

Chairman's update

Geoff Wilson AO



- 10.4%[^] investment portfolio outperformance in FY2020
- 3.25c per share fully franked final dividend, 15.0% increase
- 10.2%[^] per annum investment portfolio performance since inception

The investment team's performance was admirable in an extremely challenging 12-month period for equity markets. The WAM Leaders investment portfolio outperformed the S&P/ASX 200 Accumulation Index by 10.4%[^] in FY2020, contributing to a 15.0% increase in the fully franked full year dividend. The investment portfolio increased 2.7%[^] in FY2020, while the S&P/ASX 200 Accumulation Index fell 7.7%[^]. This outperformance was achieved with an average 90.9% invested in equities and with less volatility than the market, as measured by standard deviation. Since inception in May 2016, the WAM Leaders investment portfolio has increased 10.2%[^] per annum, outperforming the Index by 3.7%[^] per annum.

The Board of Directors have declared a fully franked final dividend of 3.25 cents per share, bringing the full year dividend to 6.5 cents per share, representing a 15.0% increase on the FY2019 full year dividend and a fully franked dividend yield of 6.2%[^]. Since inception in May 2016, WAM Leaders has paid 16.9 cents per share in fully franked dividends to shareholders.

The increased fully franked dividend has been achieved through the performance of the investment portfolio during the 12-month period, and the profits reserve available, and is consistent with the Company's investment objective of delivering investors a stream of fully franked dividends.

WAM Leaders reported an operating loss before tax of \$1.2 million for the year and an operating profit after tax of \$5.3 million. The after tax figure was boosted by a \$6.5 million income tax benefit, primarily delivered through franking credits received on franked dividend income from

investee companies and the tax benefit on the operating loss for the period.

The operating loss for 2020 is reflective of the performance of the investment portfolio, after management and performance fees and other company related expenses for the year. The Company's assets recovered to \$943.9 million after falling to \$816.5 million in March, representing significant growth on the \$394.3 million raised following its initial public offering in May 2016.

In response to market opportunities and shareholder demand, the Board of Directors have announced a Share Purchase Plan (SPP). The SPP entitles existing shareholders to increase their interest in the Company by up to \$30,000 of additional shares. These shares will be entitled to receive the increased fully franked final dividend of 3.25 cents per share^{**}. The Issue Price for each SPP Share is expected to be \$1.1711, the Company's 31 July 2020 net tangible assets per share and may be adjusted if required to comply with the ASIC Corporations (Share and Interest Purchase Plans) Instrument 2019/547 and ASX Listing Rules. The SPP will close on 22 September 2020.

We would like to thank all WAM Leaders shareholders for your continued support of the Company during the 2020 financial year and hope you are safe and well as we live through the dramatic changes brought about by the coronavirus pandemic. We look forward to providing you with further updates in our next instalment of WAM Vault in November.

[^]Investment portfolio performance and Index returns are before expenses, fees and taxes.

^{*}Based on the 30 June 2020 share price of \$1.055 per share.

^{**}Assumes shares issued under the SPP are held on the dividend record date of Tuesday, 20 October 2020.

Fully franked full year dividend increase

+15.0%

Fully franked full year dividend

6.5c

Fully franked dividend yield*

6.2%

Fully franked final dividend

The Board declared a fully franked final dividend of 3.25 cents per share, representing a 15.0% increase on the fully franked full year dividend. The DRP will operate without a discount for the final dividend.

Since inception in May 2016, WAM Leaders has paid 16.9 cents per share in fully franked dividends to shareholders.

Key dividend dates

Ex dividend date	19 October 2020
Record date	20 October 2020
Last election date for DRP	22 October 2020
Payment date	30 October 2020

The Board is committed to paying a stream of fully franked dividends to shareholders, provided the Company has sufficient profits reserves and franking credits, and it is within prudent business practices.

The Company's ability to generate franking credits is dependent upon the receipt of franked dividends from investments and the payment of tax on profits.

The Company has a profits reserve of 16.2 cents per share as at 31 July 2020, before the payment of the fully franked final dividend of 3.25 cents per share, representing 2.5 years dividend coverage.



