

WAM Alternative Assets Investment Portfolio Update and Q&A Webinar Transcript

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Speakers:

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Transcript

Martyn McCathie

Good morning and welcome to the WAM Alternative Assets (ASX: WMA) Investment Portfolio Update webinar. My name is Martyn McCathie, Investment Specialist at Wilson Asset Management, and today I'm joined with WAM Alternative Assets Portfolio Manager Nick Kelly and our Head of Investor Relations, April Lewis. Wilson Asset Management were appointed Investment Manager to the WMA portfolio back in October 2020.

Obviously, we're very excited to be associated with a portfolio taking over the reins from Blue Sky at the time, and for us it was a great opportunity to be involved with a portfolio of private equity or private market opportunities and provide access to retail and wholesale investors to an asset class that was previously inaccessible due to illiquidity or liquidity constraints and the size required to invest in these asset classes. Obviously, utilising the LIC structure broke down these barriers for investors.

The portfolio didn't come without its challenges and for us there was three key pillars that we needed to work through, and the purpose of today's webinar is to provide you with an update on those three pillars. Namely, an update on the investment portfolio revitalisation, which I'll pass to Nick to go through very shortly, an update on the sustainability of the dividends, which is such a critical element to the LIC structure, and also an update on the evolving share register. As we look to tighten the share register and change that supply-demand imbalance that we have had. We will then open up to Q&A, facilitated by April. Obviously this is your company, so we do encourage you to ask questions along the way. The online portal to submit questions is now open and we encourage you to start submitting questions as we go through the short presentation at the outset.

Before I pass over to Nick to go through the investment portfolio update, we do have a disclaimer on screen. Basically, any information that we provide today is general in

nature. It hasn't been prepared with any individual's specific investment needs in mind. And before assessing whether an investment is correct for you, please do your own due diligence and or seek professional financial advice. Nick, do you want to kick off the portfolio update?

Nick Kelly

Thanks Marty, and good morning everyone and thank you for joining us. So, in terms of the portfolio update, as Marty said, obviously we've been through quite a process around revitalising this portfolio since we took it on from Blue Sky back in October 2020. And so you can see on the left-hand side of this slide today, the current allocations within the portfolio. We've got approximately 25% in private equity, we've got 15% in water rights, 14.7% infrastructure, bit over 8% in real estate, 7% in agriculture, 4% private debt. And obviously the remaining balance there is in cash.

A few tweaks that you've probably noticed over time here. So the water entitlements piece is now down to sort of 15.7%. You can see there that's come down from, from around 18-19% sort of six months ago, and much higher than that. I think the water entitlements were closer to 40% when we took on this portfolio back in 2020. We do like water as an asset class. We think it's a wonderful diversifier in a portfolio, but we think its weighting should be around 10 to 15% in this portfolio over time. So we're happy that we've been able to sort of bring that down and we can talk to the dynamics in the water market shortly.

The other tweaks here, the infrastructure allocation has largely stay, stayed the same. Real estate is starting to grow, so we're seeing a lot of the capital that we've committed into real estate starting to get drawn down by our investment partners. And we'll talk to some of the examples in that asset class shortly. The agriculture exposure is a legacy exposure that will come back over the next 12 months, and you'll see a slight increase in private debt from 4.5% up to closer to 10%.

The other big change that we're making at the moment that will come into place over the next month or so is putting our cash to work. One of the questions that we've often had is this large cash balance that we've got in the portfolio. And it has been a drag on portfolio returns. And it's worth noting that most of that cash has been committed to private equity strategies that will draw down on it over time. So 20% of that 22.9% has been committed and that will draw down over time.

The challenge is we will always have a cash balance within this vehicle because as we commit to new strategies, we also have exits coming back, capital coming back from other managers over time. And so we've always got this cash balance that's there. And so what we're looking to do is put in place a Treasury tool. So we'll be appointing an investment manager by the name of Fortlake to manage that cash on our behalf in an investment grade credit strategy that is very, very low risk and importantly is daily liquid.

And that will add around 70 basis points to performance annually. By allocating to that strategy so just making the portfolio work a little hard is probably the key takeaway from that. And we're also allocating to one new private debt manager which will be a nice complement alongside ICG. You can see as well that we've got our four key themes on the right-hand side of this slide. They continue to be the sort of pillar of our portfolio construction process. When we're building this portfolio out, we still think these themes are really important and provide great opportunities to deliver great risk adjusted returns in the future.

So just moving along, most of you will have seen this slide before. So this slide breaks down the portfolio between the core sort of income strategies that we've got within WMA and also the growth strategy - so the strategies we're relying on, sort of, capital growth. This split, the sort of 40%, 40-60 split is where we like it. That's sort of hitting the mark. So we think that split is appropriate. And you can see here that the blue bars represent that capital that has been committed to strategies that is not yet drawn down. And there is only a small cash balance remaining. So on a fully invested basis, this is what the portfolio would look like.

And the blend of those return targets, we think this portfolio should be delivering +10% over the long term. I think there was a question that came through around what this portfolio, you know, the return objective should be. We do think this portfolio should be generating returns of +10% through the cycle. Now this slide breaks out all of the various investment partners and investment managers we use within the WMA portfolio.

And once again, this is on a fully invested basis. So you can see on the private equity managers on the left-hand side there, then we've got the water, the infrastructure, the real estate, the agriculture, and finally the private debt exposure. The main changes that you will see here over time is, as we said, the water exposure we've brought down to be within that sort of 10-15% range. Infrastructure and real estate will grow closer to 20% over time and the agriculture exposure will reduce to zero as we exit the agriculture space but still retain the water exposure separately.

And we'll see that private debt exposure tip up closer to 10%. We're really happy with all of our investment partners that we've got within the portfolio. They're all delivering on their mandates and in particular finding some really interesting opportunities in real estate with a group called Wentworth that's there just an example. I know Marty and I like talking about this one, but there's some really interesting opportunities in real estate in the market at the moment, buying quality assets off motivated sellers. And a good example of that is 100 Harris Street here in Sydney in Pyrmont, just down the road from UTS. For any of you from Sydney that know the area, this was an asset that was owned by Dexu. On Dexu's balance sheet it was considered a non-core asset by Dexu. It's the old Woolsheds building, a beautifully appointed building.

Wentworth have been able to acquire that building alongside the Lowy family a couple of months ago and we have co invested directly on that asset with them. They've bought that building for around 240 million. That is 100 million less than Dexus paid for it seven years ago. It comes with a five-year lease profile in the asset, well diversified tenant base and some rent guarantees as well as there's also vacant land that comes with the asset and they're buying it for about 40% below replacement cost.

The new Metro will open up at the front and so there's lots of value-add levers there. So, a really good example of buying high quality assets off motivated sellers, particularly in the real estate space where we've seen some pressure on some of the listed groups to look to exit non-core assets. And so, we still see some really interesting opportunities there. And also in the private equity space as well, we're talking to a number of our investment partners around some co investment opportunities at the moment, especially in that technology services space that we continue to see is interesting and playing into the digitalisation thematic that we play in the portfolio.

Anything else Marty, on the portfolio that's worth touching on?

Martyn McCathie

Look, I just think maybe just how different the portfolio is compared to Blue Sky. Obviously under the management of the previous manager they were limited to their own internal managers. Our opportunity set's much broader. Maybe just a general comment Nick, given you're newer into the team, on the quality of the managers and the partners that we've got there with your background.

Nick Kelly

Yeah, it's a really good point that Marty raises. So when we took this portfolio on, it had private equity, it had venture capital, it had water, and it had agriculture. Okay, so we'll continue to hold private equity and water within this portfolio. The venture capital exposure is legacy exposure that will come back to us over time as will the agriculture exposure. But we have diverse portfolio into other asset classes that we see as providing really strong diversification benefits and strong sort of tailwinds. So being real estate and infrastructure and also private debt.

But as Marty says, this is an exceptionally high-quality portfolio. These investment managers that we have partnered with are best-in-breed institutional quality investment managers that investors are unable to access outside of being an institutional investor. So, there are groups here like Crescent Capital and Allegro in private equity as an example, where the minimum cheque size to get access to these groups is often \$10 million.

