentially at cap weights, and you can see this with some of the large names that are very liquid but yet expensive, actually getting even more stretched on valuation. It means that our market is generally supported and generally viewed as defensive and quality in the broader landscape. The only question is, if you do get destabilisation happening in U.S.-China trade relations, how much of a negative impact would that have on China? Maybe not that much at all if it becomes the catalyst for China to really do something about their economy.

That's broadly how we look at it in t - I have just spoken largely at an equity level, but at a government bond level and a corporate debt level, it's actually really good news because what it means is that Australian paper is in demand. Debt ranks more highly in terms of safety than equity on average, and so we should expect to see quite a strong bid for those sorts of assets. So, we actually look at potential destabilisation. Yes, it's a risk, but we think that if you've got a sufficiently well-adjusted portfolio, including debt, actually you could do quite well out of this.

April Lewis:

Thanks, Damien. And we have a few questions about the dividend and capital gains that are to be expected. Can you please remind us when the first dividend payment of WAM Income Maximiser will occur?

Matthew Haupt:

The first dividend will be declared and paid in August. That's the plan and obviously we've deployed the funds. The income will be largely coming through June and July, so we're in a very position for that August date.

April Lewis:

Great, thanks, Matt. Is the expected dividend in August likely to be in the expected range of that 6.6%, or is it too early to predict the actual income return at this stage?

Matthew Haupt:

The dividend will be a board decision, so when the board meet, they can work out what the profit reserve is, the income that we've received. It will be a board decision, but I think on a yield basis we are around the 6% range.

Damien Boey:

Yeah, that's right. We're in the high fives to sixes in terms of actual yield, but that's looking at today's yields. The time that we bought in, the yields were quite a bit higher than that. So what that means is that the running yield might look like it's in fives and sixes, but there might have actually been some capital growth to think of that as well. But that's a board decision.

Matthew Haupt:

Yes, and then obviously during the year we have the capital appreciation which can add to the running yield. The running yield is quite solid at the moment, you know, as we position into the market.

April Lewis:

Great to hear - this question is more of a board decision, but it would be good to get your perspective on it: would you ever pay a special dividend?

Geoff Wilson AO:

Well, I can give my perspective because I'm chairman of the board, April, but I can only give it. I'm only one board member - there's four people on the board, two independents, myself and Kate being non independent.

When we talk about capital management, we need everyone to agree to what we do. So, could there be a special dividend? That's possible. Is it likely to be a special dividend? It really depends on the performance of the portfolio. What we'd like to do is to have a growing stream of dividends, rather than having it sort of lumpy (being a special one), to gently increase the dividend and do that over time, that would be probably that strategy. I can't rule out the fact that there won't be a special dividend at various points in time.

April Lewis:

Thanks, Geoff. Another investor has asked why, what are the benefits of investing now as opposed to waiting until the first dividend gets paid in August?

Geoff Wilson AO:

That's a difficult decision to answer. It's a difficult decision to make because currently, you know, the share price is trading at a premium to the value of the assets. Unfortunately, I can't tell you how it'll be trading when the dividend's announced.

April Lewis:

Hopefully the NTA will continue to increase with all the solid investments that the team has been making. Matt, did you have anything to add?

Matthew Haupt:

If I was looking from the outside, I'd see the big risk as the deployment of funds into the market. When we went to market, we were talking about three to six months for the debt portfolio. When we could get set pretty quickly - two to four weeks - we've come way ahead of schedule or expectations. So, for me it's essentially de-risked from the deployment point of view. So, for me, I think some people said I'd rather hold off, wait, you know, which was probably fair on the deployment side. But now we're fully deployed, at very good levels on the debt side. For me, the risk around deployment or the duration of deployment has

been well and truly beaten. I think that risk is obviously out now, but obviously there's market risk. So again, like Geoff said, it's really your view on the market. If you're looking at WMX portfolio, it's very defensively positioned. So, 60% debt, 40% equity and again the person can make their call on direction of markets at this point in time.

Damien Boey:

The other thing is that genuine income-based leaks are generally trading at a premium still. So, there is still a strong demand for income-based products and we feel that the macro environment is still conducive to that. Given that there is still a lot of crowding in some of the longer duration growth names that people have favored in the last few years.

Geoff Wilson AO:

Yes, Damien, I think you couldn't have been clearer on that. When we had our previous webinars and discussions with people and questions, that was one of the reasons we created this product because of the significant demand for yielding products and then another tailwind, you know, when we have this product is. I think someone has, you know, described it as an enhanced hybrid. We've got a situation where the billions and billions of dollars' worth of hybrids that are listed on the stock market are slowly expiring and there's. ~\$5 billion worth of hybrids that aren't going to be renewed this year, and another 5 billion next year. So, for the next six or seven years, people that are used to investing in the stock market. will continue to look for yield, and this obviously fits in beautifully.

April Lewis:

Thanks, Geoff. While we're actually on the topic of hybrids, how does how does WAM Income Maximiser compare with traditional bank hybrids in terms of risk, interest rates and income stability?

Matthew Haupt:

Sure. From a risk perspective, it's a bit hard to judge. You're really not comparing apples and app apples here. From a risk perspective, I guess the benefit of WMX is the diversification benefits, but it's really hard to make a really definitive statement around risk, so we'll probably leave that one around risk. But I just say there are diversification benefits.

Damien Boey:

Absolutely. I mean, when you're buying a bank hybrid, if you wanted to replicate that without actually having the hybrid, you'd be buying bank debt and buying bank equity. But our equity portfolio is pretty well diversified beyond banks, so that means there is a lower risk profile attached to the equity component that you would include in a hybrid package. And for that matter, our debt portfolio has some degree of diversification as well within that.

The other thing to note with a lot of hybrids is that they're pure floating rate nodes. As interest rates go up and down, the yields that you'll get on the hybrid go up and down because of the fact that we have a longer duration than the average hybrid. Our benchmark portfolio has a duration of about two to three years. That means that as interest rates fall, there should actually be a cushioning effect. Our fund's only been around for a little while, so you can only work out historical comparisons with a very limited sample of data. Hopefully that gives a bit of a flavour for why the extra sophistication within WMX actually makes this an attractive product for anybody who's seeking a hybrid replacement or enhancement.

Matthew Haupt:

That's a very important point around the interest rate risk. Obviously with a hybrid you're exposed to floating rates. You know, within WMX, we're managing that interest rate risk for you and we're using duration overlays on some of our floating rate paper as well. So again, we're managing that interest rate risk for people.

April Lewis:

Thanks, Matt and Damien. This next question is for Geoff and it's on franking credits will monthly dividends be fully franked from the outset or will franking build gradually?

Geoff Wilson AO:

Yeah, it really depends on whether we make profit in this period until June 30th. Obviously assuming there's no big profit made in this short period of time before June 30, then the logic is that the franking of the dividends will grow over time. And I think during the IPO we're talking about that 40 to 60% franked initially and then growing over time to get to fully franked.

April Lewis:

Thanks, Geoff. We've got another question for you. It's whether the IPO was fully subscribed. Fred's asked a similar question. He was wondering if it's not, if it wasn't fully subscribed, will more shares be issued as part of a dividend reinvestment plan?

Geoff Wilson AO:

The IPO wasn't fully subscribed due to the volatility in the market. As I said, only the true believers invested, and they've been rewarded by the performance of the underlying company in terms of its share price. In terms of the shares that we didn't issue, they're not used, in theory, they sort of expire worthless broadly because they weren't issued.

