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WAM Leaders FY2021 Interim Results Webinar
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Geoff Wilson: Good morning and welcome. My name is Geoff Wilson and I am the Chairman and Chief Investment Officer of Wilson Asset Management, and Chairman of WAM Leaders. Thank you all for joining us today. This is a WAM Leaders (ASX: WLE) presentation and we are here because of you, the shareholders who own the company, allowing us to do what we are very passionate about doing, and that's managing money on your behalf. Now, we have a great line-up today. We have the brains behind the exceptional performance that WAM Leaders has given since inception. If you look at the WAM Leaders portfolio over the nearly five years that it's been listed, in terms of outeperformance of the market and the margin it has outperformed the market, it is 47% above what the market has returned over that period of time. The outperformance since inception is a little over 4% and the market has done in the high eights in terms of percentage performance.

We have the team that's achieved the outperformance here today, led by Matt Haupt, Johnny Ayoub and Anna Milne. They will take you through how they see the year ahead and they'll give you some investment ideas, stocks that we are very keen on at the moment. Ths is a shareholder call and we are reporting to you for the first six months of the financial year to December 2020. If you look at the profit that's been achieved over that period, $149 million, that's really the strong performance of the underlying portfolio, which is up a little over 17%. Again, over that period, outperformance of the market, which was really a solid achievement particularly coming off the back of last financial year where the portfolio performed exceptionally well in terms of outperforming the market.

In terms of rewarding shareholders, shareholders had the opportunity to participate in the Share Purchase Plan (SPP) in the latter half of last year. Thank you to everyone who did participate and thank you for that support over that period of time. It was finely pitched, and we were raising the money at net tangible asset (NTA), which we think is the right price. Everyone who put their money in just a little over $1.17 has benefited from the performance of underlying portfolio, the share price moving to a slight premium to NTA, and we think that premium will only increase over time as the continued fully franked dividends are delivered to shareholders and the underlying portfolio continues to perform.

In terms of fully franked dividends, you will see earlier this morning we just confirmed it with an announcement the details of the interim result. We forecasted the 3.5 cents per share dividend which is for the half, so you would assume 7 cents for the full year. On yesterday's share price it was giving you a 5% fully franked return, and that's a better return than you are getting from the overall market. Remember this is 100% franked. And if you get exposure to the overall market I think the average is about 77% franked, the market yield. The actual total shareholder return over that six month period was a lot better than the investment portfolio because WAM Leaders was trading at a discount six months ago, and now it's gone to a slight premium. Shareholders received the benefit of that over that period and the actual total shareholder return over that six month period was 32%, which is a very solid result.

In terms of paying future dividends, our ability to pay them is a function of the profit we make, but also any tax we pay or dividends we receive to give us franking. It's a combination of the profit we make and our ability to frank those dividends. We have a little under 25 cents in the profit reserve, and that's three and a half years. Effectively, to keep paying the same dividend, assuming over the next three and a half years that we actually don't make any more money, then that dividend can be maintained at that level. And obviously that's not our expectation. I will now pass onto Matt, and he'll take you through the next part of the presentation. Thank you.

Matthew Haupt: Thanks Geoff and good morning to all the WAM Leaders shareholders joining us on the call this morning. I thought first of all, we will talk about the last six months and then we will share our thoughts for the year ahead. Last year can be categorised as a year of extraordinary events: a global pandemic leading to an extraordinary economic shock, and then extraordinary response by monetary and fiscal policy reaction. For us, we looked at the framework. When we look at the share market we are looking at the frameworks, or what are the rules of engagement at that point in time, and we quickly saw the reaction from central banks and governments that they would be doing whatever it took to get this recovery or asset prices stabilised. The moment we saw that we became fully invested through that March-April period. With the framework in mind of low interest rates, credit spreads really tight, we were able to invest in a few thematics and a few places in the market.

The strongest thematic that we played was through iron ore, which is really a play on China. What China does, is when they get in trouble, they really pull the lever domestically and that is through property and infrastructure. When we saw this happen, we were watching the credit data monthly and it was bleeding by a large amount. We were very confident on the iron position, and we took this position through companies like Fortescue Metals Group (ASX: FMG), Rio Tinto (ASX: TIO) and BHP Group (ASX: BHP). And through crisis, you always get amazing opportunities.

We were seeing companies and running screens on companies through various metrics and generating files, and companies that came up through that period were the things like GAR Group (CVE: GAR.H), and Stockland (ASX: SGP). Some of these companies were trading at levels not seen since 1991 and some were well below their net tangible assets. You get tremendous opportunities throughout those periods.

