WATERMARK
FUNDS MANAGEMENT

The Leading Edge

QUARTERLY REPORT • December 2016

How long will this reflation trade last?

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Message from the CIO

While much has been said already about the surprise US election result last November and while many associate it with the year-end rally in shares, the antecedents of the current reflation cycle were laid over a year ago. Back in late 2015, the Chinese economy had lost significant momentum, a stronger US dollar was weighing on US activity, inventories had accumulated everywhere and the global industrial economy was heading for recession.

The policy response was swift, with the Chinese loosening credit, swapping out over $US1 trillion of bad local government loans; a dovish US Fed talked down the dollar and the ECB embarked on a further round of Quantitative Easing (QE). The uplift in activity we are seeing now is in response to these stimulatory measures. Financial markets have reacted accordingly with bonds selling off and shares (cyclical sectors in particular) rallying hard. The market bulls would have you believe we are finally heading for sustainable growth levels that have been absent this business cycle.

We fear they will once again be disappointed. We are late in this expansion cycle, with Fed chair Yellen in recent weeks suggesting the US economy is now at "maximum employment". The FOMC has turned decidedly hawkish and, both short and long interest rates are increasing. The Chinese PBOC raised the cash rate in early February and the ECB is now contemplating an exit strategy from QE.

As the dollar surges higher, financial conditions are now tightening. In the same way that the policy actions of early 2016 led to the current uplift, a tightening in financial conditions should see a softening in activity as we move into the 2nd quarter marking an end to the extraordinary rally we have seen in shares in recent months. The reflationary pressures are peaking, the barometer will soon start to fall and we all know what that means. The policy response to any weakness will be pivotal in determining whether we get one final uplift to this cycle later in the year.

We are approaching an end to this expansion cycle, labour markets are tight everywhere, margins are elevated and productivity is slipping. At the same time inflation expectations are building and policy rates are increasing. With markets trading on elevated valuations and the global economy likely again to lose momentum as we move through the year it is hard to see shares sustaining any rally.

The state of the economy

The market rallied into year-end, led by strong advances in cyclical shares (financials, materials, industrials).

The Republican platform in the US has several market friendly policies such as planned cuts in corporate tax (from 35% to 15-20%) and incentives for companies to repatriate offshore funds which could be distributed to shareholders as buybacks.

While the Trump election has coincided with a sharp rally, there are several risks around the outlook for share markets. Even though many of Trump's policies are considered to be business friendly, their implementation is not assured. While Republicans have a majority in both chambers, they lack the 60% majority required to ensure passage of all their legislation through the Senate, therefore don't "control" congress as is commonly reported. They likely will however be able to pass many measures in their budget reconciliation bills, including tax cuts (which only require a 50% Senate majority). Constraints linked to the budget deficit are an ongoing concern for many Congressional Republicans which could result in a watering down of Trump's policies to prevent the deficit blowing out. The Congressional Budget Office sees the deficit increasing from 2.4% in 2018, the year of Trump's first budget, to 4.2% in 2022, without factoring in any impact of large tax cuts, infrastructure spending, or other policies such as increased defence spending.

House Republicans have favoured broad and significant tax reform, eliminating the deductibility of interest but making capital spending deductible, and the introduction of a border adjustment tax (which would remove the ability to claim tax deductions on products imported to the US). The capital and interest changes if implemented could arguably be positive for US economic growth longer term, by encouraging more capital investment (increasing productivity) and less borrowing to fund share buybacks, though there is considerable uncertainty around their impact given the negative effect they would have on profits of debt-funded companies. While the border adjustment tax could raise additional revenue, making tax cuts to corporates and households more affordable, it is debatable that it is a de-facto tariff. Trump himself has made numerous references to introduction of trade restrictions in the form of traditional tariffs, citing pressures from China and Mexico.

Any large tariff introduction would likely be seen by the market as a negative, though there would be many in the Republican Party opposed to such a move, which could see policy being less dramatic than Trump's campaign promises. As the world's largest economy, any significant trade barriers to the US would have negatively impact its trade partners (and the global growth outlook), and cause problems for American multi-nationals that import parts (like automakers) and products (like Wal-Mart).

A less tangible factor affecting the outlook is the impact the new administration could have on overall confidence, with the possibility of missteps given the rapidly evolving policy landscape (at the time of writing the initial promulgation of new rules restricting immigration saw significant opposition and practical implementation problems).