In terms of the DRP, we will have a DRP, we have flexibility to buy back the shares we issue under the DRP, but the DRP you can take will only be a function of the size of the dividend that we pay. Now, will we continue to grow the company over time? The plan would be, yes, to continue to grow the company over time. But we've got to perform for that to happen.

April Lewis:

Thanks, Geoff. And the next question is for Matt and Damien on the equity side; do you own similar companies in the WAM Leaders or the WAM Capital portfolios?

Matthew Haupt:

I guess we're looking at the same universe. I mean, within WAM Leaders (ASX: WLE) looks at the ASX 200 and WAM Capital (ASX: WAM) looks at the ASX 300. So, there is obvious crossover. It's just the application is a bit different, or the starting point is a bit different around the selection process. So, we have a filter which is used only on WMX to generate the universe. And then we apply all the same methods we've been applying within WAM since inception. So, the crossover, you know, probably is higher with the WAM Leaders portfolio because ultimately, we're looking at high quality companies. With high quality generally comes size, so it has a bit of a tilt towards the top 100 companies. In fact, I don't think there's much outside the top 100 now.

So again, it's got very high quality, so it naturally lends itself to more WAM Leaders. But the portfolio is managed as a separate pool of capital with the screening process really the driver of the differences within the portfolios.

Damien Boey:

Again, it's a holistic definition of income. So, when we look at the WMX portfolio, whether we're investing in high yield companies or lower yield companies, we have to be able to say to ourselves at the end of the day, they're going to pay our cash to us in excess of what they need. So, we care about ultimately what they will be paying out. Even if they're not paying it out yesterday, if they're doing it tomorrow, we care about that. Whereas with the other funds like WAM Leaders, we're not so picky in terms of whether the return is coming from distributions and income or capital growth. So, there's a little bit, obviously that's a constraint that we impose on WMX to suit shareholder needs, but that does result in some difference, particularly when it comes to weighting stocks as well. So, they're not identical portfolios.

April Lewis:

Thank you. And this one's for Matt. Do you have the capacity to be managing both the WAM Income Maximiser and the WAM Leaders portfolios?

Matthew Haupt:

The answer is yes, but obviously Damien's here as well and we have the broader investment team. It's just not a one person show, or a two person show. There is a big investment team here. In reality, the way we've been managing WAM Leaders and when I was in WAM Capital, it really hasn't changed. So, we look at all the same information regardless of asset class. So both Damien and I have been surprised at the upside on the

synergies, I guess of having this being plugged into the information flow on the debt side, which we were watching but obviously not at the level of detail we are now and the access we have, all the major investment banks, all the big four trading desks getting information. Again, when we manage equities, we're looking at all the same factors, the same factors everyone looks at on the debt side too. It's not more work from a thought process; there is a little bit more on execution. But again, we've got help with execution as well. The active opportunities on the debt side have surprised us as well. You know, the tactics are very much like the equity side, but we're highly active on debt now. There's a lot of opportunities to be made because on the debt side, there's a lot of the street very passive on how they work their portfolios, which is fine, they've got strict benchmarks. However, we're happy to take trading opportunities and tactical opportunities on the debt side probably and say the opportunity is greater than we thought. So that's been a great surprise.

April Lewis:

Thanks, Matt. And the next question is for Geoff, and we covered off a little bit earlier, but since, since WAM Income Maximiser is trading at a premium to its net tangible assets, do you expect that this will persist or do you think there'll be an opportunity to buy at a discount at some point?

Geoff Wilson AO:

Yeah, unfortunately, it's like guessing what the equity market will do, unfortunately, you just don't know. The risk is it goes to a bigger premium once it starts paying the dividends or and as Damien said, other similar products are trading at bigger premiums than we are. Yeah, I mean to me it's. Or then there could be a bit of volatility in the market, a bit of a market shakeout and it could trade back to NTA. So, it's very, very difficult to assess.

April Lewis:

Thanks, Geoff. And we've got some questions coming through on dividends. So, Geoff, as chairman of the board, can you comment on a few of these? When is the cutoff date for the first dividend?

Geoff Wilson AO:

I mean that's a good question. And you know, obviously from a board's perspective, we've got to work out what that is because particularly when we're paying dividends monthly, I mean, once we I mean, well, one thing we will give you a clear. Yeah, we'll clearly communicate with you once the board has decided, say in July, has the board meeting to announce the first dividend for August, then when it goes X, we'll clearly communicate that to shareholders. On a regular basis, on a monthly basis, it'll be going X and broadly getting paid. Now, obviously there's different days in the month, so shorter months and longer months, but it'll be broadly a similar time each month that A, it goes X and B, it gets paid.

April Lewis:

Thanks, Geoff. And the next question comes from Peter and it's for Damien. Do you have any comments on the suggestion by some fund managers that the 60:40 portfolio construction is now obsolete because interest rates will be likely to rise over the next few years?

Damien Boey:

Yeah, it's a great question. We actually put out a piece on this a few months ago, just talking about the five Ds of investing. And a big one of those Ds is diversification. So the whole premise about 60:40, depending on whether you like equities or bonds more, is the idea that one set of assets will go up while one set of assets might go down. But on average you will win. That way, you're meant to get a reasonably good return through the cycle and across years with relatively low volatility.

That's the thesis but underpinning that is the assumption that you've got good diversification, so that when one asset goes up, the other one might not do very much or might go down and vice versa. Most often the textbooks do not say that this is the ideal way to invest when both are going up at the same time and both are going down at the same time. The problem that we have in the current environment is that because we have very high uncertainty about inflation, what this means is that bonds and stocks tend to move together more often than not.

You can see this pretty much every day at the moment. What this means then is if you're investing in 60:40 or 40:60 as a passive investment style, not an active investment style, you are watching your portfolio go up and down every day, but there's no offset within that. It's just either the whole thing is up or the whole thing is down, which can be a bit disconcerting. So what happens in this environment is that investors who traditionally have been looking for, for diversification to lower the risk profile of their investments, they start saying, well, hang on a minute, maybe I need a cheaper entry point into bonds or into equities, largely bonds, to compensate me for the fact that they're not giving me the same diversification that they used to do.

I think that that's a valid argument. But the question is, well, are there other asset classes that you could potentially be buying to take advantage of the regime that we're in where bonds and stocks are moving together? And the answer is yes, there are. So, one of the alternatives is to pursue something which is driven a lot more by commodities. And the beautiful thing about the Australian index is that we have a lot of commodities type exposure that we can choose from. So that's one alternative which is really good.

A second alternative is actually credit as an asset class. So, what you tend to find is that when bonds and stocks are moving, government bonds and stocks, I should say, moving together, corporate credit, corporate debt typically trades at a bit of a premium. So that's actually a nice little sweet spot, particularly while we're digesting debt sustainability paths and supply demand factors within the government bond market. So, credit and

commodities end up being in a bit of a sweet spot to manage and hedge against the fact that you don't have as much diversification.

A third option, but this is only really something that applies in rising markets, is to go for smaller exposures rather than large exposures because the large exposures become very crowded. So, I guess what we're saying here is that yes, it is a problem for a conventional passive 6:040 or 40:60 fund, the fact that we have a lack of diversification, but all that means is that the active manager needs to work harder and the opportunities to find different investments are ample.