Towards the back half of the year in 2020, there was really a change in the framework, or the fundamentals. We were positioned ahead of this, so in our October quarter, we were slightly ahead of the market, but we were positioned for this transition in framework, and that's what I'm calling this year of 2021 a year of transitions. We will transition away from the fiscal and monetary strong positive impulses. We will transition away from free money and tight credit spread. So it's going to be a rough journey, but we are still quite positive on the equity markets, and the reason is equity markets are driven by financial conditions, whether they are loose or they are tight, and we are still in historically loose conditions. So all in all, 2021 should be a positive year for equities. But it will be a year of transitions, and the transitions, like I touched on, are around interest rates and spreads as we return back to normal.

The way we are positioned for this is through stocks and sectors like financials, energy and a few of those more cyclical names as we return to a more normal environment. But all in all, really constructive. Our cash levels are around 2% in the portfolio. We are seeing lots of opportunities, and we remain confident we are on a recovery path, and we are trying to invest in this new framework.

I'd just like to take this opportunity to introduce the new member of our team as well, Anna Milne who's sitting next to me. Anna joins us from some really high rated investment banks and analysts she worked under. She worked at Credit Suisse under the number one insurance ranked analyst and also a UBS Healthcare analyst who is also number one rated. So Anna, it's a pleasure to have you on the team and we are really excited about the opportunity going forward too.

Anna Milne: Thanks Matt. It's good to be here and I'm not only excited about the opportunity, but more importantly honoured with the responsibility in assisting you and John and managing our shareholders capital. So thank you so much.

Matthew Haupt: It's great. Great to have some more resources on board too and utilise that going forward as well.

Geoff Wilson: That's right. And particularly, getting females on the team, who we are know are better investors than males. To me, one of the most bizarre things is all the analysis shows that females are better investors, but the majority of fund managers are males. It's crazy. It's great to have you. And we are expecting big things from you Anna. From the Board's perspective, and I'm sure all the shareholders' perspectives, we are expecting big things from you. Thank you. In terms of just looking forward, Johnny, do you want to cover off what we are looking at over the next six months?

John Ayoub: Thanks Geoff and thanks Matt and welcome Anna. From a portfolio positioning standpoint, we have long spoken about having a balanced approach. Given where we are in the market at the moment, we are more confident that we are at an inflection point which has led us to be more fully invested and also more concentrated in the sectors and segments of the market that we have focused on today. In the past you would have heard us talk about sectors like gold, defensives such as Coles (ASX: COL), Woolworths (ASX: COL), some of the bond proxies like Transurban (ASX: TCL) and Sydney Airport (ASX: SYD) as defence mechanisms in our portfolio. Where we find ourselves today, is we have certainly pivoted away from those stocks and we have taken more cyclical, more financial and more commodity bets, more growth commodity bets for the outlook for the next six to 12 months.

We see that the next two to three years, we are going to see some serious earnings per share (EPS) growth from cyclical stocks, particularly financials where credit conditions remain favourable and cost discipline remains very much a focus of the domestic banks. I will leave the banks for the moment because I'm sure we will touch on those during Q&A. Some sectors that we really like at the moment, a stock that we have spoken about before is Scentre Group (ASX: SCG), where we are still buying that at a 30-40% discount to NTA. And people are forgetting that once we return to normal, and we will return to normal, people will visit shopping centres again. What we are seeing from traffic data in places like Western Australia, that not only do people return to shopping centres they return more so than previously.

Another interesting element that we have been focusing on is global property investor Blackstone (NYSE: BX). What we have seen them do is actually divest assets which are on much higher multiples in the logistics space and start focusing on buying high quality, tier one retail malls in countries like Korea and in China where online penetration is much higher than Australia. When people talk about structural risk, we are cautious of structural risk but what we see is that there will be a focus on these top tier assets such as the ones that Scentre Group have and what we think is that Scentre Group is significantly undervalued. Their cash collection, their rank collection, they're linked to inflation, all these elements bode really well for a re-rating of this stock for the next six to 12 months.

For other sectors and other stocks that we like, we remain favourable towards commodities. We have been on iron ore for a very long time but what we have been doing is rotating away from iron ore names and starting to put some growth commodities within the portfolio. And one such stock that we like and we added some time towards the middle of last year and we are continuing to increase our weighting is Independence Group (ASX: IGO). Independence Group is pivoting towards becoming the clean energy commodity stock in the ASX. It has recently purchased, and will complete on this transaction in June, an asset in Western Australian called Greenbushes which is one of the highest quality hard rock lithium assets in the world. It also has nickel which obviously is in short supply globally but its exploration programme is certainly geared towards nickel. And it is also looking towards its exploration programme in copper. It is undertaking a divestment of its gold assets in Tropicana. As we start looking forward, the company will be certainly cashed up with a great exploration programme with some tier one assets linked to take advantage of the global push for clean technology, so in EDs and the like. We are really positive around IGO.