Against the backdrop of these developments, financial conditions have been tightening recently, which would likely lead a to an economic slowdown. The US bond market, having peaked in July (with US 10 year yields reaching a low of 1.4%), had a sharp sell-off in the second half of the year, with yields ending the year around 2.5%, discounting stronger growth, the Federal Reserve on renewed tightening path, and possibly higher inflation. This has led to a pickup in mortgage rates, which will in turn be a headwind for the US housing sector. Many shares seen as safe haven yield payers, such as consumer staples, also sold off in sympathy as yields on bonds became relatively more attractive.

In addition to the developments in bond markets, the US dollar rallied throughout 2016, reaching decade highs on the broad trade weighted index. This is a headwind for US exporters. A less appreciated impact is the large number of international companies (particularly in emerging markets) who have borrowings in USD, which face higher repayments as the US dollar strengthens. Looser financial conditions in early 2016 saw a pickup in the economy by year end. Tighter conditions since late last year should start to impact the economy in a negative way, with softening in interest rate and currency sensitive sectors likely to be apparent in the second quarter.

On the positive side, consumer and business sentiment indicators unquestionably picked up towards year end in the US (and elsewhere, such as Germany), as have business purchasing manager surveys of economic activity. The term "animal spirits" (coined by John Maynard Keynes) has re-emerged in discussion of the economic outlook, reflecting the idea that businesses and consumers could become more positive about the outlook and increase their spending and investment. The pace of mergers and acquisitions could surge, as companies take advantage of historically low interest rates.

China has seen sharp growth in its economy through 2016, driven by an easing in credit conditions, mortgage qualification criteria, and a bail-out of troubled municipal loans on the banks' balance sheets (with the central government taking on these loans in exchange for government bonds). There are however much discussed longer term problems that need to be addressed in China, given overcapacity in many industries, and the heavy reliance on debt to fund property and infrastructure investment. Reflecting these concerns, Chinese locals are looking to move money offshore, causing a drawdown of China's currency reserves (a partial linkage here, clearly with the coincident sell-off in the US bond market, given currency reserves are to a large degree held in government bonds). China has recently tightened restrictions on the ability of nationals to move money offshore (to buy apartments etc.), which could also have implications for global investment markets dependent on Chinese buyers. The government has recently stepped back from some of its stimulus, with the sales tax reduction on cars being reversed from 2017 and mortgage qualification criteria being tightened in some markets. However, the PBOC raised the cash rate in February, suggesting China could slow in the current year. Risks remain longer term around the level of overinvestment/overcapacity funded by large increases in debt by municipal governments and state owned enterprises.

The share market (especially cyclical sectors as financials, materials and industrials) have anticipated an increase in growth and inflation (the reflation trade) globally. These sectors tend to follow the purchasing manager's indices. Rather than simply buying into the new excitement around a Trump presidency and its policies, we believe the outlook for investors is more complicated. The rise in the US dollar is a headwind for USD borrowers and US exporters, while the increase in interest rates (a headwind for the US economy), and possible slowdown in China as stimulus is eased, creates a risk that the bulls will be disappointed. Ongoing structural problems such as weak productivity growth and high levels of indebtedness in most economies have not gone away.

Against this backdrop, it is appropriate to maintain a hedged portfolio. In the market, it is still possible to make sound investments in companies with strong prospects and attractive valuation, while hedging this exposure by selling short companies with a weaker outlook and less attractive valuation. We showcase some of the key portfolio positions in this cyclical part of the market in this report. Should the economy maintain its momentum, the portfolio should make an attractive return over time, while in the case that the economy was to disappoint versus current high hopes, the hedge should provide a significant measure of protection.

Industrial Leaders: United Technologies & Siemens AG

United Technologies Corp

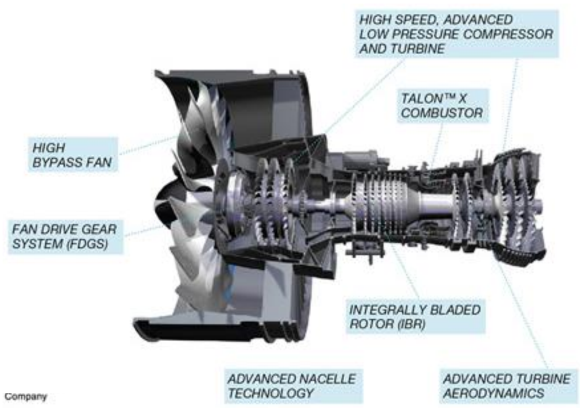
We like United Technologies (UTC), a large American diversified manufacturer, with leading market positions globally in jet engines, aerospace components & systems (e.g. aircraft landing gear, electrical components), elevators & escalators, air-conditioning, and building security & fire systems. Key brands include Pratt & Whitney (jet engines), Carrier (air-conditioning), Otis (elevators & escalators) and Chubb (alarms & security).