Matthew Haupt:

The important point for WMX is we are a dynamic asset allocation. So, 60:40 is our neutral starting position. And we move based on correlations; opportunity sets how things are moving. So again, yeah, when you look at a very passive, like Damien said, we are not a passive 60:40, we are a dynamic asset allocation fund.

April Lewis:

Thanks, Matt and Damien. Robert also asked a question on this. How regularly do you think those ratios, that 60:40 ratio will change?

Matthew Haupt:

I mean, it's a daily decision. And again, like it's really a function of markets and how we see them. So, we scrutinise it every day. You know, is this the right decision for them, for the market? What signals did we get? Should we move? Is this noise or is this signal? So, it is a daily decision, but again, like, we could try and guess how often we'd move it, but I mean, normally you'd get three or four big opportunities a year. We can make big tactical bits, but again, it's really at the edges.

We also have diversification benefits within the subset. So, within equity we can change the risk parameters and within debt we can change duration. So, we do have levers both in the sleeves and with asset allocation. But like everything, we're very active. This is a daily decision. We're working out where we should be positioned, both from a sleeve perspective, but an asset allocation perspective.

Damien Boey:

I think the starting point is always to look at the relative yields. Yields are obviously not the only consideration that goes into this. But if you look at the ASX 300, for example, you're talking about a dividend yield which is like three and a bit, whereas you're looking at corporate bonds that are offering you yields in fives and sixes. So immediately from an income perspective you're thinking, well, the income to be generated from bonds more so than equities.

That's just a starting point. And then obviously you overlay what you think about inflation and growth and policy and things like that, which are all very important and very timely.

And those are the events that we have to process every day. And then within the bond portfolio, like a lot of people think that bonds are all about 10 year or 30-year government bonds. That's not true. We actually have corporate debt. We can choose whether we want longer term debt or shorter-term debt. We can choose whether we want fixed rates or variable rates.

There's a lot of thought that has to go into that. So, the asset allocation decision, although it might print as 60% debt and 40% equities, actually there are asset allocations within that that we adjust as well. And this is what Matt was talking about. Within those two broad sleeves, there's a lot of work that we're doing and we want to get the best out of each portfolio before we actually make a wholesale swing at the asset allocation. We wouldn't be doing our jobs properly if we just changed the asset allocation without changing the underlying mix of assets.

April Lewis:

Thanks, that's very helpful. Matt, we have a question from Nick. You mentioned opportunities to invest in companies which may not pay dividends but conduct share buybacks. For example, CSL. How does investing in these companies generate income for the shareholders of WAM Income Maximiser?

Matthew Haupt:

Sure. So within the LIC, you can generate income from two ways, income received or capital gains. And CSL falls onto the capital gains side for us where we think we can make money on the capital gains. And once we realise that we can pay that out to shareholders. So it's really, we're indifferent largely how that works. We do have a bias towards income. But if there's opportunities within a, you know, big company like CSL where we think we can make a capital gain on the stock, you know, we're happy to take that opportunity. Like Damien said, CSL has gone through a heavy period of R&D. We think that's coming to an end. We think they'll move to a more cost-focused business model and really a partnership model on R&D. So, we think this will allow them to have a lot of excess free cash for shareholders. So eventually that will either come back through dividends or buybacks, we're indifferent between a buyback and a dividend.

April Lewis:

Thanks, Matt. And Gail has also asked, "Are you buying the dips in the equity market or are you waiting for more of a pullback?"

Matthew Haupt:

It's a funny one. I was going to say we've been waiting for the dip that has never come. The equity market has been very resilient, abnormally so. Even more so the Australia we're seeing, I'd call it a dislocation in global markets. In Australia, through no fault of its own, has become the default place to park capital. So, the Australian market, we were laughing. It's almost the Stephen Bradbury of the global investment world, where we're still standing,

everyone else is falling over and we've had a lot of capital hit our shores that will end when things improve offshore, which is a big thing. We're watching, obviously, with the bond markets offshore, with the JGBs, Japan and US almost unanchored longing of the yield curve starting to cause a few issues. We think Australia is a bit of a safe haven at the moment for capital flows.

Damien Boey:

I think what you're finding, and this is not just recently, but really over the last five, six years, is that you can have days where the equity market has gone up on average, but you'll find that actually a particular bucket of investments could be doing well. Like we saw, the days last week when the equity market went up, but the defensives outran all the cyclicals. And if you were sitting there as a manager, you'd be saying, actually that was a down day. So, the concept of buying on the dips, I suppose, is not just about an absolute call on the market. It's actually got to do very much now with stock selection and sector rotation. So, it's actually quite complicated in the Australian context. But the big thing that we're looking for, if you were to experience a major shakeout in the index overall, it would be because you've seen simultaneous weakness in long-term government bonds and inflation scare and then maybe some of the related equity exposures sell off with that.

The key thing here is obviously concerns inflation. How high do they get? And then if inflation actually does either not end up not being an issue or it softens off whatever expectation people have, that will actually create the opportunity then for interest rates to fall properly, which could then obviously support both bonds and equities. So that's kind of a bit of a flavor for what we're looking at. The question that we got earlier about bonds and stocks and diversification, those sorts of correlations are quite key to monitor at the moment.

April Lewis:

Thank you. We have a few questions on the IPO for Geoff Garth has asked and you touched on this a little bit earlier, Geoff, but will there be a share purchase plan in the future when WMX is trading at a premium, which it also is now?

Geoff Wilson AO:

Yeah, could well be, could well be in terms of timing of that. It won't be in the short term, but now the plan will be to continue to grow the company. So definitely could be possible.

April Lewis:

Thanks, Geoff. And Brian's also asked, given the IPO was less than expected, does this create any problems?

Geoff Wilson AO:

No, actually to me it's actually a positive, positive from two respects. One is if the market didn't have that volatility and sort of scare a number of people from putting money in, then

we probably would have raised the full amount, and we may have well been oversubscribed. And then what happens is you're having people that are investing that might not have been fully committed. As I sort of said at the start, the true believers in terms of the people that put the money in, they're the ones.

This is more a function of the share price, the aftermarket, which I mean in terms of the fact that there was volatility that has been very positive for the share price in the aftermarket. So, there's less supply, more demand, people still looking for income in terms of actually managing the underlying assets. To me, the fact that we've created this vehicle now, as you've heard from Damien and Matt, gives them the opportunity to collect information from a significantly wider group of players, both debt players and equity players. Where before we didn't have those entrees into the debt markets that we do now and with a smaller pool of capital, you know, it's very, you know, you can, it's very, you can be very quickly, you know, you utilise that, you know, which the guys have.

Geoff Wilson AO:

So yeah, to me it's, you know, it's, I mean we're not talking, you know, a significant quantum, you know, even if it was double the size or triple the size, you know, then they're very liquid markets. So, the money could be and could be invested very pretty swiftly anyway. I'd say if anything there's been slight positives from that volatility.

April Lewis:

Thanks, Geoff. And the next question comes from Sid and is for Matt - is Korvest (ASX: KOV) in your investment universe?

Matthew Haupt:

I don't think it's in the 300. I have to check. I haven't followed it for a long time. So, it's not one on our radar. With liquidity, we do have liquidity as one of our filters. So, it hasn't come up. So sorry, I can't give much information there, unfortunately.