Other sectors that we remain positive on are oil and gas. Now oil and gas suffered materially, and what we saw over the last 12 months we will probably never see again with negative oil prices. But what we have seen is the Organization of the Petroleum Exporting Countries (OPEC) cartel really hold hands and their economies are really linked to the wellbeing of oil. So the amount of capital expenditure that has gone towards the oil and gas space globally has fallen off a cliff. That will take some significant time for it catch up. And with that backdrop, we think as demand returns, as air travel returns, as people continue to drive from place to place, we think Santos (ASX: STO), Woodside (ASX: WPL) and Oil Search (ASX: OSH), all three are going to be well positioned to capitalise on the continuing rebound in oil prices. Of those, our preferred play is Santos given the cost discipline that Kevin Gallagher and his team have instilled in that business. The one that has the most leverage and we continue to watch is Oil Search, given its exposure to Papua New Guinea and some of the political risks and the political risk abatement that's taking place in those markets.

A couple of healthcare names we continue to like are Ramsay Healhcare (ASX: RHC) and Sonic Healhcare (ASX: SHO). Sonic is a coronavirus beneficiary but equally given the balance sheet strength it will enjoy from the coronavirus tests it has been undertaking, we see the company as a significant player in mergers and acquisitions (M&A) going forward and it should grow via acquisition. We continue to like Sonic and Ramsay Health Care. As we all start to return to elective surgeries, their balance sheets are really robust and we can see good organic growth coming through over the next three years. So that's basically the way that we constructed the portfolio going forward. We are very positive towards cyclicals, financials and growth commodities. And with that I will pass back to Geoff.

Geoff Wilson: Great, thanks John. You mentioned you positioned into financials and you talked about the banks. What is your view on the bank sector? Over the period that WAM Leaders has been operating, at various points in time you've had no exposure to banks, you've been significantly overweight to banks, you've been underweight to banks. To me, one of the great things about WAM Leaders is you have a team that isn't looking at the top end of the market. And it's not like most fund managers that are up in that top end. They don't really make big calls. Do you want talk about your view on the banks and how you'd be positioned in those banks?

Matthew Haupt: Sure I will touch on that Geoff. You are right. In the WAM Leaders portfolio we can really swing around in the banks and you've seen that quite a lot over the history. We are very positive on the Australian banks at the moment. The reason why is they think they over-provided during the pandemic. They set all their provisions back in March of last year at the depths of the pandemic. As we have seen, economic growth has been upgraded maybe three or four times post that. When we discussed this with the banks, their outlook is improving as well through their own economists. So you will see a natural unwind of these provisions. Their capital positions are over-capitalised, so you will see capital management this year, either through higher dividends or buybacks. Also, the real key now is their net interest margins. We are of the opinion that the Reserve Bank of Australia (RBA) will walk away from their three year yield curve control, which has set the three year rate at ten basis points. If the RBA walk away from this, which we think they will in June, all of a sudden you will start to get positive tailwinds on their replicating portfolios. So in our book, everything is moving in favour of those financial companies. They have got many tailwinds which will start happening around April, May and June of this year. They still have some slight negatives but I think the market will start looking through this now.

I think Commonwealth Bank of Australia (ASX: CBA) can do a really big off market buyback. It has about 2.5 billion of franking it can return to shareholders. I think this will be done later in the year. I think National Australia Bank (ASX: NAB) will do an on market buyback. It has the capacity. Westpac (ASX: WBC) is probably in the lightest capital position but even it will be in a fairly strong position by the end of the year once it gets through all of the remediation. We are very much positive on the sector. We are overweight, about 450 basis point overweight those four banks. We are around 10% overweight on the financial sector when you look at the ASX200 benchmark. All in all, very constructive on this sector. And I think you will see a lot of capital flow back to these companies.

Geoff Wilson: Matt, congratulations being quoted on the front page of the Australian Financial Review, under the article *RBA to set off raging bull markets*. Can you talk a little bit about that?