The company has a strong history of consolidating companies to build these leading positions, acquiring a variety of businesses (Goodrich aircraft landing gear and Kidde alarm systems). More recently it sold its helicopter business (Sikorsky) to Lockheed Martin in 2015 to focus on its component making businesses.

The real positive for UTC is the benefits it should see in strong growth in its jet engine business, Pratt and Whitney, in the coming years. The company has commercialised on a large-scale, break-through technology in jet engines, the geared turbo-fan. Traditional turbo-fan jet engines work by burning fuel and compressed air in the combustor – the fast-moving hot air forced out of the combustor, in addition to providing direct thrust, also spins a turbine which spins a fan (hence 'turbo-fan'). In modern passenger planes, the fan itself provides the bulk of the thrust by sucking air into and through the engine. One shortcoming in the traditional design is that the fan and turbine are connected by a single shaft, but neither is spinning at an optimal speed – ideally the turbine should spin faster, and the fan slower, for optimal efficiency, thrust, noise and aerodynamics. UTC has solved this problem by developing a gearbox that can reliably withstand the tremendous pressures and speed of a jet engine. The gearbox sits between the turbine and the fan, enabling them to spin at optimal speeds – the benefit is 16% better fuel consumption and 75% better noise output than previous generation engines. Given fuel is a substantial proportion of costs for airlines, this is a significant benefit, while better noise efficiency enables airlines to work with curfews in many airports, and provide improved customer comfort.

Pratt & Whitney's geared turbofan has won significant market share, notably on Airbus's most popular platform, the A320neo, and is only now starting to ramp up production. Combined with Pratt's position as the supplier of the jet engine on the F35 Joint Strike Fighter, the company believes based on orders on hand, jet engine deliveries can increase from around 850 in 2016 towards 1,500 by 2020, bringing with it the lucrative servicing contracts for maintenance of these engines. With solid positions in its other businesses, UTC looks attractive given the company is valued at the lower end of large listed US manufacturers, and its strong order book should help it even if the global economy slows.

Pratt & Whitney's advanced PurePower engine FIG 1



Source: Pratt & Whitney

Siemens AG

We like Siemens, a German based global leader in the manufacture of high technology infrastructure and capital equipment, including factory and plant automation equipment; power plants; wind turbines; electricity transmission equipment; health diagnostics equipment; trains and metro systems. The company is the second largest manufacturer globally of capital equipment after US based General Electric (GE).

In keeping with Germany's renown strength in engineering, Siemens has long been recognised as strong in product quality and technology. In years' past however it was less successful financially than US competitors such as GE, which were significantly more profitable. Siemens' management has attributed this to inefficiency in staffing levels, and insufficient financial discipline in bidding in the past on large projects. Furthermore, the company was in business areas where it was facing pressures from commoditisation (such as mobile phones and domestic appliances), further hampering profitability.

Over the last decade, the company has successfully increased profitability and shareholder returns. It has disposed of its troublesome legacy businesses (domestic appliances, mobile phones, semi-conductors) to focus on its core areas of infrastructure and capital equipment (typically more consolidated, and hence profitable markets). It has also worked diligently to increase efficiency in staffing levels, and put in place more stringent project planning systems. Over a decade this has seen earnings per share increase by 60% and dividends per share more than double – a significant outperformance of key competitor GE. GE has seen earnings per share fall by 30% over the same period, weighed down by the disposal of their finance business and other problems. Siemens' pace of restructuring and improvement has been increasing over this period, and in particular under current CEO Joe Kaeser, with underlying earnings per share increasing by over 20% last year.

While it will be difficult to maintain this pace of growth, there are still solid prospects for Siemens in future years. Firstly, Siemens remains committed to increasing cost efficiency. As a simple yardstick, GE's pre-tax margins on its manufacturing businesses are around 16%, Siemens should still have upside from current level at 9.5%. Secondly, Siemens has some attractive areas of growth, most notably in the industrial internet, highlighted in the previous edition of *The Leading Edge*. Siemens is the global leader in factory and industrial automation, and has for years been developing applications to support digitisation of workflows in all industrial processes (such as predictive maintenance, and optimisation of the factory floor) This has been enabled through collecting data from devices in the field, and should see benefit as customers continue to invest in this area. In addition, build out of wind-power and "smart grid" equipment (needed to transfer power from off-shore wind farms and remote solar farms) continues globally, while investment in trains continues as countries cope with increasing road congestion. Siemens' cost savings initiatives and growth opportunities make it look attractive as an investment even if the global economy slows, given its valuation towards the lower end of the spectrum for European manufacturers.