April Lewis:

Thanks, Matt. The next question is for Damien from Fang. Most economists and investment analysts seem pessimistic about the US bond market and its inflation outlook. Moody has downgraded the US credit rating. What are your comments on this?

Damien Boey:

So, the thing about the Moody's downgrade is that Moody's was kind of the last to do this amongst the fewer organisations to kind of get back in line with other ratings agencies. So, it's not as if it's a new signal. Like it's just sort of news that we already knew, and it decided that it wanted to get on board with that. But nevertheless, markets responded to that, albeit in a bit of a volatile fashion. Because rightly or wrongly, there are a lot of people that are thinking about the debt sustainability dynamics of the US. They're thinking about

alternatives, which are becoming more abundantly supplied around the world. And they're saying, look, maybe a bit of rotation is due. And what you've also seen is that on days where the equity market in the US has been weak, that's actually correspondent with the US dollar falling rather than rising.

Anybody who has an unhedged currency exposure to the US market is now actually having to rethink how much they choose to hedge that flow. Because historically the US dollar strengthening has been a good shock absorber, but now that's not actually working out so well. I think these are the portfolio dynamics that are at work. There are some people who will go out very far and say, look, it's the end of U.S. exceptionalism, it's the end of its exorbitant privilege. What I have to say is that although you want to be paying attention to what everybody is saying at the moment, because it is an uncertain time, you can actually break up the dynamic into smaller bits and pieces. And if you break it up into smaller bits and pieces and add up the story, you can get a dynamic which looks like what we have today. So, for example, in America, there is a very clear issue where the traditional buyers of US government debt are somehow stopped from doing that. So by that I mean primary dealers or broker dealers, they're basically the first ones that are called upon when the US government issues debt to buy it and then they can choose to resell it. That's the way the US system works. But because of capital regulations, a lot of these guys actually can't warehouse as much U.S. treasury debt as they used to be able to. Therefore, they're not really able to absorb a lot of the supply which is coming online.

Foreigners at the moment, what they've seen, it's not so much that foreigners have decided we want to hit the sell button on US Treasuries. That's actually not apparent in the data at all. What you do see is that historically foreign institutions like superannuation funds and the like have been. And not only superannuation funds, but also central banks. Typically, when the dollar weakens, they take the opportunity to top up their U.S. treasury holdings. They haven't been doing that this time around passively.

They've been lowering their weighting a little bit, but it's not active selling. So, you've got two buyers there, you've got the primary dealers that are a little bit constrained in terms of how they can buy this stuff. From a regulatory perspective. You've got foreigners that are a little bit perplexed by the dynamic between US assets in the US dollar. And what that means is that the marginal buyer of US Treasuries is a much more price sensitive asset allocator.

That's what it comes down to. They're the marginal buyer of this extra supply which is coming online. Now, the price sensitive investors are asset allocators typically investing in a 40:60, 60:40 type combination. And as we've just discussed with regard to one of the earlier questions, the whole reason why you buy government bonds is because they're supposed to be diversifying for your portfolio. They're supposed to lower overall risk.

Right now, they're not behaving in that way. So, what you find is that the marginal buyer is saying, look, I'm still happy to buy government bonds, but I want to buy them at a much lower price or a much higher yield than what I usually do. This all looks like. It looks like a bit of a debt crisis for the US and things like that, but actually you can break the problem

down into smaller bits and pieces to say, look, these are the bits and pieces in the plumbing that need to be fixed, and it's just a question of time as to when they are fixed.

Now, if you get really, really bearish about the world and not saying that we are, but if you got really bearish about the world, would we get disinflation, which would then lower bond yields and allow central banks everywhere to cut? Yeah, that's still a very plausible situation. So that's why we look at long duration, and we can see a few reasons why. Tactically, you might see some weakness in government bonds, but ultimately, we think that they are a good place to invest at the right price.

More importantly, in Australia, as we said before, the story, if the story is selling America, and I'm not saying that it has to be, but if that's the narrative, then the flip side of that is by Australia, and that includes Australian government bonds, and we have a dovish central bank. So, we're actually quite comfortable with Australian government bonds in that environment, notwithstanding some of the shenanigans that are happening in the US So to summarise that, a lot of people will read into this, it's the end of US Exceptionalism.

There's some problem with debt sustainability. There is an issue with debt sustainability, but it's not an insurmountable one. In the US They've just got to pull the right levers. The reason why U.S. treasury yields have been going up more recently, there are a lot of explanations, including some things that are happening in Japan. But the key thing is, remember that President Trump was levying tariffs to try to raise more revenue so that he could use that revenue to grant the tax cuts.

Now, what's actually happening is that he can't raise as much on the tariffs. He's kind of conceded a little bit there, but yet he's still trying to push through the tax cuts, which could add to the fiscal deficit. So, this is the issue that the US Bond markets are kind of wrestling with at the moment. It's a bit of uncertainty, and the question is really whether you think U.S. treasuries are already priced for that risk. And there's a good argument that maybe they Already are.

April Lowis:

Thanks, Damien. The next question comes from Chris and is For Matt, roughly 55% of the total dividends are paid by seven or eight companies. I imagine he's probably referring to the ASX 200. What proportion of dividends does the portfolio get from WMX in terms of the top seven to eight companies?

Matthew Haupt:

Good detailed question. Yeah, obviously very heavyweight in the ASX, you know, for WMX, I'm just doing the arithmetic in my head. It'd be around 10% of the total outstanding fund would be in those companies. Very tactical decision at the, at this point in time. That's not, don't draw a line on the sand. And so that's what we're going to have all the time. We invested in NAB (ASX: NAB) and Westpac (ASX: WBC) very tactically around some of these dynamics on fund flows. So, we have picked up those dividends, but again, you know, we're not constrained by dividends. So, although they do make up a large proportion, you

know, we'll, we'll take tactical opportunities around those dividend periods if we think there is a fundamental case. If there's no fundamental case, we will not pursue those. So again, we're happy to get our dividends and not be restricted by where the the big heavyweights are coming from because the heavyweights just really just a function of obviously the market cap as well and the impact it has on, on the index. So, yeah, we're happy to chase income.

Damien Boey:

In more reasonably priced companies. And the other thing to note as well is that, I mean, we do have 60% of our portfolio currently in debt and most of that debt is of course bank or financial debt. So, if you kind of take a holistic view of all of this, then actually we're getting a fair chunk of our income, not necessarily dividends from some of the larger names. Yes. But it's diversified across debt and equity.

April Lewis:

Thank you. Bob has asked, could you list your major holdings of equities?

Matthew Haupt:

I'm not sure we're allowed to do that. Can we sort of talk through the sectors?

Geoff Wilson AO:

Does Bob want them listed now or did you want them listed when we announce? I know we announced our NTA the other day. Just an update, not a detailed one.

April Lewis:

I think he might want them now if we're able to. But if we're not able to, of course we'll put them in the, the NTA update.

Geoff Wilson AO:

I think we can, we can tell them the main ones.