Matthew Haupt: Thanks Geoff. Back in November, I made a similar quote around quantitative easing (QE). The RBA are so fixated on the Australian dollar. Back in November, they launched this QE announcement to try and supress the Australian dollar. That time it worked for about five minutes and then Australian dollar rallied post that, because what they are doing is stimulating right at the end of a recovery. They're doing QE when Australia was actually accelerating out of this. And now they are extending QE when the vaccines are rolled out globally. There is too much liquidity in the Australian economy anyway. You can see this in the RBA exchange settlements accounts with the banks. The 30 day rate banks borrow on is negative to the overnight rate. So there's an indifference on time horizon because there's too much liquidity. So the RBA are launching QE, taking longer duration, and putting it to cash at totally the wrong time. This should have been done in March of last year. And they're really fixated on the Australian dollar. Again, they made comments. So they're really trying, in my view and our view, trying to target the Aussie dollar by a very indirect method of QEs and interest rates. I think they're missing the mark and I think they're promoting the ingredients for an overheated economy in my view.

Geoff Wilson: In theory by focusing on trying to drop the Aussie dollar, which in theory would be stimulatory to the economy, they're pumping liquidity in when we have got enough, and we are recovering so they'll end up creating a problem somehow.

Matthew Haupt: Well you can already see the ingredients when they hike into this and cause the next crash.

Geoff Wilson: Yeah.

Matthew Haupt: Central banks always go late and go hard. So you can already see the ingredients. They are laying down the ingredients for a crash later on. It might be two or three years way. But they want heat, and then they will start hiking into this. I'm just a bit sceptical of the timing of this. In March of last year it made 100% sense but right here right now, it just feels like you are targeting the wrong thing.

Geoff Wilson: But the great thing is, all it does is provide opportunities, doesn't it?

Matthew Haupt: The great thing is hard assets, go and buy a boat, buy a house.

Geoff Wilson: Maybe not a boat. I always understood cars and boats are depreciating assets. We don't want them.

Matthew Haupt: Maybe not a boat, just assets. Maybe a house.

Geoff Wilson: Okay Matt, thanks for that. And thanks for your thoughts everyone. I will pass over to Head of our Corporate Affairs, James McNamara. James has been fielding the questions that people have sent in beforehand. Anyone who wants to ask a question, ask now. And later on, the people that are on the phone will get to ask some questions. Thanks.

James McNamara: Thanks very much Geoff. First question is for Matt and John and it's from Mary. Excellent numbers for the half year, well done and thank you. What were some of the positions that didn't play out?

Geoff Wilson: Oh the failures hey.

Matthew Haupt: The failures.

John Ayoub: I can start there if you want Matt.

Matthew Haupt: You kick off. I'm sure I will come up with another one.

John Ayoub: One that sticks in my mind is Western Areas (ASX: WSA). Coming into the last day of October, the company came out with its quarterly result and we got a little fixated with some of its exploration assets and potential exploration results that were going to come through. We dropped the ball and did not really focus on the current production outlook. What we saw was a production downgrade, a costs blowout and it sent the share price down 25-26% on the day, which was a nice way to finish the quarter. And subsequently, the company also downgraded the last quarter as well. But fortunately it led to an opportunity. We rotated out of Western Areas at the time and put money into Independence Group and that was rather timely from that perspective because we got in just before they acquired Greenbushes. So that's probably one that sticks out. And the other one that probably sticks out is more around the tech sector. Given a lot of the dislocation that took place between March and May we bought a lot of quality companies at discounts to book value. But we probably ignored somewhat to our peril stocks like WiseTech (ASX: WTC) and the like. We just didn't participate in buying any of those things that have been up a hell of a lot. So we did buy some REA Group (ASX: REA), but given the re-rating that the tech sector has certainly had since the depths of March, it's probably something that we have missed out on and on reflection we probably shouldn't have.

Matthew Haupt: I have one. It's QBE Insurance Group (ASX: QBE). It's the gift that keeps on giving.

Geoff Wilson: Giving or taking?

Matthew Haupt: Well taking. Giving and then taking just as quickly. But the history of owned goals of the company, and again we were pretty heavily invested, and the company lost its CEO, so the stock fell 10% quite sharply and it hasn't recovered since despite the backdrop being incredibly strong. We still own QBE in a decent manner but that was one where it really hurt because it was a decent position and stock down 10% on the day.

James McNamara: Thanks guys. I will stay with you John. This next question is from Dom. "Regardless of what people like Jeremy Grantham say, it's clear that markets have had extended valuations and not to say some very hard to explain stock values. As a somewhat basic investor, how should I prepare my finances for life after current drivers evaporate?"