Challenged Industrials: Kone and Neste

Kone

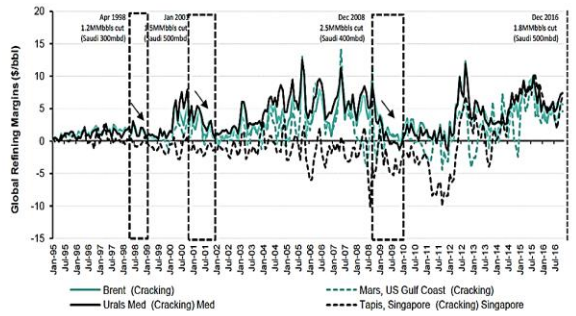
Kone looks challenged given problems in its Chinese business. The company is a leading Finnish based manufacturer of elevators and escalators, competing with companies such as Otis (a division of United Technologies), Schindler and Hitachi. Kone has benefitted from the construction boom in China over the past decade, with China now accounting for around two-thirds of the world's new elevator installation market (vs around 10% in the early 2000's). Kone makes 30% of revenues and a larger proportion of profits from the Chinese market. The problem for Kone is rapidly increasing competition in its key Chinese market - the market after growing tremendously in past years looks to be peaking, with volumes down 5% in 2016. With companies strongly competing for dwindling new business, Kone has been disclosing sharp pricing pressure in its new orders in China of >10% throughout 2016, while raw material costs such as steel are now increasing, causing a margin squeeze. While there could be some moderation of pricing pressure as companies adapt to this more subdued environment, company commentary, including from key competitor Otis, suggests pricing pressure in the Chinese market remains tough. While, Kone is working to cut costs, and it does get benefits from servicing contracts on installed elevators, these have been slower to develop in China than other markets and on inferior terms, due to a lack of strong commitment in the marketplace to servicing by the original installer (service revenues are around 10% of the Chinese business). Kone's business in the US market (which is seeing some recovery) is relatively small by comparison, while there is pressure on its servicing revenues in markets such as southern Europe – it does not appear that the other markets will offset the pressures on profits in China, particularly if global economy slows from here. Although Kone does have capable management and a secure balance sheet, it is valued near the higher end of manufacturing companies in Europe, notwithstanding these ongoing pressures on the business.

Neste

Neste is a Finnish oil refining company with a bio fuels business that produces renewable diesel. The share price has tripled over the last four years as the company benefitted from strong oil refining margins and volume growth in the bio fuels business. We believe these tailwinds are beginning to reverse with risks mounting on the profitability of both segments.

OPEC announced production cuts in late 2016. While Saudi Arabia will have the lion's share of reductions, Russia agreed to unprecedented cuts to its own output. This is bad news for complex European refiners. Complex refineries are able to take low value, often heavy crude and process this into desirable products such as diesel and gasoline. Such refineries have benefitted recently, particularly in 2015 when the world was awash with crude, as the margin between low value crude and finished products widened. However, this is beginning to reverse. As shown in Figure 2 below, each time the Saudis have cut production refining margins have fallen.

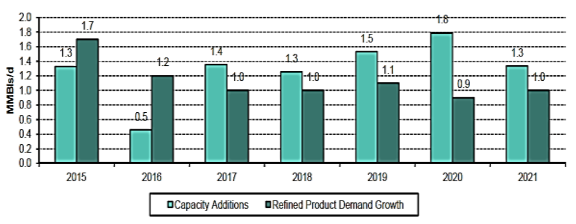
OPEC Cuts Likely to Impact Refining Margins FIG 2



Source: IEA, Bernstein

The past few years have seen strong refining margins, buoyed not only by a crude-glut, but also by minimal capacity additions as product demand surged. However, new capacity is coming online and will likely outstrip demand in forthcoming years. Asia and Middle East will provide the growth after a hiatus in 2016.

Refining Capacity to outpace demand FIG 3



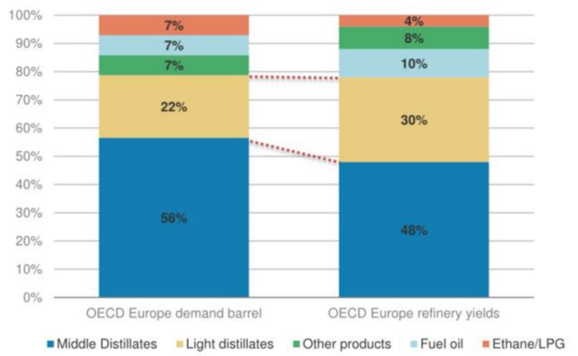
Source: IEA, Bernstein

European refineries will be disproportionately challenged as refining margins fall due to their 'mismatch' between product and demand. European refineries yield roughly 48% middle distillates (diesel), and 30% light distillates (gasoline).