That just speaks to the quality of the groups. We're investing alongside large institutional investors, whether that be Australian superannuation funds, large endowments out of the U.S., pension funds from offshore and other institutional investors. And I think that's

really the exciting bit for me is providing retail and wholesale investors to a truly institutional quality private markets portfolio that is sort of coming out of revitalisation stage that Danla and the team had worked on and now moving into that growth phase, which I'm here to sort of deliver on.

So, just touching on performance, and I know there are a couple of questions around performance, so we thought it important to sort of look at the performance on the portfolio and the attribution of that performance over time. And so, you can see here these are the annual performance numbers since we took on the portfolio in October 2020. And the far-right bar is the since inception annualised return figure. And you can see here that we've delivered 9% since inception since we took the portfolio on.

I should say this is the underlying investment portfolio performance. And look, we're really pleased with that performance. Private markets, generally speaking, over that period hasn't been that easy. Private equity, for example, has been challenging space over the last couple of years. So we're really happy with that 9% performance number. But you can see here over the last three years, the portfolio hasn't lived up to the expectations around performance.

And really there's three key reasons why. I think it's really important to point these out. So firstly, when we took this portfolio on from Blue Sky, you can see here in that first year, we had some pretty strong private equity returns. And the reason for that is that when Blue Sky initially raised the capital and IPO'd the company, all of the capital that was raised was committed at that exact time. So there was very little, what we call vintage diversification where they committed capital over different periods of time, it was largely committed in one period. And so we had some really strong exits when we first took on the portfolio.

And that's very typical in private equity. They often sell the businesses that are performing well early on and then hold on to the businesses that need more work later on. And so that has hurt performance in recent years but was obviously a core driver of the strong performance we had in those first couple of years. The other asset class that's had an impact here has been water. And you can see that especially in FY22, water was a big contributor of returns. We had some pretty significant weather conditions with droughts around Australia through 21' and 22'. And so water was a big driver of returns. But over the last three years, we've had some pretty wet conditions.

So water hasn't kept up with those lofty numbers that it delivered early on. And so that has hurt performance. And also why we wanted to bring the water allocation down so that the returns on this portfolio were not solely due to rainfall. We want a diversified return stream in this portfolio. And the third piece of the puzzle here is that as we've worked through this portfolio revitalisation phase, the team has had to redeploy the

capital that we've received back, especially from those exits in the first year, into new strategies.

You've heard us talk before around this idea of the J curve and the time that takes for that capital to start working for you, the investors. And so that also explains why the last three years have we've had sort of muted returns, is we've been in that J curve phase. The positive point here is we're now coming out of that. Okay, so we're now at the back end of that process. Most of our managers we committed to are at the end, coming to the end of their investment period, especially within private equity. And we're starting to see the benefits of that portfolio come to fruition.

We've seen some exits this year, including one from one of our new investments, which was Linen Services Australia with Adamantem. And that was a really, really strong exit. So we're starting to see that portfolio perform and tick up. And the water, the water rights as well. The water sector, and we can talk to this shortly, is starting to look pretty interesting again. So we do feel like performance is shifting, but hopefully that just gives you a sense of why performance has been what it's been. And the time it's taken to obviously work through this revitalisation stage.

Maybe I'll hand over to Marty to talk through dividends.

Martyn McCathie

Thanks, Nick. And look, given capital management is a board decision, we'll just touch on it quickly. As I said at the outset, one of the challenges with the portfolio when we took it on was we were staring down the barrel of a dividend cut. The profit reserve had largely been depleted and we were able to initially maintain that \$0.01 dividend. Obviously since then we've been able to neutralise the dividend. So we're paying equal dividends in the interim and final and we've been able to slowly grow the dividend.

The pleasing part as we sit today is we do have 14.2 cents in the profit reserve which is around three years dividend coverage and we're yielding close to 8% including the benefit of franking credit. So that's on share price, not on NTA. So, we do have a very sustainable dividend balanced by that reasonable profit reserve to give us foresight for investors: a much more pleasing position to be in than where we were four and a half years ago.

If I jump onto the last slide before we open up to Q&A. So again, just a quick reminder for anybody who wants to ask any questions, please do submit them and April will facilitate the next section of the webinar was just a bit of a look at the evolving share register dynamics. It's probably a slide that you haven't seen previously, but something that Nick and I have spent a bit of time delving into the underlying composition of the share register.

You'll have often heard Geoff and the team at Wilson Asset Management talk about tightening up the share register and here is probably the best example we've got of that at work. The high-level number, since Wilson Asset Management were appointed investment manager, we've been able to increase the number of shareholders by 40%. Obviously, that's a very pleasing first step.

But what that doesn't tell you is the, I guess the selling that we've had to wash through on the other side. As we stand today, 70% of the register are new. So 70% of shareholders that are on the register today have joined the register since Wilson Asset Management were appointed. Of the total register, 45% own multiple Wilson Asset Management products and around a third own three or more Wilson Asset Management products.

That really just talks to the level of alignment that we now have with the register that we didn't have at the outset of us taking over the management of the company and that change in supply demand imbalance. I think if you look back to where we were, we probably underestimated the toxicity of the register that we inherited, with shareholders being either disenfranchised with their experience under the previous manager or investors who had joined the register because of the widening share price discount to NTA, we've had to wash through them.

So we're at a position now where we think we've got a platform and stability within the register to be able to manage that supply-demand imbalance and gradually move that share price towards NTA parity. And that's probably a nice segue into the premium target that we implemented when we were appointed Investment Manager. I know there's a couple of questions on it and we'll touch on it again, but we did want to just briefly touch on it at the outset as well.

For us, it is likely that we do have a vote at the AGM because we haven't met that premium target. The company is still trading at a discount and has failed to trade at a premium since Wilson Asset Management were implemented as Investment manager. The premium target was implemented to show alignment between the investment manager and investors. And at the moment, it's maybe not having the impact we would have expected it to. And we'll touch on that maybe through the Q&A.

But for us, what this shows us is that we do have a Wilson Asset Management aligned register. I guess the mechanism of the vote is a special resolution. We need 75% of shareholders who vote at the resolution to vote for a wind up. Given the composition of Wilson Asset Management aligned investors and a number of financial advisors and institutional investors on the register who are supportive of the vehicle in an ongoing format.

We don't think the vote, if it was today, would go ahead, but we would like to encourage all shareholders to vote, have their voice heard and as a democracy. So we do want

shareholders to participate in that vote and the board will provide further material to shareholders ahead of that vote. But we can maybe touch on that again. Again, unless Nick, you wanted to add something.

Nick Kelly

Probably the only other thing to add is clearly the challenge here is the underlying assets are largely illiquid assets. We're investing in private markets. And so I've had the question from some shareholders say, well Nick, why? Surely, I should just vote for a wind up and I can get NTA. The challenge with that is realistically it would be a five year plus period to return NTA to investors given the commitments we've made in private equity and the other asset classes. These are illiquid asset classes.

If we bring forward that process to sell the portfolio, you're going to be selling assets in a fire sale which will be at a discount and you're back to where we are today. So I think it's just, it's important to recognise and understand the underlying portfolio composition and the fact that these are illiquid assets. But I think that's an important element of that and that's why we think that, you know, the portfolio is an important part of the broader Wilson Asset Management business. We want to grow this portfolio over time. That's why I'm here.

I didn't come in on a, as I joked in that first webinar, on a 12-month contract. I came in to run this portfolio long term because I really do believe in this portfolio and believe in its place in investor client portfolios. And so I'm very confident that we will get through the vote and that from there we'll have clear air to hopefully get this to trade up closer to NTA over time.

Martyn McCathie

We may pass over to you April. Now just to run through the Q&A section of the webinar.

April Lewis

Great. Thanks Nick and Marty for your insights and thanks everyone for joining today and for sending through questions. Nick, we'll kick off with you. We've got a question from Trent. Trent has asked, and this is a good one, if the fund was to receive an additional \$100 million tomorrow, where would you see the most attractive opportunities to deploy that capital?

Nick Kelly

Great question and that would be a nice problem to have. So thank you, Trent. If we had 100 million today, it'd probably be a combination of things. As expected, we would look to do additional private equity investments with a combination of the existing managers and new managers, including co investments especially in the mid-market growth space where we continue to see some really interesting opportunities and we could co invest at a larger size than we currently do which would reduce fees as well. So that, that, that's an important one.