John Ayoub: Dom, if we all took our investment advice from Reddit, we would have been doing rather well this financial year. But I guess there in lies the dilemma. Matt mentioned earlier around the liquidity that's available in the system and the lack of fundamental regard to valuation. What we have seen is people really ignore valuations, earnings, cash flow and focusing on top line total addressable market (TAM) and all these new buzz words which really don't pay you dividends or cash flow going forward. What we need to see is inflation start coming into the market, rates start to go up, that excess supply of cash in the world starts to dissipate, and then we can actually start returning to fundamentals and valuation when that happens. Hopefully it's soon. There's been a stack of talk about the rotation from value to growth. In our view, that's the wrong way to look at it. There hasn't been a rotation yet with tech still at all-time highs. People aren't really focused on what free money means to these valuations and once that liquidity dries up, I'd be really cautious around owning these things that people think are going to grow into perpetuity, which they won't. And for us, we look at, as Matt said, buying some hard assets, buying some quality companies that generate good cash flow through the cycle, and hence why our portfolio is tilted towards financials, cyclicals and certain commodities at the moment.

James McNamara: Thanks very much John. We have a question perhaps best answered by Anna. "What is your view on the health care sector in light of new strains of the coronavirus and the roll out of vaccines globally?" We have also had a few questions for our views on CSL (ASX: CSL), if you could cover that off as well Anna.

Anna Milne: Yes, thank you. As we enter this transitory phase back to a normal world, and the announcements of new strains continue to create noise, we are monitoring a number of indicators on a daily basis, such as vaccination rates, coronavirus testing rates, hospitalisations and mobility data to name a few, just so that we can see any change in the curve as the sentiment changes. Given the technology in mRNA vaccines and the ability to reset the shot every six weeks to counter any new strain, we don't believe that these new strains are significant cause for concern at the moment. CSL is actually the most highly debated stock in the health care space currently. And it's under the market significantly since the onset of coronavirus, and it's been way down about concerns around the ability and willingness to donate plasma in the US and what this means for sales over the coming years, apart from this, its flu vaccine business plus the company's involvement in the manufacturing of 15 billion AstraZeneca coronavirus vaccines for Australia. So while on a valuation versus growth basis, it screams as pretty cheap versus Australian health care peers. This is a stock that at the moment is driven by news around collection rates and it's something that we are monitoring every day to make sure we are on the right side of it over the coming months we expect.

James McNamara: Thanks very much Anna. Geoff the next question is for you and it's from Greg. "Thanks for your great work Geoff and team. What do you believe have been the factors in some listed investment companies (LIC) and WAM companies in particular moving from discount to premium in the market?"

Geoff Wilson: Thanks Greg. I've been studying listed investment companies for forty years and there are four factors that a listed investment company needs to achieve to trade at NTA, if not at premium.

The first one is to perform, second is to provide a growing stream of fully franked dividends, The third is to treat shareholders with respect, and what I mean by that is there has been companies historically that have not, thinking back four or five years, for example Templeton Global (ASX: TGG) did a placement at a big discount to NTA which was negative for shareholders. Another example is Contango Income Fund (ASX: CLF) that did one more recently which was part of the catalyst for us bidding for it. It was appalling what the Board did to shareholders in terms of diluting them.

The fourth thing, and probably the one that a lot of people don't get right, is you have to engage with shareholders. When we buy shares in a company, we want to understand exactly what the drivers for that company are. The more that we can communicate and the more that the management team can communicate with our shareholders, the more confidence those shareholders have in the company and then the more likely they are to be supporters of what the company is trying to do. We spend a lot of time engaging with our shareholders. If any shareholders have any questions please send them by email or ring into the office, because as I said it is your company.

There was a good article in the Australian Financial Review a couple of days ago on the back page by Chanticleer journalist Tony Boyd. He was asking why are some LICs trading at discounts and yours are trading at premiums? Of course everyone is trying to perform with the money and provide the fully franked dividends but it is really having a Board that is committed to looking after shareholders and really focusing on that engagement. He quoted a figure, we spend $2 million plus on shareholdering engagement, communications and marketing. To me it is really the fourth factor, shareholder engagement, that a lot of people lose and for smaller LICs it is harder. For larger LICs it depends where they fit, if they are part of a large organisation then they might get a lot in the way of resources and that is very crucial. Thanks James, and thank you Greg for the question.

James McNamara: Thanks very much Geoff. Staying on that same theme we have got a question from Sarah. Some of the large-cap LICs such has AFIC (ASX: AFI) haven't performed as well as WAM Leaders recently. Why is that? Is it just the period or is it a different investment approach? Perhaps Geoff if you start with that and then Matt?