Matthew Haupt:

We can rail off a few. I mean, you know, IAG (ASX: IAG) has been one where we're pursuing. They had a good win with ACCC today, that, that sort of, you know, a good core holding with **CSL**. We think they'll get a favorable outcome with the, the tariff situation in the us. You know, we've got Rio Tinto, as Damien mentioned, you know, we've been playing around in Goodman Group (ASX: GMG). We got the really big bounce in Goodman Group, but it was in the mid-20s. That's been a very good holding for us. Other ones, you know, you know, BHP (ASX: BHP) We had some Woodside (ASX: WDS). When that got down to the low or below 20, energy was oversold. We had some Next DC (ASX: NXT) in the portfolio too. That was more of a tactical trade. Other ones would be. We've had some James Hardie Industries (ASX: JHX). From a tactical point of view as well, that's not so much from an

income point of view, but we think there's a capital opportunity there. It's been depressed and very much out of favor and fits in with our long duration.

We're actually positive. Long duration, not now, but like in, in the very short term. APA (ASX: APA) is another stable staple I should say that we've had in the portfolio for a while, Transurban (ASX: TCL), Scentre Group (ASX: SCG), Mirvac (ASX: MGR), you know, that's, that's probably a good little flavor of what's in the portfolio at the moment, that main drivers Westpac, and NAB were in there as well, for a period and still are, but we've been progressively winding those back.

April Lewis:

Thank you. And for Damien and Matt, Hillary has asked, how will the higher percentage of debt in the portfolio impact franking?

Matthew Haupt:

It doesn't really matter from, from a LIC point of view, like the way we generate franking, obviously dividends on the equity side come with franking, but we do have around 10% of the portfolio in hybrids at the moment, which we bought the longest data, hybrids, because we think there'll be a scarcity premium to these eventually. So, we're getting franking from about 50% of the portfolio. The other 50.

The franking we get is when we get interest coming into the vehicle, we pay tax on the interest, so we can pass that out as franking. So, it's really a combination, all those things and capital gains. We make money buying or selling equities or buying and selling. On the bond side, we can actually pass that through as well and frank that. So, there's multiple ways we can.

April Lewis:

Thank you. Gail has asked, "is it fair to say that Matt manages equities and Damien manages debt?"

Matthew Haupt:

No, it's very much a joint effort, we both have views. It's very much a dynamic process. There's no, no one's got a strict mandate to do certain events. I mean we, we discuss everything, and we've got the team, all the investment professionals as well. We've got the global team, the domestic small mid-cap team, we've got the alternatives team. You know there is a breadth of experience here. We've got a very active board as well. So, we have a huge amount of input. We both manage it with help from Anna as well. No one's got a strict mandate to manage a bucket.

Damien Boey:

I think a good way of thinking about it, to go back to the question before about diversification, suppose that we were siloed, right? Not saying that we are, we're definitely

not. But suppose that we were siloed. If I were to say, okay, I want to buy long duration government bonds, then the natural question would be, well, we have some allocation towards equities, how would we position our equity portfolio consistent with that?

That requires a lot of discussion. Do you go for the things that would rally in a rising market because bonds are rallying, like long duration growth technology, that sort of thing? Or do you say no, it's because the economy is slowing. We want to have a bit more emphasis on quality and duration. Do we want to go the levered end of that in terms of infrastructure and utilities and the like?

Because we think credit spreads are narrow. So, there's no. I guess what I'm saying is that there is no way that you can just silo the information in one spot and do a multi asset portfolio justice. You need to be very holistic and actively engaged with it. Even if you have different views about where things go, maybe there's diversification in that. So, this is something that we really try to understand on a daily basis. And as Matt has said before, when you are managing actively, when you are looking at the signals daily, you will change your mind on certain things. Not because you've made a binary decision about whether something is yay or nay, but actually because the balance of risks, the probabilities can change, and everything needs to adjust to reflect that.

April Lewis:

Thank you. The next question is for Matt and it's from Sally. She says thanks for the fantastic. Thanks for the webinar. Fantastic result post IPO. Great work. Prior to the IPO she understood that the equity field would be the ASX 300 and today it was mentioned that it's mainly the ASX 100. Has there been a change of focus here?

Matthew Haupt:

No, definitely not. I mean the universe what we screen is the ASX 300 but again the screen lends itself towards high quality and with high quality generally come size as well. So, we find there's a bit of a bias towards that, but it certainly hasn't changed. It's. It's the same investment process we came out with and again like, like Damien mentioned there we will go where we think we can make the most money as well. So, at the moment there's a heightened level of volatility so quality will win the every day of the week when maybe the environment is different, rates are lower, volatility suppress, we may go out towards the ASX 200, 300 and find opportunities there as well. So again, it's very much determined by market situation so it's no deviation at all. It's still exactly the same as we said.

April Lewis:

Thank you. The next question is for Damien and it's from Andrew. With the RBA in an interest rate setting cycle. Sorry in a downward trend and keeping that in mind, that the RBA had the interest rate set below 3% for 10 years between 2012 and 2022, is there a short to long term prediction for interest rate settings? This baseline will make an income product more or less attractive.

Damien Boey:

Yes. Let me break that up into two components. The first one, in terms of where interest rates settle, we believe, and pretty much the market thinks the same thing, that a neutral level of interest rates for the long term is around three and a half. So, when does the RBA deviate from that? It deviates from that when it's clear that the economy has been growing for a sufficiently long period of time below its potential to free up spare capacity to bring down inflation and so on and so forth.

The RBA is basically telegraphing a view that it expects quite a decent slowdown in the Australian economy that would free up spare capacity, that would bring down our inflation certainly lower to what you might see abroad. Now there's a bit of uncertainty about that because a lot depends on essentially how you see the low Aussie dollar fading into an overall assessment of financial conditions. So, there is uncertainty, and that uncertainty could be resolved in a very positive way for the Economy as team as the Buyers Rally Thematic is suggesting.

It could still be very much as the RBA saying, uncertainty weighs on economic growth and sentiment and all of those sorts of things. Now the reason why I mentioned uncertainty is because the shape of uncertainty, not the level of interest rates, determines the demand for value versus growth. So, value is very much in the camp of income because it's much more short duration in nature and then growth is much more long duration in nature. And the way it actually works is if you have a fundamentally high level of interest rate uncertainty, that more so than high rates will stop you going out and betting on longer term payoffs, long duration growth.

Whereas if you have a lot of uncertainty about interest rates and the valuation of future cash flows for companies, it actually naturally biases you towards shorter data things that you can see and touch today, income and value and so on and so forth. So, what I would say is that the long-term neutral rate is three and a half. We're navigating incredible uncertainty, and the uncertainty is primarily emanating from interest rate markets at the moment.

What that will naturally do, irrespective of where you see the RBA moving the cash rate up or down, predominantly down, is it will continue to bias investors towards shorter duration income. And even if bond yields were to fall from here, they would be falling in such a way that they're reflecting a slower growth environment which would favor quality. So, we think that quality and income are actually pretty good attributes of a portfolio to have.

Never mind what's actually happening with interest rates per se. You know, obviously you want to get a decent hurdle over the RBA cash rate, but you know, the demand for income should still be there because of the fact that we are in such a highly uncertain interest rate environment. That's even without making a call on where interest rates end up going. It's just saying that there are very wide bands around that neutral rate at the moment.

Matthew Haupt:

I'll just add the period from 2012 to 2022 was really the aftermath of the GFC too. I'd probably call that period abnormal as far as interest rate settings as the world was healing in excess liquidity. So again, that's probably not the greatest comparison for Aussie long-term rates.

