



WMK declares a fully franked dividend following a record profit in FY16, with strong performance coming from the Company's international portfolio.

Highlights

- Interim dividend declared of 3 cents per share, fully franked.
- Net Tangible Asset (NTA) backing of 1.03 cents per share after tax.
- WMK shares trading at a premium to NTA.
- Continued strong performance from the international portfolio.

Company Update

Today the company announces a first half profit in FY2017 of \$800,110 and declares a fully franked interim dividend of 3 cents per share. Watermark Market Neutral Fund Limited (ASX: WMK) ('WMK' or the 'Company') is a listed investment company managed by Watermark Funds Management (the Manager).

Last year presented a myriad of challenges, with shock election results in Europe and the US and even less predictable reactions thereto, from share markets globally. With the portfolio retaining little or no net exposure to shares, the Company's capital is well-protected as we move through the later stages of this bull market. This protection comes at a cost however, whereby the Company has not participated in the recent rally.

The Company's international portfolio outperformed the domestic portfolio though the period, providing valuable diversification of returns while conditions in the domestic market proved more challenging to navigate. International investments added 3% to Fund returns on a gross basis while the domestic portfolio detracted 1% from performance.

Performance at 31 December 2016	1 Mth	3 Mths	Fin. YTD	1 Yr	3 Yrs %pa	Since Inception %pa
WMK (net return)	-0.2%	-1.6%	0.9%	3.1%	6.9%	7.5%
RBA Cash Rate	0.1%	0.4%	0.8%	1.8%	2.1%	2.2%
Outperformance (net)	-0.3%	-2.0%	0.1%	1.4%	4.8%	5.4%

It is important that Shareholders remain mindful of the role that a market neutral strategy such as WMK should play in a broader portfolio. With little or no net exposure to shares, the strategy aims to protect capital in weak markets and deliver attractive returns over time, with no correlation to the broader share market. This should provide valuable diversification benefits for Shareholders.

WMK remains well-positioned to weather any turbulence that might emerge in the coming months, as stimulatory policy measures taken by central banks in late 2015 begin to wane, and as global share markets are challenged by an increasingly unstable geopolitical environment.

Dividend and DRP

The Board has declared a fully franked interim dividend of 3 cents per share. Unlike long only strategies, which can stream franked dividends from the portfolio through to shareholders, WMK's dividend paying capacity is more heavily dependent on capital returns generated by the Manager as the Company's capital sits in the bank earning minimal interest. In a similar way, franking credits accrue as tax is paid on trading profits, allowing the Board to distribute franked dividends to investors. The franking balance is augmented to a lesser extent, by credits that flow through from the Company's long portfolio.

As a newer company (relative to the broader LIC sector) WMK has had limited time to accrue surplus franking credits. The Board has therefore distributed partially franked dividends in recent years. Further challenges arise in respect of the Company's ability to pay fully franked dividends as a result of the increased exposure to global shares. Given these international companies do not pay franked dividends, the quantum of franking credits that flow through from the portfolio has been reduced. As has been flagged in previous correspondence with Shareholders, this will likely be an ongoing feature of the Company's distributions, albeit one the Manager feels is offset by the opportunities available in global share markets. Nevertheless, in FY16, the Company accrued sufficient franking credits from taxed profits to pay a fully franked interim dividend at the half-year.

The interim dividend will be paid on April 27th, 2017 and the shares will trade ex on April 11th, 2017.

A dividend reinvestment plan (DRP) will operate with a 2% discount. The last election date for the DRP will be Thursday April 13th, 2017. Please contact Boardroom on 1300 737 760 for more information.

Company Outlook

Shareholders will soon receive a copy of the latest edition of *The Leading Edge*, a quarterly newsletter outlining the Manager's views on the outlook for the global economy and recent geopolitical developments. It also provides an in-depth examination of investments in several industrial and the investment case that supports them. The Board is encouraged by the Manager's continued success in identifying attractive investment ideas both domestically and offshore. The outlook for your Company is bright, notwithstanding the risks that remain for asset markets.

Yours sincerely,



Matthew Kidman
Chairman