Geoff Wilson: In terms of AFIC, Argo (ASX: ARG) and Milton (ASX: MLT), they have an investment style and they have a great investment style and investment process. Over time they have performed well and you are better off putting your money in them if you can buy them at a discount to NTA rather than in an ETF, because to me you have got the overlay of management looking to perform and you have got costs at 0.13 or 0.12 of a percent, a very low cost. WAM Leaders charges a 1% management fee. It is more, but we are focusing on outperforming by significantly more than 1%, and since inception we have outperformed by more than 4%. The investors have got multiple benefits from that management fee. In terms of how the money is managed, WAM Leaders is not a buy and hold investor. It is very active, very focused and when things change these guys will change the portfolio very quickly. You are trying to focus and take the minimum amount of risk and take the maximum amount of return and because we are so close to the market we believe we can do that, and historically we have been able to do that. So let's hope we can continue to perform that way.

James McNamara: Thanks very much Geoff. John, I will direct the next question to you. It's from Will McInnes at the Australian Financial Reviw. Will there be a rebound in earnings this season or will we have to wait?

John Ayoub: Reporting season has already kicked off pretty well and most of the companies reported have printed strong numbers. Most of those with the backdrop of the coronavirus beneficiary names, particularly the names like JB Hi-Fi (ASX: JBH) and Nick Scali (ASX: NCK) and even NewsCorp (ASX: NWS) have been material beneficiaries.

What does the shape of earnings look like broadly and what does it look like going forward? There is that old saying 'you never waste a crisis', and corporate Australia has for the most part done that, and what we have seen is a rebasing of costs basis across the street. From that perspective we may not see the top line growth that we saw in 2019 or 2018 but the bottom line should come in slightly more resilient than previously. Looking forward to this time next year or the year after, we should start seeing some material EPS growth because of the cost discipline that corporate Australia has instilled during the last 12 months. As revenues start to grow again and as we start to cycle some really weak numbers, the top lines of cyclical start to accelerate. There will be some costs coming back into the businesses, however the memories will be still long enough to ensure that it doesn't get out of hand. We are more optimistic around the outlook for earnings this time next year versus right now, but you will start to see the discipline that corporate Australia has instilled into their companies.

James McNamara: Thanks John. How do you think that is going to translate to dividend announcements this earnings seasons as well? That is something at the front of mind for a lot of investors.

John Ayoub: I expect Boards will remain cautious and I think with the outlook, we still haven't seen the vaccine fully rolled out and we are still seeing material headlines from the US and the UK around the weaknesses of those economies, I think it would be prudent for Boards to hold back some of those dividends. It is more likely we will see an acceleration in the back half of this year and potentially hoard a little bit more cash to accelerate mergers and acquisitions and growth as the recovery starts to take shape. From that standpoint I think dividend growth will be benign right now, but again acceleration to the back half of this year and certainly into next year.

James McNamara: Thanks very much John. Matt if I can turn to you? This question has come through from Chris. What are your views on BHP (ASX: BHP) and Rio Tinto (ASX: RIO) given the drop in iron ore this week?

Matthew Haupt: Thanks for the question Chris. Iron ore fell the other week predominantly due to some tightness in the financial conditions within China. At the end of last week and this week China stepped back into that market and provided easier conditions. As a result, iron ore has rallied over the last few days and it is up again today. I believe it was due to those seasonal factors and conditions. On BHP versus Rio, I prefer BHP. I think with Rio there is some risk around their production targets and their 360 million tonne target is at risk over time. When you look at the iron ore market value, which was the reason why it spiked about 18 months or almost two years ago, it is still playing out. Vale (NYSE: VALE) keep missing their production guidance and that was evidenced again this week, and so the iron ore market will remain tight and we are still expecting $120 to $140 a tonne over the next couple of years. One thing to watch is the China total social financing data coming out in February. That will be key to see how they respond because there is talk that China will wind down some of the stimulus this year. January is normally a huge month due to Chinese New Year and that is really a bellwether for the rest of the year, so we are actually positive, but we are waiting for that data to come out to form or cement our opinion. To summarise, yes BHP over Rio due to more favourable commodities in the BHP portfolio.

James McNamara: Thanks very much Matt. Staying with commodities we have had a couple of follow up questions on your commentary, John, about your positive outlook for growth commodities. Could you talk us through what exactly is a growth commodity and your views there?

John Ayoub: Thanks James. It is commodities that are leveraged to global growth and improving global growth domestic product (GDP). Commodities such as copper, nickel, around consumer consumption, around construction activity, those are the commodities we refer to about growth commodities and are linked to global growth.

James McNamara: Thanks very much John. We have had a question from Michelle on Telstra (ASX: TLS). Is there any future in TLS?