As I mentioned real estate, we're starting to see some really interesting opportunities in real estate and buying really high quality real estate from motivated sellers at depressed price. There is a high correlation in real estate between sort of base interest rates and yields and we haven't seen yields yet fall to where interest rates are. And so it's sort of catching up. And so I think there is some value there in real estate that is coming and so we would do more in real estate, especially in the value add opportunistic space and we would probably do a little more in infrastructure.

Infrastructure has been a standout asset class over the last decade providing really resilient income returns and importantly inflation pass through measures. And given the uncertainty around the inflation outlook, I think that would be an important one to continue to top up.

April Lewis

Great, thank you. And while we're on the topic of having an extra hundred million dollars, we've got a question from Colin for Marty. Do you anticipate any capital raisings in the foreseeable future?

Martyn McCathie

Yeah, thanks, April. Thanks, Colin. Look, we don't. For us, we're with any listed investment company. You can only really raise capital if you're trading at a premium to NTA. The quickest way to disenfranchise existing investors is to dilute them and raise capital at a discount. So we're committed not to raising capital at a discount to NTA and obviously, given the company has traded at a discount to NTA for a substantial period, we want investors that are either there on the register today or coming in tomorrow to have a positive experience.

I think any capital raising, while we would like to raise capital at a point in time and this vehicle could be substantially bigger, we would do it sustainably and we would do it once we'd been trading at a premium to NTA for a period. So no capital raisings on the, in the, in the foreseeable horizon, unfortunately.

April Lewis

Thanks, Marty. And we've got a question from Brett, which is on the gap between the share price and nta. And I know you've touched on a little bit, but maybe you could give some context on what actions you're taking to narrow the gap gap between the NTA and share price. And over what time frame do you expect those measures to gain traction?

Martyn McCathie

Yeah, and it's, it's. Thanks, April. Look, it's a, it's a really difficult question on the time frame, kind of starting with the, the second part of the question for us, you know, it's, it's about tightening the register, which hopefully we've shown today that we are working through. And the register has improved materially from the point at which Wilson Asset Management were appointed investment manager.

The difficulty is we don't know who will sell and the reasons for their selling. All we can control is that we are out there promoting the product and we're raising, buying. We're looking to minimise selling by engaging with existing investors. And we're looking on the other side of the equation, promote, buy and generate demand from new investors. Nick and I have traveled the country over the last couple of weeks, all major cities engaging with intermediaries, wholesale investors, asset consultants and financial advisors. And those meetings have largely been positive.

So hopefully we are starting to see, or we will start to see some traction from those meetings. I think kind of taking a step back and looking at Wilson Asset Management as a business, one of the things we have done I think exceptionally well and which differentiates us from, from other listing investment company managers, is our shareholder comms and engagement. We joke, we call it the engine room of the business.

The comms and marketing department that we have, including the investor relations team, really sets us apart as a business. We have been very focused on WAM Global (ASX: WGB). We've taken the discount from WAM Global through strong performance. It's a critical element and increased income, but also that comes in engagement. We've taken that discount from 18% to live about 2%, 2.5%. With a concerted effort, we can make a material impact in the discount.

Obviously, for WMA it's important that we now perform and the portfolio has taken shape and we expect it to deliver stronger returns. As Nick has pointed to, from an income perspective, we're in a good position. And from a comms and marketing perspective, that engine room has already started to reposition while not losing focus on WAM Global, reposition some of our efforts into WMA ahead of the shareholder vote next year. So timeline is very difficult, but they're the tools that we've got at our disposal and we're kind of utilizing them for WMA as best as we can.

April Lewis

Thanks, Marty. Yeah, WMA is definitely a focus for all of us over the coming months. We have a question from Marianne on water. Marianne says, Nick, earlier you said that water is looking interesting. What's your view on water currently and over the long term? And Marty, no puns, please. I know that you're about to. You're about to launch into them.

Nick Kelly

Marty has a number of puns, so if someone could keep count, that would be.

Martyn McCathie

Well, let's just start by saying the tide is turning.

Nick Kelly

There you go. Solid income stream. Anyway, so the, the water space, as I said, it is a great diversity diversifier in the portfolio. How do we view the mark at the moment? So we do think it looks pretty interesting for two reasons. Firstly, price of water has increased substantially. So the water markets, the entitlements we own are largely around the southern part of the Murray Darling Basin.

The water in that part of the market per megalitre is up at sort of 3,350amegalitre, and that was closer to \$50amegalitre this time last year. So it gives you a sense of, I guess, the dry conditions that we have experienced through. So we've seen pricing increase. The other element that we've seen, and it's Worth noting that the water market's an interesting one. It all resets on the 1st of July each year, the water market.

And so we've started to see that pricing come through. The other interesting element, and this is perhaps where Marianne's question was going, which is a good one, is the labor government alongside the Greens, has promised to buy back all of the water entitlements in the Murray Darling. And we're starting to see that transaction activity come through. Now, we won't, through our investment partner, Argyle, participate in selling entitlements back to the government because we do like the use of the entitlements longer term.

But the impact of the buyback is that the buyback is taking place at sort of, at sort of 10 to 20% premiums to current pricing of entitlements. And so the water valuers in the market are starting to look at some of that transaction activity and the flow on impact to other holders of entitlements, including groups like Argyle. And so we're expecting the valuations to hopefully start to increase from here based on where that government buyback is taking place.

And the other element there is that as a holder of water entitlements, we get an allocation each financial year of water through Argyle, and Argyle can make the decision to either sell the allocation or lease it to irrigators and farmland operators. And what we're seeing because of the buyback in this idea of taking supply of water out of the market is that the irrigators and the farmers are now looking to lock in longer term leases at more favorable pricing than has been the case in the last few years where water was very, very much available.

It is now more scarce. They're concerned about the future availability of it, and we're starting to see more attractive lease terms. So on that basis, we do think water looks probably a lot more interesting than it did over the last few years, but as we said, at the right weight in the portfolio. But it does feel, as Marty started off with, it does feel like the tide is turning on it.

Martyn McCathie

Nick, just on that one, maybe just you mentioned that the water rates and I guess the spot price and the income's gone from 50 bucks a megalitre to 350, when water rights

was obviously a big contributor to attribution in FY22, just to paint a bit of a picture in context of where water rights can get to. What was the price per megalitre then?

Nick Kelly

Yeah, correct. So 20 years start at 22. I think it was closer to 700. So it can move around. The pricing can be actually quite. The pricing of the water price itself can be quite volatile, but yeah, it can obviously increase substantially from here. It also just shows how depressed it was when it was at 50amegalit after some pretty wet summers the last year.

Martyn McCathie

So at 350 it's not the top of the market.

Nick Kelly

There's still room for further income growth. Absolutely, yeah.

April Lewis

Thanks, Nick and Marty. We've got a question from Kate on private debt. She said there's lots of raisings that she's seeing in the press lately. Can you touch on the current market Dynamics and how WMA's portfolio is different?

Nick Kelly

Yeah, sure. And it's a good question and I'll need to make sure I keep this short because it's a bit of a bugbear as Marty smiles. So there is a huge amount of capital that's been raised in this space. I think a recent KPI AMG report pointed to sort of 200 billion plus that's been raised stat. Marty and I heard when we're on the road recently that there was 300 odd managers in this country raising capital, which is frankly is too many.

There will be some sort of rationalisation that's needed. The important thing with private debt. So let's step back. Why does private debt exist? It exists because banks find it harder to do the sorts of lending they have traditionally done. Private debt is a. It's an important, important asset class and it's an important provider of financing to both corporates and in some cases into real estate, because it's more flexible capital. We've all dealt with banks before.

They've got their checklist. If you only tick nine of those 10 boxes, they don't want to know you. Right. Private debt is more flexible capital and can cater to those sorts of borrowers. So the important thing within our portfolio we. We only do corporate private debt debt. We do not have any private debt exposure that is backed by real estate or residential developers in particular, which is where a lot of the cracks are starting to appear.

So that's the first point I wanted to emphasise. The current exposure within our portfolio is a tad under 5%. As I said, we're allocating to a new group at the moment that will bring that exposure to 10% and we're comfortable at that level now. The two groups that we

have in the portfolio and the new group we're allocating to is a group we've just allocated to effective 1 July is a group called Longreach now why did we allocate to Longreach?