However, this compares with European demand of 56% middles and only 22% lights. Obviously, the refiners must import diesel and export gasoline, losing margin on both transactions.

European Demand vs Refinery Yield

FIG 4



Source: IEA, Morgan Stanley

Neste's bio fuels business involves the production of 'renewable diesel' from vegetable oil and waste animal fats. It is sold in both Europe and US and used to blend with regular fossil-fuel based diesel in order to meet renewable fuel mandates set by governments. As environmental standards have risen, demand for bio fuels has outstripped demand. In 2016 Neste produced €579million of earnings from 2.6Mt – equivalent to €28/barrel. These appealing margins have attracted new capacity with major oil companies ENI and TOTAL announcing plans for renewable diesel plants. Also, the new US government is less supportive of bio fuels credits which challenges a key sales market for Neste.

Performance Review

Markets here and abroad began the quarter on unsure footing, led lower by a rout in bonds as yields edged higher. The resulting sell-off in 'yield-proxies' such as infrastructure and REITS was a heavy blow to parts of the market that for some time, have been safe havens for nervous, yield-hungry investors. As has been discussed, the beneficiaries of this rotation were more cyclical sectors such as banking, industrial exposures and the resurgent mining sector.

While rising bond yields have been well-anticipated, the result of the US election and investors' reaction thereto was far more difficult to foresee. The election of President Trump triggered a savage sell-off in global markets, followed by an equally violent rebound, further buoyed by the promise of aggressive fiscal stimulus and a low-tax, pro-growth policy platform. Even with the Federal Reserve foreshadowing further rate hikes in the US, investors in shares clearly felt they were on surer footing and markets rallied strongly into the end of the year.

The portfolios struggled through the quarter, posting small losses each month. With major developed markets posting strong gains for the quarter, the long portfolios significantly outperformed the short. Disappointingly, in aggregate shorts rose more than comparable share indices, negating the marginal outperformance of the longs. At a sector level, healthcare, energy and mining exposures were the strongest performers, while financials, telecom and IT detracted from performance.

Defensive shares capture a broad range of sectors and have been a source of investment ideas in parts of the market that have been able to deliver consistent earnings growth. It has also been fertile ground for short positions, where valuations for 'expensive defensives' were stretched to extreme levels. Short exposures in the healthcare sector were amongst the strongest contributors to performance in the period, as investors deserted market darlings such as CSL and Sirtex following disappointing sales updates.

Gaming companies are another sector of the market that typically deliver defensive earnings with less cyclicality. The Funds have held positions in Tatts Group and Tabcorp Holdings, primarily in recognition of the valuable domestic lottery franchises they operate. A long-anticipated merger proposal between these two companies say the shares of Tatts Group move materially higher in the period, making a strong contribution to returns.

The Funds were well positioned to capture some of the momentum in cyclical industrials that emerged through the quarter given the value that has been evident amongst these sectors. Positons in media companies such as APN Outdoor and News Corp performed well, as well as a pair in the building materials sector. We have been building out the Funds' gross exposure in the Technology sector with several key thematics shaping the portfolio. In semi-conductors, we favour manufacturers of analog microchips such as Analog Devices Inc over digital chips while companies such as Micron Technology Inc are well-positioned in respect of the memory cycle. We also favour companies that are engaged with the development of next generation network security services, which are expected to win out over companies such as Paolo Alto Networks which offer traditional firewall technologies.

Retail has been a high-profile sector in recent years, as traditional business models are challenged by developing trends in online shopping and increased competition from global giants entering new markets. Nevertheless, returns for traditional retailers such as Super Retail Group and Target Corp have been solid and surprised the market with their resilience in the face of weak consumer sentiment.

Returns from the financials portfolio were disappointing in the quarter. We have been negative for some time on the outlook for the banking sector, with banks in many parts of the world including Australia, reeling from tighter regulation in respect of the capital they are required to hold. With little prospect of credit growth continuing at the same pace as in recent years, banks are at 'peak earnings' with risks lurking should the credit cycle turn, leading to rising defaults and higher provisioning for bad and doubtful debts. While the Funds had only a modest net short exposure to banks in the quarter, this weighed on performance quite considerably.

We have also been circumspect on the outlook for asset markets, and the prospect for asset managers to continue enjoying the earnings tailwind provided by buoyant equity markets. Short positions in several asset managers were also amongst the worst performers in the quarter. Exposures in the insurance sector by contrast were more successful, with an investment in QBE Insurance Group a stand-out.