Damien Boey:

Yeah, in the jargon, if you have a long-term neutral rate of 3.5% and the 10-year bond yield is tracking at 4.5%, then what we call that is a term Premium. So, you've got the difference of about 1% is the extra compensation that a fixed income investor would need to pay off the fact that they're taking on so much uncertainty. So, the market pricing is telling you that even if the RBA cuts rates, it's not at all clear that that spread has to come down because we are so uncertain about the world of interest rates and inflation. That's actually the sweet spot for income investing, irrespective of which way rates go.

April Lewis:

And the next question is for Geoff, from Stuart. How would unrealised capital gains impact investments in WMX?

Geoff Wilson AO:

Stuart, you've been paying attention to the debate after the election. That's right, the appalling - what I think Gerry Harvey said - stupidity of the highest order. You're sort of warming me up this late in the webinar about how bad the policy to tax unrealised gains is, taxing a profit that you may never make in superannuation. Now that's purely in superannuation and it's on balances over \$3 million. So, the tough thing is it's not indexed. So eventually everyone who works will be paying for it.

It is, it's just illogical. It's a bad policy. As you know, some people say it's criminal. That won't impact us at all because it's more, it's the people, the taxing of the unrealised gains in superannuation funds. If anything, this is actually a perfect product to invest in which is giving you a high yield and you're getting sort of a high yield and with less risk and potentially more yield than capital growth.

To me that's what people will be looking for because you can't take, you know, you can't take the risks you used to take. If this policy comes in, particularly if you're a little older like me, (not like Damien and Matt or April, a bit younger now, who can ride it out). But when you're a little bit older then why would you take the risk of, you know, we've seen during the GFC the market falls, during Covid the market fell significantly. Now the, you know, the crash, the 87-crash, the market fell significantly. You don't want a situation where you, the market goes up, you pay the tax on the unrealised gain and then before you sell anything, the market falls. So, what, what we think is, you know, probably a trillion dollars, you know, 1.1 trillion, that's in self-managed super funds that's going to that's they're going to change their asset allocation, go away from supporting startup companies in Australia, sort of the

lifeblood of Australia. They'll go away from that and go to high yielding products. And this is probably what Damien has been alluding to - that all along in the early part of this discussion, there's a lot of demand for high yielding products and so this fits perfectly.

If this legislation goes, goes through now, we're hoping that sanity prevails, and we'll send an email out in the next week to all our people that are signed up to the Wilson Asset Management emails just about our current strategy on this. We've been very vocal but thank you for bringing it up.

April Lewis:

Thank you. And Geoff, we have a question from Digby. Is it more expensive to pay monthly dividends with the share registry administration and postage costs?

Geoff Wilson AO:

Yeah, it is but unfortunately in terms of postage we're not sending checks anymore. So, efficiency is a lot better than it was historically. It is obvious if you pay one dividend once a year it's cheaper paying 12, two dividends. The interim and full year is again cheaper than paying monthly dividends. The actual cost is for a company - we're talking about \$150-160 million here - it's dollars in terms of costs or cents in terms of, you know, sending the dividends out. You'll find it very hard to see any major difference on the profit and loss.

April Lewis:

The next question is for Matt and Damien from Simon. Do you employ a dividend harvesting strategy to actively trade a stock during its cum-dividend period with a strategy to take advantage of any short-term pricing anomalies where cum-dividend share price reflects a premium or discount to the theoretical ex-dividend pricing.

Matthew Haupt:

No, we don't really actively employ that strategy. You know we did look at it with the major banks to see whether we would do that, you know, we ended up holding them like I said NAB and Westpac post the post the result leading up to the ex-dividend period but it was more on a flow perspective rather than a dividend stripping perspective. So, it's not something we would regularly employ. Would we do it potentially every now and then if there was an opportunity, but I wouldn't I classify it as a part of the strategy. We think we've got a model in which we don't need to do that.

April Lewis:

Thanks Matt. And we've got a question from Chris. If the market surprises us and keeps gently rising. Will the 40% in equities get hurt against the benchmark of 60% and will the difference be made up by the overweight versus the benchmark in the current 60% in debt?

Matthew Haupt:

From a benchmark perspective, yes, we would get hurt. I don't think you could overcome that from a benchmark, but again, we don't really manage for a benchmark. We're actively trying to work out what is the best decision for shareholders at any point in time and how you would position. So, we don't really care. I shouldn't say we don't care about the benchmark as such, you know, whether we beat it and you know, obviously we want to beat the benchmark, but like our decision to be underweight equities, we think is the right call.

From a benchmark perspective, it would hurt obviously being 20% underweight. Could we make that up on the debt side on market movements? Highly unlikely. Because of the quantum, the way equities move versus debt, it'd be highly unlikely. You know, we could, we could offset it with, you know, we're doing some things now, we're overlaying the, the bond portfolio with GAVI bonds. So, we're actually extending some duration into this rate source. So, you know, we are managing and hoping, adding value through an overlay. It'd be quite hard on a 20% quantum to really overcome that movement. But again, we're not stuck at 40% equities. If we get signals, and we're looking for signals every day, every minute to move towards equities, we will, but yeah, that is probably anything you'd comment on.

Damien Boey:

Once again it comes back to that question about bond equity correlation as well. So, under what situation could we see the equity market really rallying from here? Even though it's had an extraordinary run from the lows and overwhelmingly the signals that we follow, whether it's the actual correlations or whether the leading indicators like inflation uncertainty, what they are telling us is that bonds and stocks will remain joined at the hip for a while.

If you think that equities are going to rally, you also have to have the view that bonds will rally long and in particular led by the long end. On the flip side, if you have the view that long duration government bonds, so a very specific segment of the bond market will sell off, then that will naturally weigh on the equity market as well. So, we are actually positioned at the moment within bonds, although it says bond 60%, the weighted average maturity of that's closer to two years, not 10. We actually haven't taken a tremendous amount of duration risk just yet. Although we have made some tactical adjustments. And by and large what we are positioning for is that the spread of corporate yields relative to government bonds compresses. Because if that compresses, that's capital growth for us. That's kind of where we're positioned at the moment. So, what that's saying is that we see some risk that in the short term you could see long duration bond sell off which would actually be bad for equities. If long duration bonds don't sell off and they actually rally from here, it's because the inflation outlook has dramatically improved. That is inflation has come off. But where we would make that up on the debt portfolio, is that the credit spreads at the moment, which should be reflecting uncertainty, would compress dramatically. So,

this is what Matt was saying before about how we can actually put through a lot of adjustments. It's not just about straight government bonds versus equities.

We have to consider the interaction between them. I suppose the question really is do we think that inflation is a non-issue here. And with all of the things that we're seeing with tariffs, potential supply chain disruptions, US dollar weakness, maybe China stimulating and pushing commodity prices up, I don't think it's wise at the moment to say inflation is just going to drop. And so that means then that automatically we're not going to be inclined to position for bonds rally and equities rally.

It's just not going to work that way. So that explains a little bit of how we're thinking about this at the moment. But you know, as Matt said, we're open to changing if we see some signs that the things that we're following are changing. But hopefully that gives a bit of a flavor. We don't think we're going to be caught short by this allocation. In short, given the way different markets are moving.

April Lewis:

Thank you. And while we're speaking about debt, Peter has asked, can you explain how you decide on the quality of the corporate debt you take on? Is it all deemed investment grade or are you more adventurous in your choices?

Damien Boey:

No, it's all investment grade.