We think they're a really neat complement alongside icg. It's smaller lending, it's actually fixed rate lending targeting sort of 10% plus returns. But the most important thing, and this is the most critical thing when you're looking at private debt managers is how strong their workout and recovery experience is. It is very easy to find ex bankers that can go out and underwrite a loan, provide a loan. It's a different thing to roll their sleeves up and work it out. When it is inevitable things go pear shaped. And so workout experience is really, really important.

And this group Longreach that we've just partnered with has this in spades. The team has got Mitch who founded the team is an ex quartermanth bankruptcy lawyer. There's Farrier Hodgson, insolvency practitioners and Adrian, the portfolio manager worked on the restructurings of the Icelandic banks during the gfc. So really, really strong workout experience. And that, that's just so important because things, you know, not all loans go well, right. And so it's really important that you back managers that have that workout experience and importantly have right process in place around valuation of loans. And so if things aren't going well we want to see those mark those loans marked down. And both of these managers have a strong valuation practice of doing that and not just holding, holding the loans at sort of at market at, at face value and not marking them down when things go pear shaped which we have seen take place in the market.

So hopefully that answers it. April, as I said I could go on for hours about private debt but hopefully that that covers the key elements.

April Lewis

Thanks Nick, that's very helpful. While we're on the topic, Dave has asked apart from percentage, how does your private debt exposure different to that of, from that of wmx which is where Income Maximiser, another WAM listed investment company.

Nick Kelly

Yeah, so it's an important point. So WAM Income Maximiser WMX does not invest in private debt. Okay so the, the allocation we have here is completely different. The WAM Income maximiser invests in a combination of Australian equities and investment grade credit. Investment grade credit is less risky than private debt. It's investment grade by nature. The vast majority of private debt is what we call sub investment grade lending.

Okay so it is a very, it's a completely different asset class and so there is absolutely no crossover at all.

April Lewis

Thank you. We have a question from Gary. He's asked since 2020 WMA has returned

24%, excluding franking versus the index, the ASX 200 of 67%. What catalyst can you give confidence what catalyst can you give confidence that WMA can outperform the index over the next five years?

Nick Kelly

Yeah, thanks, April, and thanks, Gary, for the. For the question. So I think that there's a couple of important points here. So firstly, that the WMA WMA portfolio is not, you know, we don't have a benchmark to beat the ASX 200. This is an alternatives portfolio. We do not own listed equities. And so I think that's probably the most important thing to point out that we invest in a number of alternative asset classes across the private markets spectrum.

And those asset classes, you know, most investors are investing in WMA to provide diversification away from equities as a complement to equities in their portfolio. And that's really the role of WMA in an investment portfolio, is a complementary implement alongside equities. Obviously, we want over the long term for the performance of the portfolio to try and hold up with equities, but probably its most important attribute is its performance during periods where equities perform poorly.

That's really where we see alternatives bear most fruit, I guess, is during those periods of higher equity market volatility. We saw that through the start of April, around Liberation Day, equity markets were exceptionally volatile. The WMA portfolio didn't move around. Right. And so I think that's probably the most important point is the underlying assets are not listed equities. They're not intended to behave like listed equities. We actually want the exact opposite in our portfolio. And the reason for that is because it is a complement alongside investors that hold listed equities.

Don't know if, Marty, if you want to add anything else on that.

Martyn McCathie

Yeah, I just think looking at the numbers there, you know, since the inception of Wilson Asset Management, taken over the portfolio to the end of May, as Nick said, through the formal part of the presentation, the investment portfolio has delivered 9% per annum. Total shareholder return is up 30.5%, which is 5.9% per annum. So we might just have a little mismatch between Gary's numbers and the timing that he's used between what we report.

If you include the benefit of franking credits, the return is 41.5% or 7.7% per annum. So for us, what's going to drive increased performance going forward? As Nick said, we hope the portfolio can deliver, call it 10 to 12% per annum through the cycle. Now that we've gone through that portfolio revitalisation and that portfolio is working a little bit harder and we hope that there will be additional alpha on offer for shareholders as that share price discount to NT closes given the current supply demand dynamic and that improved register that we've touched on. So for us we think we can deliver better

performance going forward. But as Nick said, the purpose for WMA in client portfolios is not to compare us to an equity benchmark.

It is more of an absolute return style product.

April Lewis

Thanks Marty. And Nick. Marty, Mark has asked with the share price at a discount to NTA, what's the planned post? October 2025.

Martyn McCathie

Yeah, and then look, that's I guess the exciting point for us I think. I think Nick and I have been working quite hard on generating additional buy in and demand for the product. As I said, the kind of vote and the premium target was implemented to show alignment between the manager and shareholders. Unfortunately at the moment it is probably having the opposite impact. As investors who are looking at the product, there is a very small or we believe very small element of wind up risk there if the vote was to go ahead. So, so we feel that there's investors on the sideline at the moment doing due diligence in the product so that when the vote has passed and there's no longer any potential perceived wind up risk that they will be more comfortable taking meaningful positions in the company.

So for us initially going back five years, the alignment piece of the premium target was implemented for the right reasons and it was an important feature to have. Unfortunately short term, as we get closer to that is probably having the opposite effect. So for us we will continue to manage the product as we do, we'll continue to engage with shareholders as we do, but we think some of those barriers to converting potential investors into current investors will be taken away. So we're very excited about the prospects once we get past the goal.

Nick Kelly

Yeah, and I think it's all about continued engagement as Marty said, does feel like there's some buying there on the sidelines, especially from some of the larger advisors groups and so sort of going through the process now of engaging with them, talking about the portfolio so that we're not at sort of square one. Post the vote we've actually started to work on that process. So post the vote they're ready to come in if they're not willing to come in. Now, given that sort of perceived wind up risk that Marty talked about.

April Lewis

Thank you. And Nick, we've got a question from Christopher. What is the look through gearing of the fund and how is it financed?

Nick Kelly

Yeah, it's a good question. So, yeah, so there's no gearing at the link level. At the

company level, the underlying investment partners will have gearing. The gearing will differ depending on the asset class. So private equity for example, typical gearing levels are around 40 to 50%. Real estate's not dissimilar. Infrastructure can vary quite a bit. The defensive assets, social infrastructure assets tend to be geared more highly than that and the economic infrastructure assets less.

But the look through gearing at the portfolio levels, around 40%. Most of that, the vast, vast majority of that is financed through bank financing, not private debt.

April Lewis

Thanks, that's helpful. And we've got a question from Saranjeet and possibly for Marty. Would the board consider acquiring other alternative asset managers to integrate with WMA's existing portfolio?

Martyn McCathie

Yeah, look, as a business we have always been opportunistic and that's one of the great things about working with, you know, within a founder led business led by Geoff you know, we have been opportunistic and within other parts of the business we have acquired portfolios when it's made sense. The easiest way to do that is, you know, when we are trading at a premium. So it's back to how do we grow WMA when we're at a premium to nta. That's one option we've got. Obviously capital raising from existing and new investors is another.

So we'd really need to, we'd need all the dynamics to be right. It would need to, we'd need to be at a premium. The portfolio that we were looking to acquire, I think we'd need to be assets that made sense. Given the illiquid nature of the assets that we'd be inheriting through a takeover. The assets would need to make sense for the WMA portfolio and given the work we have done with the register and WMA we'd want some comfort around the composition of the share register of the company that we were acquiring because we don't want to derail or, or upset the work that we have done in kind of tightening the current register.

And that's one of the risks with a takeover. Depending on the size of the takeover to current WMA portfolio. So it's option, it's something that I'm sure the board would consider if the dynamics were right and there was an opportunity that made sense. But at the moment there's nothing on the immediate horizon.

April Lewis

Thanks, Marty. The next question comes from Michael and is for Nick. Can you share your impression of the portfolio Having taken over from Darnia. And what would you like to change? I know you've touched on some of the dynamics that have changed.

Nick Kelly

Yeah, no, it's a good question. And look, that was the attraction for me joining was the

high-quality nature of the portfolio and the fact that I didn't need to come in and try and rip it up. And I couldn't rip it up if I wanted to, but it is a really high-quality portfolio. And as a reminder for everyone, Dania and I did work together for a long time at wtw. So we come with a very similar investment philosophy and investment approach to building private market and alternative portfolios. Right. So I think that was sort of paramount to me taking over the portfolio was the high-quality nature of the underlying investment partners we have, many of whom I've worked with before and researched in my role at WTW.