Despite a challenging macroeconomic backdrop and persistent doubts that there has been any material change in the global supply/demand dynamic to justify a sustained recovery in the price of bulk commodities such as iron ore, returns from the resources portfolio were positive in the period. We have retained a balanced exposure in mining and energy shares, with stock selection driving solid gains from both the long and short portfolios. Investments in Iluka Resources and Orocobre added value, as did a handful of exposures in the energy sector, given the recovery in the price of oil through the quarter.

Fund at a Glance – December 2016

ASX Code	ALF
Fund Size	AU$348.3m
Fund Strategy	Variable Beta
Shares on Issue	271.3m
Dividend (2HY16 Interim)	5 cents
Dividend Yield (annualised))	6.6%

Net Tangible Asset (NTA) Backing

	Nov 16	Dec 16
NTA Before Tax	**$1.29**	**$1.29**
NTA After Tax	$1.30	$1.30

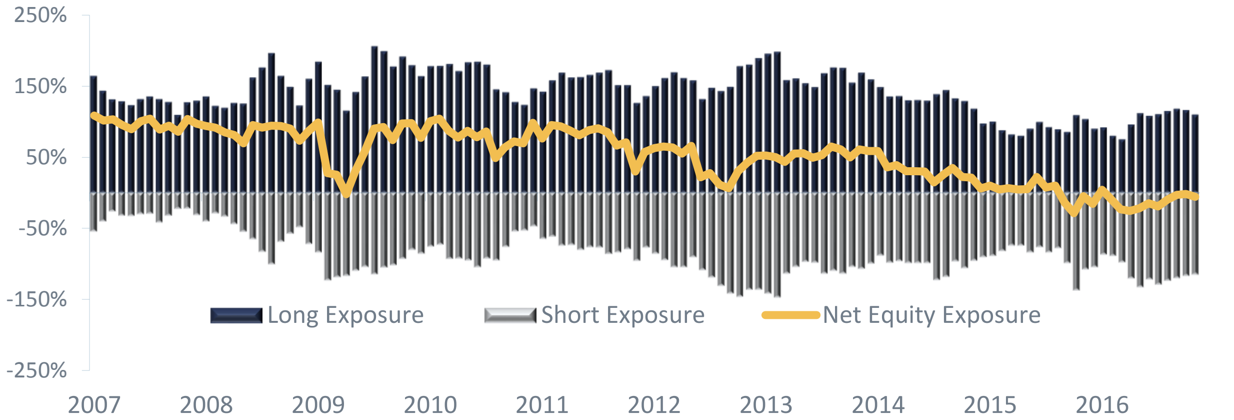
Gross Portfolio Structure

	Nov 16	Dec 16
Long Exposure	109.9%	111.5%
Short Exposure	-115.7%	-114.5%
Gross Exposure	225.6%	226.0%
Cash	105.7%	103.0%

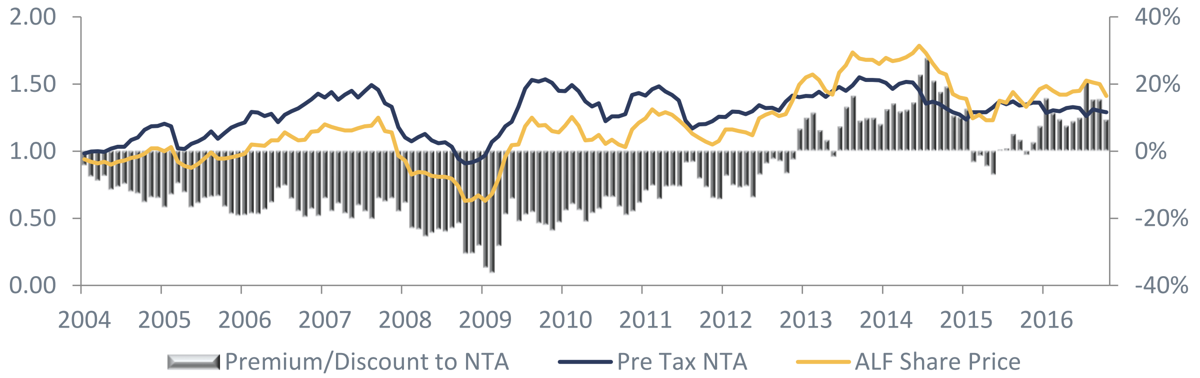
ALF Performance

	1 Mth	6 Mths	1 Yr	3 Yrs (pa)	5 Yrs (pa)	7 yrs (pa)	S.I. (pa)
Portfolio Return (net)	-0.2%	1.3%	3.1%	5.1%	14.9%	10.0%	13.4%
All Ords Accum Index	4.2%	9.9%	11.6%	6.8%	11.6%	6.8%	8.9%
Outperformance (net)	**-4.4%**	**-8.7%**	**-8.5%**	**-1.7%**	**3.3%**	**3.2%**	**4.5%**