Matthew Haupt:

How do we select it? Obviously, we look at the underlying issuer, the demand, the spread over swap, you know, are we paying a fair spread out of swap for the company? And the beauty is we have intimate knowledge of all the underlying companies for decades within WAM of the companies doing the issuances. So yeah, we've been pretty vanilla in the investment grade but again that's been the right place to be and especially at the tier two level where you're picking up a nice little carry on the senior secured. So, we think the Tier 2 is the place to be and the major ones we've got are all the major banks. We've got Macquarie (ASX: MQG), you know, we have got some small amount of HSBC which is denominated in AUD. There's quite a lot coming now into Australia as, as we talked about, Australia is a destination for capital at the moment. So, you know, we're getting plenty of opportunities and we're always looking to try and pick up a bit of a spread over swap when we can and we think it makes sense. But yeah, we've just been very much in the investment grade side. But there's always opportunities on the trading side as well. You know, it's not just set and forget, you know, we can swap between different lines.

You know, different lines will get capital flowing into it, compress spreads, we can move them out. So, there's been a surprising number of opportunities we've had to look at on the debt side as well.

Damien Boey:

At the end of the day, the way the market is trading and the way it will think it will continue to trade is that if you think that there's a lot of risk in government bonds then people have got to be looking for safe havens that are not government bonds. And when you're talking about Australian corporates which are pretty well capitalised, a country which is attracting a lot of inflow because it's superior rated to a lot of other countries at the moment.

I don't think there's much of an issue in that space. So, are we actually the question would be, you know, have we right sized the amount of credit exposure that we have? And we think we have. So that's, that's from that perspective and you know, back to the point about quality, we look at obviously the aggregate credit ratings so anything which is below triple B minus is, is no go. That's, that just wouldn't be investment grade within our mandate.

We think Australian companies, the larger ones in particular, they're, they're all fine, they are fine on the rating system, but they are fine even on our judgment. And remember that we can triangulate as well. So, we're looking across equity and debt portfolios. So typically, the stuff that we think would actually be a quality name in the equity side, well that would be a pretty Good leading indicator as to what would be quality on the debt side. So, we're pretty comfortable with the process that we have for screening quality companies on that side.

April Lewis:

Thanks. Damien, Shane has asked, and you've touched on this a bit before, but have you, have you or are you taking advantage of the movements in the bond markets and has the timing of these movements benefited investors?

Damien Boey:

Yeah, absolutely. So, you know, when we deployed it was just in the wake of all the liberation day damage or as a colleague of mine has said, April Fool's Day +1. So, you know, when you see that sort of opportunity and spreads have actually gone out, the question is, is that an attractive enough spread to get in? So, the time that we were looking at you could easily get high quality corporate debt for over 210 basis points relative to government bond yields. So that's a pretty attractive yield.

So obviously the time that the fund is launched is around that time. So, we can take advantage of that and remember that our benchmark is short duration. So, as we've been deploying, we basically haven't been, we've been trying to get the average portfolio duration to about roughly two to three years. What you've seen recently is that the long-term government bond tens and 30-year government bonds have started to really sell off but we're in the short end so we're not really feeling the impact of that. So that's actually creating yet another opportunity for us. Actually, the timing has worked quite well when it

comes to interest rate risk in terms of deployment and then also the next opportunity to come along.

April Lewis:

Thank you. And the next question comes from Ian. Will you be advising shareholders of the individual equity investments periodically and perhaps Matt or Geoff could touch on that.

Matthew Haupt:

Still in the process of working out what to include on the NTA so we don't have a definitive answer for you yet. We're open to suggestions though. I mean initial thoughts were, you know, very much aligned with the other funds where you might do the top 10 or you know, can we give more? Still undecided. You know it is a work in progress and again we're happy to take suggestions on preferred formats. I know everyone would like the whole list, but we don't like giving the whole list quite often because it's just showing our competitors and brokers what we hold, which is an information disadvantage for us, but we try to give the most exposure we can to the portfolio. So again, it's active talk at the moment of what we do, but we don't have a definitive answer for you yet.

April Lewis:

Thanks Matt. And the next question is for Geoff from John. Is WAM or are WAM Income Maximiser and LIC's in general constrained by the 45-day franking credit rule?

Geoff Wilson AO:

Yes. Yeah, yeah, like everyone. Yep.

April Lewis:

Great. Matt and Damien - Ashley has asked us as Income Maximiser will pay dividends monthly, yet most companies pay their dividends 6 monthly. Is there a risk of dividend stripping by traders in this portfolio?

Matthew Haupt:

No, I don't think so because I mean that's the companies the equities pay semiannually but we've got a whole lot of quarterly coupon payments on the debt side as well. So again, you know in these first few months we're building up the buffer, you know the dividends are going to be progressively winding up so our buffer will be very much built in the background. So I don't see that as an issue around dividend stripping on, on WMX, you know and because you're always essentially come dividend too every month so you know once you pay the dividend you effectively come the next dividend anyway so you probably won't see as much dividend stripping on the, on the WMX share prices maybe other funds.

April Lewis:

Thank you.

Damien Boey:

Particularly floating rate notes in Australia like the fixed rate notes on corporate, corporate debt are semiannual but again we're largely short duration so we hold quite a significant chunk of floating rate debt and their quarterly payment and they're staggered in their quarterly payments so you know you will have one that pays in January, February, March and then you know the same sequence thereafter. So, it's not too much of an issue but precisely because we have the debt portfolio running in the background.

April Lewis:

Thanks. Bill has asked Matt and Damien what Australian corporates are you buying or interested in And I think he must be referring to the debt side of the portfolio.

Damien Boey:

Matt's already alluded to some of the names so when you're in tier 2 debt markets you can't really go past the major banks like you, you have to have them. That's where the major exposures are and you know particularly after Liberation Day some of the spreads that were being offered on that stuff floating rate longed but you know a note that will exist for some time they were pretty, pretty good, pretty attractive for the quality of the businesses that you're getting are really good and then you know, you can think about, you know, would a Macquarie fit in that category? Well, it's a little bit riskier but it's still sufficiently investment grade and its spreads got really attractive.

There's not a lot of diversity within the financial space. But then you look at a name like QBE (ASX: QBE) -we're happy with insurers on the equity side so why would we not be happy with them on the debt side? They are a quality company, sufficiently defensive in our view, rightly exposed to the macro economy and offering a great spread over government bonds. So that's kind of where we've been some of the Kanga issuance, like say an HSBC where it's a foreign company that's issued into Australia that was very, very attractively priced and the spread has come right in. So, there's actually quite a good capital growth on that one.

It gives you a bit of a flavour. It's predominantly financial because that's the nature of the issuance. But within the financial space there's actually a lot of opportunities to actively manage and take advantage of tactical opportunities. And we believe we've been doing that.

April Lewis:

Thank you. Ian has asked, "Do you have Evolution Mining (ASX: EVN) in the equity portfolio?"

Damien Boey:

No, we don't at the moment.

Matthew Haupt:

We did think about putting some gold exposure into WMX, but we didn't. Other portfolios have had EVN in the portfolio. It got a nice kicker as well from an index inclusion. So, you know, more broadly our view on gold will probably, probably think a lot of the hard work and less constructive on gold from here.

There is a path where gold does very well and that's still very much live. So, if you believe in that path, I mean there is an opportunity. But like from us, we think it's probably from a probability, expected return point of view. It's largely done for now.