John Ayoub: If you ask Andy Penn he says he sees the future being very bright. Telstra is one of those stocks that polarises the market and in the low threes for us there is a future there. The infrastructure assets effectively underpin Telstra right here right now. What they are embarking on is an asset realisation program. We have long heard about their cost out program which they are halfway through but what they are trying to do is make people realise the value in their assets that they have within their portfolio. Those assets are the transmission towers that are located across the country and you look at some of their global competitors, these are highly desired assets trading on some extreme multiples. What Telstra is trying to do is sell some of their telecommunications towers to get a look through valuation on that part of their portfolio.

They are also rationalising some of their property portfolio. What they will do is continue to sell down surplus property to realise some cash. From that perspective it is breaking up the organisation into various parts for the market to realise that there is some embedded valuation there. The biggest headwind they face is from an earnings perspective and from a competitive dynamic standpoint. Telstra have done well to maintain their market share and the market leadership in the premium end of the mobile and broadband markets. We continue to expect that to stay the same. Telstra certainly need global travel to start coming back to fill some of those earnings holes and you need discipline from Vodafone and Optus to remain in the market for earnings recovery to take shape and you have probably got some valuation support from an asset standpoint. Do we see it running away from an earnings standpoint? Unlikely.

James McNamara: Thanks very much John. The next question is for Matt. Inflation in New Zealand has returned faster than expected. Are you concerned about an inflation surprise in Australia?

Matthew Haupt: This is one of the hottest debates in the industry at the moment. Are we going to get a repeat of the Global Financial Crisis (GFC) where there was no inflation? Or are we going return to a state of higher inflation?

We are definitely going to get transitory inflation which is the pickup post the fall off in economic demand. We are already seeing that, as you mentioned in New Zealand, this week a South Korea surprise and a UK surprise, you have got a lot of changing deltas. Oil will start to hit inflation in Q2, Q3 and Q4 of this year. You have wage inflation which will start to pick up at the back end of this year but everything says we are going to get inflation.

The debate is, is it transitory or is it more longer term? At the moment we don't have to distinguish between the two, because we know inflation will come through and will impact markets. We can position for that without having a really strong view on whether it is actually transitory or longer term, but we will develop our view. It would be hard to argue against history after we saw post global financial crisis (GFC) where inflation didn't return. There is an argument that there is too much debt in the world and if inflation picks up and nominal rates pick up, the debt load will be too high and the impost from increased interest costs will supress growth. So there is that argument. I think it is too early to call whether we are going to have a structurally higher period of inflation but we definitely will have a pickup in inflation and transitory. We will position and we have positioned for that right now.

James McNamara: Thanks very much Matt. We will open the telephone lines.

Ken: This is Ken here. Well done fellas, keep it up. I have been with you for a long time and I'm going to be with you for a long time. Fantastic results. Unfortunately I am out in the sticks a bit and the phone and the internet cut out all the time. I picked up on the four banks that you said you were overweight in but I missed most of it. Could you possibly repeat that please?

Matthew Haupt: Sure, thanks Ken. Thanks for the support. Our largest position in the Aussie banks at the moment is National Australia Bank, NAB. If you are talking about overweight, and Bank of Queensland, on a relative call. It is not a big position in the portfolio but we have got a decent weight in Bank of Queensland (ASX: BOQ). Then the next biggest one as far as overweight/underweight on benchmark would be ANZ, he biggest in terms of overweights versus benchmark.

Ken: Okay. CBA has been going up in market price quite a bit lately. Where do you think they sit?

Matthew Haupt: CBA was a bigger position. We have been lightening our position to fund some of the other banks because it has had a great run. It was approaching almost back to all-time highs so we cycled a bit of CBA into Westpac which had been lagging CBA by about 25%. There was a big valuation or big performance spread between the two, and that's the only reason why we lightened CBA. CBA is probably the best bank, the best franchise, but it is the most expensive up here.

Ken: Okay thanks fellas. Keep up the good work because you are making my retirement very happy. Thank you.

Matthew Haupt: Thanks Ken.

James McNamara: This question is from Andrew. Is WAM Leaders significantly undervalued compared to AFIC and Argo as they are both trading at bigger premiums and have lower yields?

Geoff Wilson: Thanks Andrew, thank you for your support. I know you've been a big supporter of WAM Leaders and I know you have been consistently communicating with me how puzzled you are that WAM Leaders is performing so well.