In terms of the changes, as I talked about, there's two that we've made since I've come on board. Firstly, putting in place this treasury tool which will go live in the next month or so, which is just making our cash work a little harder because we are, as I said, we're always going to have a cash balance. It's sort of 20% thereabouts at the moment. Over time it will trend down, but it will always be there around 10 to 15%. And so having a Treasury tool that can just make the portfolio work a little harder and add to the overall returns of the portfolio is important.

And a new allocation in private debt. And also looking at some additional co investments, but with our existing investment partners that Dana and the team had put in place. So we'll continue to grow and expand it. They're not sort of wholesale changes which was never the plan. They're tweaks at the edges to hopefully deliver increased investment performance over the long run for investors.

April Lewis

Thanks, Nick. The next question comes from Joseph. What sector or sectors will your team focus on to invest in in the coming year?

Nick Kelly

Yeah, sure. So I guess linked to the question before around, what would we do if we had 100 million to put to work? So private equity mid growth space in Australia continues to look interesting. Sectors such as, as I said, sort of technology services sectors. So looking at businesses where they provide a technology service which reduces the need for labor, obviously the cost of labour has increased substantially in this country and so any business which takes that cost out of another business is interesting.

There are, there are obviously sectors that are more challenging. So consumer discretionary is, is a tough space to play in. So but sort of that technology as a service space, healthcare continues to be interesting. There are obviously some challenges around Health Scope which has been the news quite a bit. But outside of that, especially health technology related businesses, labor for hire. So Healthcare Australia hca, which is a business we own via investment partner Crescent, is performing really, really well.

So I think private equity businesses and some of those sectors look interesting. In real estate, as I said, we continue to like some of the underlying dynamics. It feels, you know, the office market is turning and hence why we're really interested in doing that. 100 Harris Street Co investment with Wentworth. We're also investing more in life sciences as a sector within real estate. We're looking at a new co investment with our partner at Wentworth for a life sciences site in Macquarie Park. So life sciences for those that don't know is lab space effectively.

So renting that space out, they're highly specified real estate to lab operators in genomics and others. And we don't have, we've got high demand from that tenant base around this country, but very, very low levels of high quality lab space. And so that life science sector is an interesting one that we'll continue to deploy into and a strong fanatic behind it.

April Lewis

Thank you. Mari has asked, does WMA pay fees to the investment partners? If so, what is the range of percentage amounts that is paid?

Nick Kelly

Yeah, it's a good question, Murray. We do, we do. It varies quite a bit. Private equity is the most expensive asset class and then it tees down from there. Importantly, we are investing as a institutional investor so we're getting access to these investment partners at often less than half of what a wholesale investor could access if it was available. The look through underlying fees on the portfolio across the underlying investment partners is just on 1 1% and then obviously the Wilson Asset Management fee is 1% on top of that.

April Lewis

Thanks.

Martyn McCathie

And April, just on that, maybe just jumping in there. So the return that we at Wilson Asset management publish of 9% per annum is inclusive of the fees for the underlying investment managers. Obviously Wilson Asset Management or a Wilson alternative asset level is a 1% management fee, no performance performance fee. So the eight we have delivered since the appointment of Wilson Asset Management, 8% per annum, including of our and the underlying manager's fees. So net of fees, NET of everything, 8% return.

Nick Kelly

Yeah, it's a good, it's a really important point and there will be some, some of those underlying investment partners will have performance fees but importantly the performance fees, especially in private equity. And this is an interesting one because we often get the question around, you know, perhaps the vehicle trades at a discount

because no one believes what the actual underlying valuation is and are the assets, is anyone sort of any of the investment managers inflating any of the underlying assets just on performance fee structures? So in private equity, our private equity managers are paid based on realisations.

They get paid performance fees when they exit the underlying businesses. They do not get paid performance fees to mark up assets along the way, they get paid at the back end. Once those exits have taken place and they've returned capital to us, then they earn a performance fee. So there is no incentive for them to mark up the assets along the way. And importantly, if they did that and then they sold it for a lower level, they would find it extremely difficult to raise capital for a subsequent fund. So there's very little incentive for managers to mark up the assets. And clearly the valuation processes that our investment managers use are an important element of our due diligence process when we're looking at them and ensuring that they are best of class and institutional partners, as we, as we talked about before.

Martyn McCathie

And I'm just going to hijack the Q and A for a section, April, so sorry, but just given you touched on it there, Nick, and on the valuation process, is it worth kind of delving into, I guess, the dynamic of valuation process with the underlying managers we've got now and there are other institutional investors and kind of the regulations that they've got there, which gives us comfort on the nte?

Nick Kelly

Yeah, yeah, it's a good one and it's timely because we're working through our external valuation process at the moment with our auditors. So obviously as a listed company, we have audited accounts, so we have a process we have to work through semi annually on the valuation side of things. And then the underlying investment partners are also undertaking their valuations. And so we're looking at their valuations, assigning, doing our work on whether they are appropriate and then clearly through to our audit sign off.

The valuation processes and methodologies used differ across the various asset classes. For the most part, across private equity, infrastructure and real estate, we have independent valuations that the investment managers are getting from independent parties. So in real estate it's the, you know, it's the CBREs, it's the Colliers, it's the real estate agents in the market, and then in infrastructure and private equity, it's typically one of the big four accounting firms that's providing an independent valuation over the underlying companies.

As Marty said, though, we are investing alongside other Institutional investors like superannuation funds in this country, country, and they face their own set of regulations around valuations from apra. And you've probably seen some press around this. And so it is a, is a point of great focus now. And I think it's an important point of focus because

historically I don't think valuations, independent valuations were done as frequently as needed.

And so we're starting to see that that frequency has picked up. And so I do think the valuations we now see from our institutional partners do reflect true carrying value. And we've seen that in recent times with the exits we've had on private equity. The one from Adamantem that I referenced before Linen services was sold at carrying value. Okay. Bought the business three and a half years ago, ticked it up along the way as the business performed really well and have sold it at sort of two times their money and delivered those returns back to investors which was sold at carrying value.

So I think that just speaks to, I guess, the rigor of the valuation processes that our investment partners use, which is important.

April Lewis

Thank you, that's very helpful. And Marty, Robert has asked, with the discount between the share price and nta, have you considered using your cash balance to buy back shares?

Martyn McCathie

Yeah. And look, obviously capital management is a board decision, so I won't speak on behalf of the board. A couple of points that I would raise there is the cash balance we've got is largely committed, so it is committed to new strategies which will be called upon. So it's why the cash balance does look high and we're making that cash work a little bit harder. It's not cash that we've got necessarily to step into the market and do a buyback if we wanted to.

The other component of it is that if you wanted to. I've been with Wilson asset management for 10 years now, feels longer some days. And part of the role that I've had is look at buybacks across the LIC sector. Obviously it's a very common question that we get and I've spent a considerable amount of time trying to ascertain whether buybacks are net positive within the LIC sector. And the assessment that I have is that buybacks generally don't work within the LIC sector.

And the register base of an LIC is predominantly retail mom and dad shareholders. I think while the dynamics and the economics make sense, I think from a psychological and sentiment perspective, it is deemed a negative. It is deemed that you've got no better investment ideas other than buying your own stock back. And while it's net accretive, I think it does change investor sentiment and there's some really good examples in the LIC space at the moment.

There's a couple listed investment companies, and I won't name them, that have got very aggressive buybacks, two in particular that are buying back broadly 25% of their shareholder base year on year. And over the last two years their discount has widened.

So it's really, for us at the core, it's changing that supply demand, making sure that we are communicating effectively with existing investors so that they are well informed and excited, hopefully, about the prospects of their investment.

And we're working equally as hard on engaging new partners to join the regulatory register to take away any supply that there is there from the existing investor base. Hopefully, as we've shown today, we've had great success thus far and we've got a really strong platform to narrow that discount. So never say never. It's always a discussion. Capital management is always a discussion at a board level.

I would just caution the effectiveness of buybacks in the LIC sector if the board were asking that.

Nick Kelly

My opinion.

April Lewis

Thanks, Marty and Nick. We've got a question from Anthony. Given the objective to increase the allocation to infrastructure to around 20%, will you also be adding a second manager in this sector?