Lead Portfolio Manager's update

Matthew Haupt

We were highly active in taking advantage of the opportunities inherent in the market volatility in FY2020, delivering strong investment portfolio outperformance.

The 2019 September quarter was marked by an escalation of trade war rhetoric followed by a de-escalation; central banks continued their accommodative stance and commenced the sprint to the bottom; geopolitical tensions flared up, highlighted by the volatility in gold and oil prices; global economic data weakened for the most part; and global markets moved on headlines rather than fundamentals.

The December quarter began slowly in October with a continuation of soft economic data. The global slowdown was a function of poor economic demand, escalation of the trade wars and weak business and consumer confidence. Weak inflation gave central banks scope to cut interest rates further to record lows.

As the coronavirus spread in February, we acted swiftly to remove companies with cyclical and indebtedness, including consumer discretionary, real estate, financials and infrastructure holdings. The unprecedented crash into bear markets globally was followed by unprecedented monetary and fiscal support measures. We invested in consumer staples, including Woolworths Group (ASX: WOW) and Coles Group (ASX: COL), who were clear beneficiaries of the lockdown. The focus in early April was identifying companies sensitive to the Australian economy. In particular, the major banks traded at valuations lower than during the global financial crisis before rallying strongly in the final quarter.

Following global macroeconomic trends, we were positive on iron ore consumption from China as the economy showed signs of improving and supply disruptions continued in Brazil. We maintained overweight positions in BHP Group (ASX: BHP), Rio Tinto (ASX: RIO) and Fortescue Metals Group (ASX: FMG) in the June quarter. In Latin America, the spread of coronavirus saw copper production slow, resulting in approximately 15% of world production coming offline. We increased exposure to base metals, such as copper, based on our positive outlook for the global economy over the medium term, with the copper price starting to recover on signs the economy could rebound to near historic levels.

We continue to employ our proven investment process in the 2021 financial year, focusing on identifying large-cap companies with compelling fundamentals, a robust macroeconomic thematic and a catalyst.

Investment portfolio performance

as at 30 June 2020

	6 mths	1 yr	3 yrs %pa	Since inception %pa (May-16)
WLE Investment Portfolio	-3.7%	2.7%	10.3%	10.2%
S&P/ASX 200 Accumulation Index	-10.4%	-7.7%	5.2%	6.5%
Outperformance	+6.7%	+10.4%	+5.1%	+3.7%

Investment portfolio performance and Index returns are before expenses, fees and taxes.

Top 30 holdings with portfolio weightings

as at 30 June 2020

Code	Company	%
NAB	National Australia Bank Limited	7.5%
CSL	CSL Limited	6.5%
BHP	BHP Group Limited	6.2%
QBE	QBE Insurance Group Limited	3.8%
WBC	Westpac Banking Corporation	3.7%
CBA	Commonwealth Bank of Australia	3.5%
STO	Santos Limited	3.3%
WOW	Woolworths Group Limited	2.7%
WES	Wesfarmers Limited	2.6%
ANZ	Australia and New Zealand Banking Group Limited	2.5%
TLS	Telstra Corporation Limited	2.5%
RIO	Rio Tinto Limited	2.4%
SGR	The Star Entertainment Group Limited	2.4%
DOW	Downer EDI Limited	2.3%
TCL	Transurban Group	2.2%
NCM	Newcrest Mining Limited	2.2%
GMG	Goodman Group	2.0%
SCG	Scentre Group	2.0%
OZL	OZ Minerals Limited	2.0%
RHC	Ramsay Health Care Limited	1.8%
FMG	Fortescue Metals Group Limited	1.8%
WSA	Western Areas Limited	1.7%
LLC	Lendlease Group	1.7%
AWC	Alumina Limited	1.7%
AMC	Arcor PLC	1.6%
MQG	Macquarie Group Limited	1.5%
QAN	Qantas Airways Limited	1.3%
SHL	Sonic Healthcare Limited	1.2%
ALD	Ampol Limited	1.0%
S32	South32 Limited	1.0%