In a relative sense looking at AFIC and Argo, I think AFIC is trading at about a 12% premium to NTA and Argo nearly an 8% premium to NTA. I believethe AFIC yields 3.1% fully franked and the Argo yields about 3.4% fully franked. Then you have WAM Leaders which is trading at 3% or 4% premium to NTA and giving you a yield of 5% fully franked. As one of our other investors pointed out, in terms of performance, over the last period, WAM Leaders has outperformed those entities. It does look like that is the case that relatively WAM Leaders does look cheap compared to those two however you have got to remember that WAM Leaders is nearly five years into its life, where as AFIC and Argo have been going for a significantly longer period of time. One of the things I've been aware of in terms of listed investment companies trading at premiums is, the longer you list it, the more settled your share registery is and there tends to be less selling because everyone who is there understands what the company does and is very happy with what they have delivered. Hence the comments from Ken, when all your shareholders are like that then effectively there are not many people selling. If you continue to provide good yield and good performance then you will find that people will end up paying above NTA. We love buying a dollar of assets for 90 cents, 80 cents if we can, or less. To me over time those share registers tighten up and you really don't need much buying to push those companies to premium. We would hope that WAM Leaders stays at a premium, if not goes to a larger premium particularly as Andrew, you very smartly pointed out when you look at the comparatives in the market.

James McNamara: Thanks very much Geoff. Matt the next question is from Peter. He is asking for our view on the insurers Insurance Group Australia (ASX: IAG) and Suncorp (ASX: SUN).

Matthew Haupt: Thanks Peter. IAG is one of idle our positions and we also own QBE and Suncorp. The reason why we are in these companies is because they have had two negative events hit them. They're investment income has been decimated as well as business insurance, caused by the global pandemic. When businesses are forced to close their doors there is an argument going through the courts now that insurers have to cover their losses and a result they have really been hit hard as these have come throughout the year. In 2021 there will still be claims coming through for business insurance but they have all provided for them now. We think IAG in particular has been the most conservative with these provisions and we think no matter what happens this year they will be covered and there will be messy results. However the things I talked about as negatives are going to turn positive so invest, and income will start to lift up in 2021 and 2022 and business insurance will dissipate and go back to very normal levels and going forward their policies are reworded so this won't hurt them again. Again, it is a very myopic by the market the focus on this one term hit by business insurance, it is a one term hit. We don't put a multiple on this, we think the franchises are intact. They will trade through this and they have the balance sheets to trade through this. We are quite positive, it is just going to take a bit of time for these

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stocks to re-rate but very positive on this sector.

James McNamara: Thanks very much Matt. This is from David and John I will direct it to you. What is your outlook on Qantas (ASX: QAN) and that sector more broadly?

Matthew Haupt: Thanks David and thanks James. You have found one of my favourite stocks there David. Earlier I mentioned corporate Australia not wasting a crisis and Qantas is probably the poster boy of that analogy. Unfortunately what it has meant is that a lot of employees at Qantas have lost their jobs. What Qantas have been able to achieve over the last six months is something that no one ever thought they would have been able to do in their history or in their future. Being able to disengage from the shackles of union requirements, and I don't say that lightly, has been a tough task and unions certainly have their place, but what Qantas have been able to do is reposition their cost base particularly from a baggage handler standpoint, from an engineer standpoint. More over onto the cost base when it comes to their plane network and retire a lot of the aged more fuel consumption fleet and moving towards more fuel efficient cheaper-to-run airplanes. What that's allowed them to do is be in a position going forward that they could have significantly less travellers on their planes effectively and make more money than what they would have in the past. And that is without international travel. So I think by our estimates if they return to around 70% of their previous network in Australia and have around 80% of the same capacity on that 70% they will make 20% more money. So I know it's a long way of saying it but they're going to make a lot more money domestically than they ever had going forward. And even if international never comes back they're still going to make more money. So from that standpoint the outlook for Qantas is rosy from our perspective and as we start to see the vaccine roll out and normalisation take place you will start seeing that leverage come through.

James McNamara: Thanks very much John and thank you Matt and Anna as well. Thank you to all shareholders who've joined us for the call. I will hand back to you now Geoff to close.

Geoff Wilson: Thank you. And that's right, on behalf of all shareholders I'd like to thank Matt, Johnny and Anna for all your hard work. And as a large shareholder in WAM Leaders myself and Ken and the rest of the group we are all benefitting so keep up the good work thank you. And James on your shareholder engagement and communication with your team well done because that really has helped over this period. And thank you all the shareholders. We are accessible. Please contact us if you have any further questions. As I said it is your company and we only get to do what we really enjoy because you support us and allow us to do it. So thank you all for supporting us. Thanks.