Nick Kelly

Yeah, it's really good question. So we. We have a sizable allocation to Palisade within the portfolio, which is split between their diversified infrastructure fund and their renewable energy fund. They do have a separate business, the Palisade impact business, that we will be looking at in time, we will probably look at additional strategy to get us to 20%, whether it's with a different manager or not, we'll work through. We're pretty comfortable at that sort of 20% level to 1 manager. Beyond that, I do think it's a fair point around sort of concentration risk with one manager.

That said, as we said before, we did have 40% allocated, over 40% allocated to water to one manager in the past. So we have had that historically and clearly, obviously having conviction in the underlying manager is critically important to that and ensuring we've got different mechanisms to replace management if need be, if they're not performing or if the key people leave. And so that's an important part of our due diligence. But I think the short answer is at 20%, we'd be comfortable having one manager beyond 20.

I think it starts to create some risk in the portfolio and we'd look to have more than one manager.

April Lewis

Thanks, Nick. And Joseph has asked when Investing in the real estate sector, what is the time frame your team looks at for holding an asset?

Nick Kelly

Yeah, it's a really good question. So it differs a little bit. So we've got sort of two primary

exposures within real estate. We've, we've got an investment with Barwon in the institutional healthcare space that is a very core defensive income orientated strategy. So what do we own there? We own a. We own about 32 private hospitals with very long term leases to various operators in the market. Importantly, as I've said before, we only have one hospital that is tenanted by Health Scope and they are currently paying their bills, which is great.

The others are tenanted by Ramsey and other groups in the market and so they tend to be very long term leases. So those underlying assets we're looking to own for the better part of a decade or longer and take the income yield from those assets, which tends to be really, really healthy and less economically sensitive in nature given we're playing that aging demographic theme. So they tend to be very long term holds.

The Wentworth strategy I talked about with something like 100 Harris street, the period of hold for that property is probably going to be around four to five years max. So that's the typical hold period for some of the more value add strategies where we're investing in a property adding value, which means either redeveloping, repositioning the asset, new lease terms, looking at development approvals and things like that. Perhaps not actually developing it over time, but getting the approval in place and then selling it on to the next buyer. So typical whole period of sort of four to five years max on some of those assets. So a bit shorter.

Martyn McCathie

Are we allowed to delve into any more Wentworth examples?

Nick Kelly

Yeah, we can probably cover a couple at a high level, maybe just the one. One. So there's one, there's a Melbourne one. Can't talk about who the seller was, but it was another large listed reit. So this was an interesting one where by Wentworth were contacted by this group who said, look, we've got a apartment building in Melbourne. We have the site next door that we want to develop, but we cannot develop the site until we have sold all of the units in this current development, of which there's 60 left.

We would like to start building next door on this new site in the next four weeks before we report our results to the market. And so we need someone to buy these units quickly. Would you like an opportunity to acquire these residential apartments? You can have them at a 40% discount to market, but you can't tell anyone that we've done the deal and you can't sell any of them for 18 months and you've got three weeks to complete the deal.

And the team were offered this opportunity because they had some exceptionally close relationships with this organisation. Through some of the team, they then did their due diligence on the assets and acquired those units and they have started to sell those units and that will return a sort of two and a half to three times equity multiple and a

30% IRR. So that just gives you a sense of, once again a real estate owner selling assets for a reason other than property, other than it being poor property. It wasn't to do with the quality of the property, it was to do with other reasons that they needed to work through as a list of business to report to the market.

So it's an interesting dynamic to see groups looking to exit high quality, quality assets for other reasons and obviously this group being able to pick some of those up at pretty attractive prices.

Martyn McCathie

Thanks, Nick.

April Lewis

Great. Wow, what an opportunity. Nick, Bill has asked how well is the portfolio placed, whether trade wars and their aftermath and what buffering does it have?

Nick Kelly

Yeah, it's a good question. Look, it is really well protected. It is a portfolio that is almost primarily based in Australian assets with very little on the private equity side. There is only a very small number of the underlying businesses that have any offshore exposure or export goods into offshore markets. So extremely well protected from that front. I think importantly, it's the diversification within the portfolio across each of the asset classes.

And this is why we have a diversified portfolio. We don't just take a view on, we want to own this sector within private equity and that's it. That's when these sorts of broader geopolitical tensions can play havoc on a portfolio. So having that broad diversification is important, but the fact that we've got largely Australian assets with very, very limited exposure in particular into the U.S. market means we're fairly well protected from the current tensions we're seeing in markets.

April Lewis

Thanks, Nick. And you did touch on earlier about valuations, but Stan has asked specifically, is the share price discount influenced by retail investors who are not fully confident in the value ascribed to the unlisted assets?

Nick Kelly

Look, it's a really good question. I think there probably is. I think there is some of that and we've seen that across not just WMA but the other licks in the market that invest in alternative assets are trading at largely a discount, with the exception of some of the private debt exposures. In the market which I think plays to sort of that asset class and also the desire for investors to access high levels of income.

So I do think there's a bit of that and I think there's probably just a, an understanding of the assets and it's taking time. Obviously there's a piece of, you know, education here to

educate the investor base. Importantly, you know, we've had 15 exits on this portfolio since we took it on in 2020 from Blue Sky. And of those 15 exits they've averaged out at a 34% premium to NTA. And that obviously gives us a lot of comfort that the valuations are appropriate, that we have seen markups on exits of assets. So I think that that is important. But I do think market there is a, you know, this is still a relatively new asset class to lots of retail investors. It's not for, you know, larger institutional investors have been investing in this asset class for, for two to three decades. So it's a very different world in the institutional space. But I think in the, for a retail investor, you know, it's still early days for the asset class. I don't know Marty, if you wanted to add.

Martyn McCathie

I know, look, I, I don't. We, I guess you don't know if there is or there isn't, but I think if there is, there shouldn't be. Yes, I think, you know, as Nick said, we've got a, or to even take a step further back when we took the portfolio on the board were very pragmatic and on the front foot about our in relation to writing down assets and in some cases writing off assets and writing them down to zero.

So we have been very conservative in our valuation process. As Nick's already touched on. The investment partners that we have are institutional quality. Most parts have large institutional investors who are regulated by apra. So that additional level of oversight and governance as well as our own internal valuation policy that we go through on a semi annual basis. So with our track record of exit investments at or at a premium to carrying value, investors shouldn't be concerned about the validity of the integration year.

April Lewis

Thank you. Anthony has said that you don't have to be an institutional investor to access Palisades Pfit which invests into pdif. He says that a second manager that we can't access feeder structures would be handy for investors. Nick or Marty, do you have any comments on this?

Nick Kelly

Yeah, look, I think that's a fair point. The other strategy that they have, the Palestine impact one at that I believe can be accessed by Wholesaler retail investors. Importantly, the PDF, the fee that we pay to Palisade is well below that being accessed by wholesale investors in the market. But I think it's a fair point. We don't want, you know, the last thing we want is this portfolio to have 10 to 15 investment managers that have product that are available to you directly as shareholders.

Right. That is. That is our competitive advantage of going out and backing institutional quality groups. Obviously, over time, some of these investment managers will look to launch more product that is available to a broader investor base, including retail and

wholesale investors. But in these asset classes, we still see a number of managers that only offer product to institutional investors, which we are to them.

But yeah, I think it's a fair point and something we're absolutely conscious of when we're building the portfolio.

April Lewis

Thank you. Melville has asked about the new Fort Lake asset management team. Have you come across them and their team?

Nick Kelly

Yes. So I mean, to give you a sense, it's a good question. So we're aware of the group. I and the team spent about probably I've been here five months, I reckon three and a half the last three and a half months doing due diligence on this strategy. We looked at all the other strategies within investment grade credit in the Australian market to weigh them up, decided that that this group we thought were best in class to do our formal due diligence on.

So to give you a sense of it, it's probably upwards of sort of 200 hours of due diligence. And what does that look like? A lot of time with their team. A lot of time. So sitting in their office on screen, understanding how they trade investment grade credit, how they make money and the role of this treasury tool and how it would work for WMA Back testing the tool in our portfolio, undertaking quite a bit of quantitative modeling around that.