Damien Boey:

The thing about gold companies is that buying them because they're cheap isn't always a great strategy. Typically, what you find is that the gold price needs to be rising and of course because these are Australian companies, it needs to be rising in Australian dollar terms in order to keep gold stocks just on an even keel, let alone grow their capital. If you're taking a view on gold at the moment, you're really saying if you're a bull, that it's the end of U.S. exceptionalism need for alternative safe havens, which could include gold. But, if you think there's any risk to that view, that is that there are things that the Americans could do to steady the ship and there actually are quite a lot of things that they could do then that would be a bit of a downer for gold. From a tactical and positioning point of view, gold is just the standout performer. So, whatever your view on gold, you just must come from the starting point that it already has done very well because a lot of investors have preempted a lot of the things that are going on right now. The question is, will the news get even more favorable from gold incremental to the discussions that people are currently having? And that's a much harder discussion.

April Lewis:

Thank you. And while we're on the topic of gold, Cole has asked, I see the biggest equity investment to date has been in materials. Would they mainly be in coal or gold? Maybe touch on views on coal and whether it's held in the portfolio.

Matthew Haupt:

So, the materials sector, I mean predominantly it's been led by Rio Tinto. We've got a fairly favorable outlook on aluminium. Also, the acceleration of resolution project in the U.S. is a positive and will force a little bit of discipline around Rio Tinto as far as resolution is such a big project for them, they do not need to do any further M &A outside of the small lithium deal they've done. So, we think the growth outlook for Rio Tinto is firmly in track.

There is strong discipline now. They don't need to chase growth. Damien touched on it before. We think China will come out with some sort of fiscal stimulus in July. But even last night in a market sell off we had commodity prices generally pretty firm. It's sort of, it's a bit early to call a trend, but maybe that trend of commodity weakness is over. Now obviously there's a whole lot of risk factors which we all know which could affect it. But you know, the balance again we go back, everything's probability, expected returns, you know, they haven't done much heavy lifting post the, you know, pre deliberation day. They're sort of obviously got a benefit when there was a China tariff truce.

I think that's one area where there's still some upside. It's mainly in Rio Tinto. A little bit in BHP, we put a little bit of South32 (ASX: S32) in as well. Guinea has been shutting down Emirates Global Aluminum's bauxite mines. So, this could create a bit of uncertainty and, you know, with the alumina price as well. So, we saw the aluminium price spike, 6% the other day off the back of some of these Guinean mine closures. So again, you know, this happened last year actually, or which flowed into early this year. Aluminium prices went through the roof. So again, this is favorable for South32. So that's a little bit of color around the materials position in the portfolio. No coal, no gold.

Damien Boey:

The thing about investing in commodities at the moment, there are a couple of things that are worth highlighting. If you look at what commodities, individual commodities are trading at, but not in U.S. dollar terms, in gold terms, you'll find that a lot of the commodities that we export, whether you're talking iron ore, copper, or oil, they're really, really low valuations in gold terms. What that means is that there's plenty of opportunity for these industrial commodities to outperform gold.

The second thing is that if you look at what's happening in the world at the moment, so the U.S. dollar has been weak. It's continuing to weaken. Now, in a world which is globalised and connected, U.S. dollar weakness typically makes it a lot easier for emerging markets that are pegged to the U.S. dollar to stimulate their economies. Typically, what you find is that whatever the U.S. is doing will add to that if the U.S. dollar has been weakening because everybody else will be able to stimulate.

If you have the view that the world holds together to some degree, like maybe with a bit of sticky toad, and you've got U.S. dollar weakness, you should actually see Chinese stimulus. You should actually see all of these things contribute to stronger demand for industrial commodities. If, on the other hand, you have the view that actually there is some merit to the end of U.S. exceptionalism and the U.S. dollar is going down, but it's not necessarily a favorable environment for world growth.

Granted, you might see the gold price rise, but again, because you've got so many industrial commodities that are actually cheap in gold terms, if you think that the gold price can rise or valuation can continue to lift these. Particularly if the response to a decoupled world or some loss of U.S. exceptionalism is that another country decides to take on the

baton of growth like, say, China. So actually, the balance of risks here is skewed towards industrial commodities doing better and certainly doing better than gold.

April Lewis:

Thank you. Alice has asked, "Can you please explain the growth to fully franked dividends to someone who is new to this process".

Matthew Haupt:

From the WMX perspective, I mean, effectively a new LIC, you need to build up the income for this product, the income received and also some of the capital growth, lock that in as well. The idea is to progressively pay the dividend out. We'll build a little bit of a buffer and then progressively wind the dividend up. I think on the roadshow we talked about, by the end of FY26, it was we'd be at the run rate. But again, you know, we've deployed ahead of time.

It'd be a board decision to sit down and model it. You know, we've done the modeling, we think we're in a very comfortable position to run that dividend now. So again, the way we talk about it is progressively wind up the dividend - you can't come out and pay the big dividend straight away. You build the buffer. Essentially what we're doing is building the buffer, paying a small dividend, then progressively wind the dividend to the full run rate. That's just dependent upon where the market sits at any given point in time. But again, we've invested ahead of the curve, so again, that should flow through earlier than we expected.

April Lewis:

Thank you. And the last question comes from Bala, and it's for Geoff, Matt and Damien. Do you personally invest in WAM Income Maximiser?

Damien Boey:

Yeah.

Geoff Wilson AO:

At IPO price \$5 million.

Matthew Haupt:

Yep. So, we're all expecting.

Geoff Wilson AO:

(Matt) Are you going to build up? You'll live longer than me. You'll have more money in there than me.

Matthew Haupt:

Yeah, yeah, no, unfortunately, I put in, I think it was \$75, 000, but I just finished building a house, so I'm a bit cash poor at the moment. I would have put a lot more in there if I could have, but I've definitely invested and would be adding to it at suitable times because I believe in the product and I think it's great, even for myself. I'm going to get the DRP ticking in the background - I don't need the cash right now. But for me, I'm just going to get the DRP, reinvest and build it up over time. I see it being a core holding of mine, along with some of the other WAM products. For me it's a great product and a diversifier away from risk for myself as well. Absolutely.

Geoff Wilson AO:

Thank you. Thanks guys. think you said April, that was the last question.

April Lewis:

That's right, yep. Handing over to you, Geoff.

Geoff Wilson AO:

Thanks everyone, there's been some really good questions. You're aware this is your company, so if you have any other questions, please email them, text us, call us, ring the office or use the old-fashioned method, write a letter. But we'll get back to you. So, you know, thank you very much for this call. You'll get a recording that will be up on the website shortly. So, if you want to re-listen to any of it, you can. We've been talking about WAM Income Maximiser, we're very excited about the outlook and how this company continues to grow and prosper, and really as a company for the times - we talked about something that's very topical, after the election, is that tax on unrealised gains. To me, WAM Income Maximiser fits in beautifully because it's giving you a high growing yield and a lot of the horsepower is going to go in terms of delivering that yield to you, and it'll also give you some capital growth, but you know, really a lot of it is in yield.

If you do have any feedback or ideas, you know, and even once we do the monthly NTA, if you have any thoughts or ideas about how we should change it, please give feedback to us because you know, you guys, you come up with some great ideas. The reason why we've created this product was actually feedback from shareholders and we think it's a really exciting growth product for us overtime.

So again, thank you on behalf of April, Matt, Damien, me and everyone at Wilson Asset Management. Thank you very much and look forward to speaking to you soon. Thank you.