Net Equity Exposure



Historical Premium/Discount to NTA History



Market Neutral Trust

APIR: WMF0001AU

Fund at a Glance – December 2016

Fund Size	AU$159m
Strategy FUM	AU$248m
Fund Inception Date	August 2012
Fund Strategy	Equity Market Neutral
Application/Redemption	Daily
Management Fee	1.5%
Performance Fee	20%
Benchmark	RBA Cash Rate

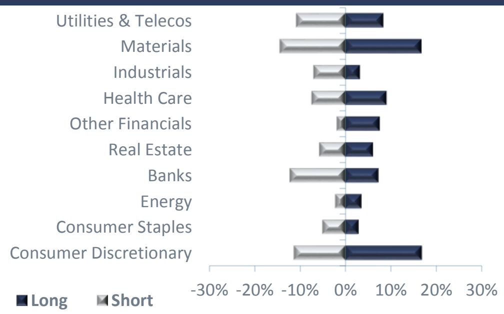
Return Characteristics[1]

Positive Months	69.2%
Portfolio Beta	-0.2
Sharpe Ratio	1.5
Sortino Ratio	4.5
Standard Deviation	7.3%
No. Long Positions	74
No. Short Positions	67
Gross Exposure	161%
International Exposure (% of Gross)	17%

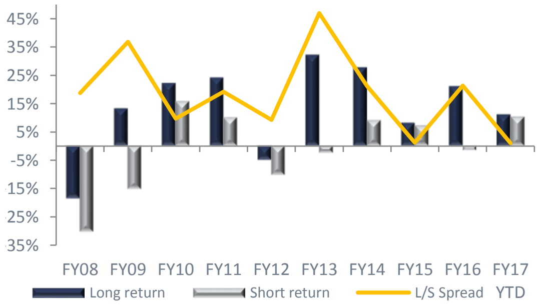
Performance[2]

	1 Mth	6 Mths	Fin. YTD	1 Yr	2 Yrs (pa)	S.I (pa)
WMNT (net return)	0.1%	0.6%	0.6%	3.0%	12.1%	13.5%
RBA Cash Rate	0.1%	0.8%	0.8%	1.8%	1.9%	2.4%
Outperformance	0.0%	-0.2%	-0.2%	1.2%	10.2%	11.1%

Sector Exposures



Long/Short Spread[3]



Monthly Net Performance (%)

Cal. Yr	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2012	-	-	-	-	-	-	-	1.36	0.97	0.00	6.51	2.88	**11.72**
2013	-0.71	0.21	4.60	1.55	5.83	5.31	1.11	2.57	1.43	1.86	0.35	-0.06	**24.05**
2014	1.71	1.45	-1.17	2.80	1.21	0.84	-4.38	-1.77	2.52	-1.57	-1.58	-1.32	**-1.26**
2015	-1.18	0.70	3.23	0.96	-0.61	3.39	3.82	4.04	2.73	-1.36	1.53	2.93	**20.19**
2016	-0.14	-1.92	1.13	0.53	1.08	1.76	0.60	-1.46	2.23	-0.34	-0.46	0.07	**3.03**

[1] Return Characteristics are in relation to the market neutral strategy using long/short return series recorded from April 2008.
[2] Performance data is net of all fees and expenses. The Fund's inception date is August 2012.
[3] Long/Short spread shows the gross performance of the long and short portfolios. The Fund makes a profit where the long portfolio outperforms the short portfolio, after the payment of fees. Returns prior to the Fund's inception date are based on return series from the long and short portfolios of the Australian Leaders Fund Ltd in a market neutral structure.