So a huge amount of due diligence and also reference with the number of groups that we know in the market is a really important part of that. And obviously over the last 20 years I've got relationships in the market with different participants, so we could go about that process and over time build our conviction in them and their ability to manage this capital on our behalf as a Treasury tool for WMA

April Lewis

Nick, Danny has written in and said that the discount NTA is being justified by the inability to exit when. When the manager wants. Firstly, can you clarify this comment? And secondly, do you give consideration to an exit strategy when it comes to potential investments and if so, how do you apply value to this?

Nick Kelly

Yeah, it's a good question. I think the question relates to exit of the underlying assets from the private equity managers and clearly we've seen an environment especially last year where exits were pretty muted and we saw this sort of existence of what's called continuation funds. So private equity managers sort of creating continuation funds, funds to hold on to assets for longer in some places they make complete sense. Healthcare Australia HCA as an example with Crescent is a continuation vehicle and

that made sense because it wasn't the right time to exit that business and it was still performing really well and has continued to perform really well within the continuation vehicle that we are invested in but that's not always the case and clearly looking at the incentives of the underlying managers and ensuring it's not just a grab for base management fees of holding onto assets is important.

What I would say is we have seen, I talked about the Linen Services example before which was an exit from Adamantem. We spoke to one of our investment partners yesterday and they're looking to exit one of their assets over the next six months. They've appointed an advisor which is an interesting one and that would yield a sort of two and a half times equity multiple on exit in sort of sub three year period. And also one of our other investment partners last week I spoke to and someone's come to them a trade buyer for one of our other portfolio assets. So I think we're starting to see, I think it was probably a fair comment through last year but we're starting to see more transaction activity in the market.

We've obviously seen the IPO market pick up. Everyone's been aware, you would be aware of the IPO of Virgin from Bain, Bain held that when one of their private capital funds. So seeing some of that come back is important. The IPO market is not to be clear is not the only exit route for private equity. It is one exit route but it is an important one. So seeing that market, market come back I think is a real positive for WMA but also our listed products that we've got as well but looking at trade buyers, other institutions, other large, you know, if we're coming in as a small to mid market growth private equity play selling to one of the larger buyout funds, we've seen that happen quite a bit and bolt on acquisitions as well. So there's lots of different exit routes and as one key thing that forms part of our due diligence on these opportunities with our managers is looking at what the exit routes are and ensuring it's not just one Exit route I. E. We're going to IPO this business in four years and that's all, you know, that's, that's the thing we're banking on.

We don't do those. Yeah, it has to have different levers in place for exit because who knows what the IPO market's going to look like in four years. So that's a really good, important part of our process.

Martyn McCathie

I think just to follow on there, Nick, I think when we took the portfolio on, as Nick said, obviously there was concentration by vintage year. We saw a lot of exits in the portfolio through FY21. We have been very mindful with Danny on the team and now Nick, we've been very mindful in diversifying the maturity profile and the vintage year diversification of the portfolio. And our expectations on a go forward basis is we get three to four, five exits per year.

So we don't expect the turnover of the underlying investment portfolio to be huge. It's three to five exits a year complemented with the income from those core defensive strategies which will generate our return. So it's that more consistent cadence is what we're looking for on a go forward basis and not large lumpy turnover which is what we had in 2020.

Nick Kelly

It's important, important point. Yeah.

April Lewis

Thank you. And Nick, Joseph has asked, what is your process when your team decides to invest in real estate?

Nick Kelly

So the process, obviously we look at the, I guess it's a mix of both top down and bottom up. And what I mean by that is top-down sort of sectors. So let's look at the real estate sectors. The core sectors are sort of office, retail and industrial. And then there's what's often referred to as the more alternative sectors, so healthcare, life sciences, student housing, those sorts of sectors. And then at the thematic and the drivers in each of those sectors. So there's that sort of top down work that, that occurs and then there's the bottom up work to look at who are the investment partners that we want to partner with and where their skill set is.

So an example of Barwin, for example, who's our investment partner in healthcare real estate. Tom, who runs that, is in my opinion the best healthcare real estate investor in the country. He, you know, speaks as if he's a doctor. Right. Like he understands the healthcare sector exceptionally well, comes from a family of doctors and so just understands that space really well. And I think that's, that's the most important thing is ensuring that the partners we partner with have the skill set in the sector they're playing in and ensuring the two things line up right. Because we might find an investment partner that is exceptionally skilled at say investing into retail and shopping centers.

But we might not think that the opportunity set is right. So it's getting the opportunity set, the top down piece to be ripe enough, along with a skilled investment partner, partner that we know that we like, that has a solid track record and is well aligned, that can deliver for us and add value. So it's a combination of both that top down and the bottom up that's going to deliver value.

April Lewis

Thanks, Nick. And Mehdi has asked Marty, do you see any capacity to increase the dividend over the coming years?

Martyn McCathie

Yeah, thank you for the question. Look again, it is a board decision. I can't speak on

behalf of, of the board. What I would say is we have increased the dividend year on year and we do have that three years profit reserve in the profit reserve, which gives the board comfort around the sustainability of the dividend and a lever to increase the dividend if they wanted to. I think looking at where the yield is at, we're yielding gross stock for Frank and close to 8% based on the current share price.

So it is quite a healthy yield already, kind of that 8% grossed up for franking. But there is room for growth either as the NTA grows or as the share price tracks closer to nta. There is room for dividend growth which obviously based on your cost price, there's further upside for investors who do invest at a discount. So again, board decision, but we've got a much stronger platform than we did four and a half, five years ago ago when we took over the company.

Nick Kelly

Great.

April Lewis

And Nick, Murray has asked, given your positive outlook on water rights, would WMA be decreasing its allocation? Sorry, why would WMA be decreasing its allocation to the portfolio?

Yeah, look, it's a fair point. It's more around just getting it to a weight that we're comfortable with. Clearly there's no guarantee around, around what we're seeing in water. We do think, as I said, that the outlook for water is a lot more positive than it's been. But we don't want the sole driver of this portfolio, frankly to be rainfall. And so it's just important that it's an appropriate weight.

It'll be around that 10 to 15% and we're comfortable there. Obviously if it does return really well, you'll see that weight increase over time. And what we'll probably do is take some profits off the table as that happens to bring it back to a weight that we're comfortable with over the long term. Yeah.

Martyn McCathie

And I think, you know, for Murray's just for a bit of context there, you know, the weighting to water rights was 40% when we took over the portfolio. So obviously when we're in a very dry market that was yielding exceptionally well. When it was kind of call it 700, 750 bucks a megalitre, we're getting great yield from that. And as we've had a plentiful rainfall period that really dried up and the risk in the portfolio was just too large, which is, as Nick said, the reason for diversificating the the portfolio.

Nick Kelly

Yep.

April Lewis

Thank you. And Nick, David has asked what are the possible negative impacts of the

decline of the U.S. economy and U.S. dollar on your investment partners and their underlying assets and what is your plan to deal with that?

Nick Kelly

Yeah, so I guess linked to that, that question before around the trade wars and geopolitical risks. So there is very little exposure that we've got to the U.S. market through this portfolio. There is very small number of underlying portfolio companies held by our private equity managers that export goods to the will face implications from the tariffs. So the impact on this portfolio is very, very low.

There is legacy venture capital investment that is priced in US dollars that's actually done well because the Aussie we then obviously revert that back to Aussie dollars and the Aussie dollar is stronger. So that's a net benefit. But the overall impact of the broader U.S. economy on this portfolio is pretty negligible.

April Lewis

Thank you. And Bruce has asked, are your investments constrained by avoiding overlap with other WAM funds?

Nick Kelly

I wouldn't say they're constrained. I mean in many ways the other WAM funds are largely listed equity products. Obviously WMX is a combination of equities and investment grade credit. There are a lot of asset classes outside of equities and investment grade credit and number of which WMA invests into. There are lots of other alternative assets that we don't invest in within WMA. So think especially in the more liquid alternative space. So hedge funds as an example commodities such as gold we don't hold within the portfolio.

We could but I think the view being that this was more, you know, this was set up and designed as a more a private markets portfolio. And I think that's why what the investors want to see from us, obviously the hedge fund space is can be pretty challenging. It's obviously quite high fees and performance is, you know, can be good for some of the high quality managers. But on balance it can be challenging. So we think that this portfolio across the asset classes we've got is exceptionally well diversified. There is possibilities to do more, but we're pretty comfortable with where it is and there's nothing thing, you know, we're not constrained by, by the other products that we, that we run.

April Lewis

Thanks, Nick. And Marty. Angus has asked how does WMA accrue franking credits?

Martyn McCathie

Yeah, and look, it's a good question because it is slightly different for WMA versus our broader LIC product range. Obviously with the other lics we've got listed products we will receive fully frank dividends along the way to varying degrees and, but within the

WMA portfolio we don't receive fully franked dividends, obviously. So our ability to generate franking is solely based on our ability to pay tax.

So we need to generate profits on those profits. As an Australian corporation, we pay tax and that generates franking credits that we can then distribute through to our investor base the profit reserve. At the moment, I think we're sitting, obviously we said three years of profit reserve, half that, it's about half that in franking credit. So we do have good foresight in relation to not only the ability to maintain the dividend but also to maintain the franking component for that dividend.

And hopefully as investment portfolio performance ticks up, as Nick says, that'll generate increased tax liability which generates franken that we can pass through to our investor base.

April Lewis

Thanks, Marty. And the next question comes from Diane and I suppose it's for both of you in your conversations with shareholders, what is the general sentiment like towards the upcoming vote?

Nick Kelly

Yeah, so maybe I'll, I'll take this one first and Marty can add. Yes, I've done some, some calls recently with a number of shareholders and I must say that the sentiment's been quite positive. And I think this speaks to Marty talked about the evolution in the shareholders shareholder register for WMA and it's taken time for that to happen and for investors to understand what we invest in within the portfolio, importantly the role of WMA within their broader investment portfolio. And so the sentiment from most investors that I've spoken to is we like the portfolio. This adds to my overall investment portfolio that I've got and often the question back to me is what's the plan? What's happening with this vote? Like, you know, this, this very question that we've been asked. But I must say the sentiment has been very positive and then that gives me confidence, as I said, that we will get through this vote at the end of the year.

But as Marty alluded to, it does probably the vote probably holds back some of the new buying, especially from the larger advisor groups. But I don't know Marty, if you've got thoughts on the conversations you've had.

Martyn McCathie

No, I think if you look at the financial advisor market and broker market, it's broadly 40% of the register. There's one financial advisor who's a large portion, kind of 15, 16% of the portfolio for them. And obviously we're very engaged with them and we've spoke to them about the vote at length for them. You know, their indication thus far has been that they're very supportive of the vehicle in a continuing form.

And we believe that if the vote was happening tomorrow, they would vote against the wind up and for the continuation of the company. We would like all investors to vote and as Nick said, it has been overwhelmingly positive. If anyone's got any questions, we're happy to talk through the mechanics and how it works, but for us it's been very, very positive.

April Lewis

Yep, great. And Anthony has asked regarding the NTA and current on market price given liquidation would as stated, take some five years to complete. So is the stated NTA more like a future value estimate?

Nick Kelly

No, it's the value today. But it's obviously to exit these assets. There's a sales campaign that would need to take place. So it is the value today of the underlying assets. The other challenge with that time frame is obviously with the private equity commitments we've made. As we talked about, we've got cash balance of sort of 20, close to 23%. 20% of that cash has been committed to private equity strategies.

Now what do we mean by that? We mean we've made formal, legally binding commitments to private equity managers that will come to us and ask for that capital over time. And we have to make good on that. We cannot renege on that. Okay. And that is probably the biggest challenge to the wind up is that if we're forced to that we'd have to continue to make good on those commitments over time. They will then use the funds to buy assets, add value to those assets and then obviously exit those assets. But that's probably the biggest challenge.

Clearly the liquidity profile, the vehicles different across each of the underlying sectors. Water as an example is liquid. Is liquid. Another pun for Marty. There you go. Is the most liquid one and then it sort of gets less liquid from there. So it isn't a future value. It is the value today. It's more the time it would take to Then exit the underlying assets and in particular the committed cash into private equity that is being committed to vehicles closer to sort of eight to 10 years. So on back balance, we think sort of five years is probably the time frame for exit.

April Lewis

Thank you. And Murray has asked, are there other or new alternative sectors that you're looking at investing in? And is gold an asset that you look at?

Nick Kelly

So we're not currently looking at gold. It's an interesting one. We do have. I mean, you know, there's lots of reasons to hold gold. You know, we do have asset classes like infrastructure that provide what we need in terms of inflation protection that you tend to get from an asset like gold and scarcity of value. So we. The monopolistic nature of, say, infrastructure, I think is probably a better asset class.

It tends to be as well. With gold, obviously it's had an exceptionally good run of late, but it's quite binary too. Okay. So I think it's important to have a more diversified portfolio. But we could look at it. There's nothing stopping us. But it's not something we're currently looking at other asset classes. I mean, it's sort of interesting if you look at the portfolio today, sectors like life science in real estate, not a sector that we probably would have looked at three or four years ago because it didn't really exist. Right. So there are sectors that are evolving and continue to evolve within private markets. And so that we talk about, the opportunity set, it's broad and it continues to broaden as some of these sectors continue to deepen in the market. And the same with healthcare real estate as well.

When I first backed that back in 2016, that was a very small sector. Most participants in the market said it's too small, it won't become institutional enough. And now we've got sort of three or four large institutions, institutional managers in the market with healthcare real estate portfolios. So we've continued to see that grow. So the opportunity set continues to expand. And if it fits the mandate, and we think there are strong tailwinds behind a sector, and importantly, we find the right investment partner.

Absolutely. We'll look at new sectors over time.

Martyn McCathie

And maybe just on the inverse to that question, any sectors that you wouldn't look at, obviously you've mentioned hedge funds as being one that probably doesn't look challenging, but too much equity market leader, potentially venture capital.

Nick Kelly

Venture. Yeah. So it's a good point, Marty. So venture we do have in the portfolio that's a legacy investment that we took on from Blue sky. And we're very unlikely to do venture capital in the future. Venture is a difficult space, much like gold. You tend to have quite binary outcomes. I think if you're going to do venture capital, it needs to be a much larger proportion of the portfolio and really you want to have a more global exposure and tap into, into the deep venture market in the U.S. in particular.

And the other, probably the big challenge for venture is within the context of the listed investment company structure is that the time frame of when you commit capital to actually getting an exit back from the underlying managers is exceptionally long. It can be upwards of 10 years. And that's difficult when we are promising to pay a strong income yield to investors. And so that time frame is sort of not well aligned, in my opinion, to the leak structure.

And agriculture is probably the other space that it's been a bit more challenging. I think if you're going to do agri, you want a more globally diversified portfolio to diversify against weather patterns. And so agri is probably the other one we've got in the portfolio. Once again, a legacy exposure. So that will be coming back over the next 12 months.

April Lewis

Thank you. And you've already answered the second half of Jill's question, but the first half was about wind farms, if you could touch on that. Do you invest in wind farms?

Nick Kelly

We do invest in wind farms. So we have quite a bit of renewable exposure, both wind and solar, through, through Palisade. So we could come back to you on the specifics of the wind exposure, but the renewable exposure in the portfolio would be close to 6 to 7%. So about half of that Palisade exposure is in renewable energy.

April Lewis

Thank you. And then the last question comes from Mari. What is your current cash weighting? I think you touched on it earlier being 10 to 15%. And when will it be fully deployed?

Nick Kelly

So the current cash in the portfolio is 23. 20% of that has been committed to strategies that will get deployed over time. The challenge we've got is so that capital will be deployed over the next sort of three to four years, most of it hopefully in the next two years. The challenge is, and I raised this before, is that on the other side we will have exits, we'll have cash coming back. Okay. And so this is why we needed to put in place this treasury tool with Fort Lake to manage the cash, because we will always have a cash balance and that cash balance will range over time between sort of 10 to 15% is our expectation, looking at our cash flow model. But it is something we're always going to have cash on hand just given the nature of the strategy.

But the cash that has been committed today, most of that will be called over the next two to three years.

April Lewis

Thanks, Nick and Marty, and thank you, everyone, for asking all your questions. I'll hand back to Nick to close.

Nick Kelly

Wonderful. Well, look, thank you all for joining us today and thank you for all the great questions. We weren't sure how long this would run for, but I think we got some really good questions. Questions and hopefully made use of everyone's time. So I really appreciate your support and I guess, personally thank you for welcoming me on board sort of five months into the role and really enjoying it and being a steward of your capital.

So thank you again for joining us.

Martyn McCathie

Thanks.

Nick Kelly

Thank you.