Market Neutral Fund Ltd

WATERMARK FUNDS MANAGEMENT

Fund at a Glance – December 2016

ASX Code	WMK
Fund Size	AU$89.1m
Fund Strategy	Equity Market Neutral
Shares on Issue	87.1m
Dividend (2HY17 Interim)	3 cents
Dividend Yield (annualised)	4.8%

Net Tangible Asset (NTA) Backing

	Nov 16	Dec 16
NTA Before Tax	$1.02	$1.03
NTA After Tax	$1.03	$1.03

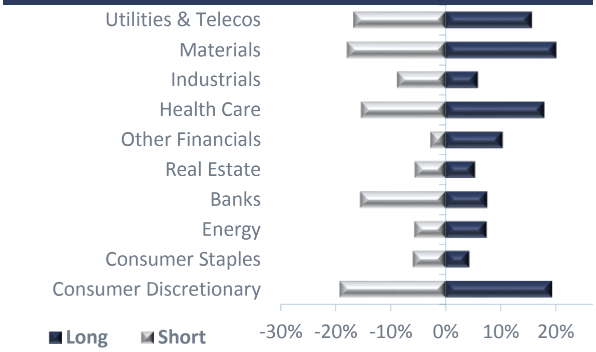
Gross Portfolio Structure

	Nov 16	Dec 16
Long Exposure	112.7%	114.3%
Short Exposure	-117.2%	-113.8%
Gross Exposure	229.8%	228.1%
Cash	104.5%	99.5%

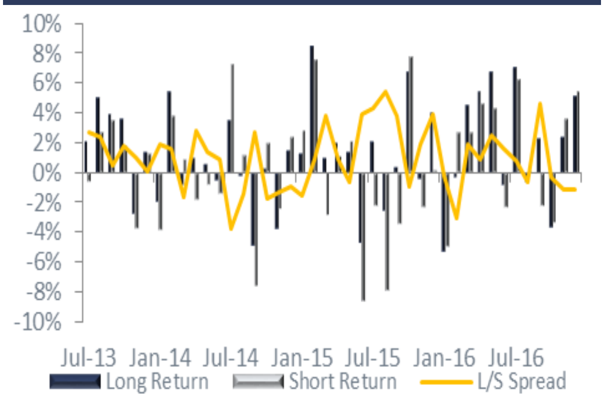
WMK Performance

	1 Mth	6 Mths	1 Yr	S.I. (pa)
Portfolio Return (net)	-0.2%	0.9%	3.1%	7.5%
RBA Cash Rate	0.1%	0.8%	1.8%	2.2%
Outperformance (net)	-0.3%	0.1%	1.4%	5.4%

Sector Exposures

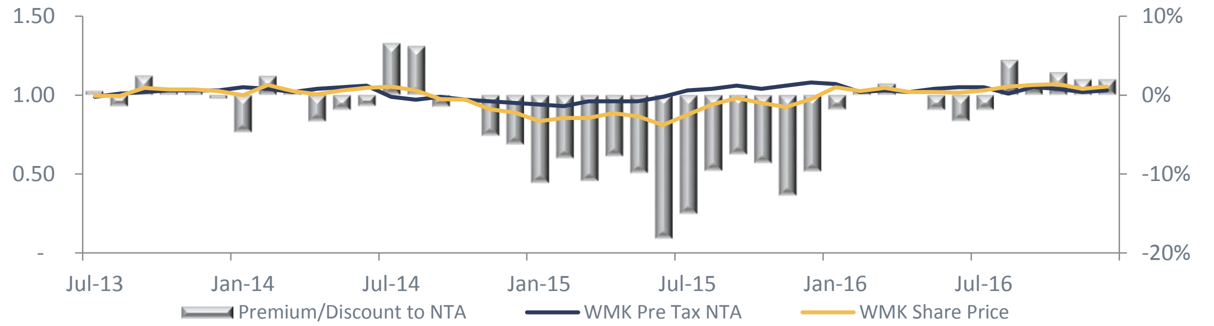


Long Short Spread*



* Long Short spread shows the gross monthly performance of the Company's long and short portfolios. The difference between the two represents the gross performance of the portfoio as a whole. The company will make a profit where the long portfolio outperforms the short portfolio, after the payment of fees and expenses.

Historical Premium/Discount to NTA



Global Leaders Fund Ltd

Fund at a Glance – December 2016

ASX Code	WGF
ASX Code Options	WGFO
Fund Size	AU$88.6m
Fund Strategy	Global Equity Market Neutral
Share Price	$1.065
Shares on Issue	82.8m
Option Price	3.7 cents

Net Tangible Asset (NTA) Backing

		Dec 16
NTA Before Tax		$1.076
NTA After Tax		$1.076

Gross Portfolio Structure

Long Exposure		
Short Exposure		
Gross Exposure		
Cash		

Month in Review

We would like to welcome all investors to the first NTA for the Watermark Global Leaders Fund (WGF). We received funds from the IPO just prior to Christmas and began populating both the long and short portfolios. At the end of December, we had invested a gross amount of roughly 32% and have continued to grow this in January. With few trading days before the end of the year, the performance of the fund was relatively unchanged for December, up 0.1%. We look forward to growing the portfolio and updating investors each month.

Notes

Notes

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FUNDS MANAGEMENT

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