



WATERMARK

MARKET NEUTRAL FUND

NTA and Monthly Update – February 2017

Company at a Glance

ASX Code	WMK
Fund Size	AU\$90m
Fund Strategy	Equity Market Neutral
Share Price	\$1.04
Shares on Issue	87.1m
Dividend (HY17 Interim)	3 cents
Dividend Yield (annualised)	4.8%

Net Tangible Asset (NTA) Backing

	Jan 17	Feb 17
NTA Before Tax	\$1.03	\$1.03
NTA After Tax	\$1.03	\$1.03
Dividend Declared (3¢)	-	(\$0.03)
NTA After Tax \$ Dividend (3¢)	\$1.03	\$1.00

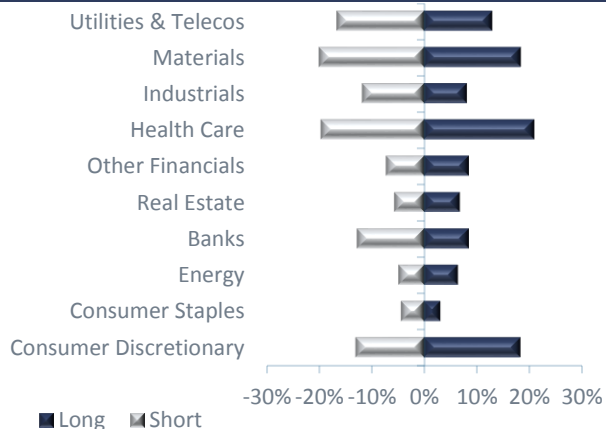
Gross Portfolio Structure

Long Exposure	112.9%	112.7%
Short Exposure	-114.5%	-116.8%
Gross Exposure	227.4%	229.6%
Cash	101.6%	104.1%

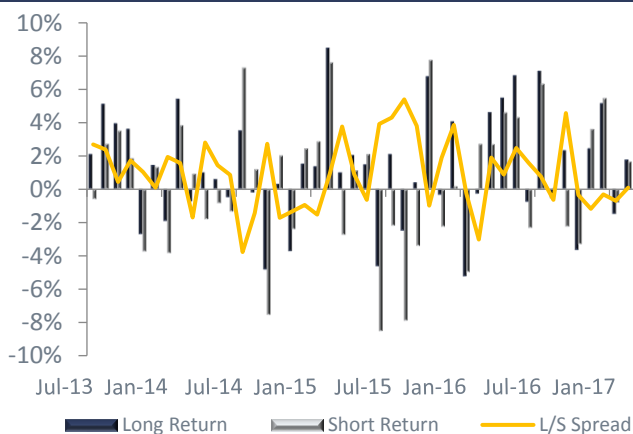
WMK Performance

	1 Mth	6 Mths	FYTD	1 Yr	S.I. (pa)
Portfolio Return (net)	-0.1%	0.9%	0.2%	4.8%	7.0%
RBA Cash Rate	0.1%	0.7%	1.0%	1.7%	2.2%
Outperformance (net)	-0.3%	0.2%	-0.8%	3.1%	4.8%

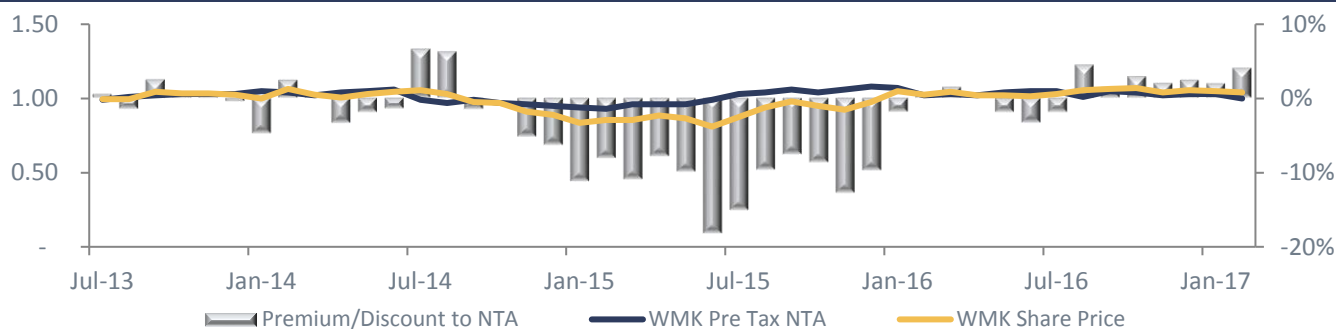
Sector Exposures



Long Short Spread*



Premium/Discount to NTA History





Month in Review

February saw continued strength in share markets here and abroad, as investors look past political uncertainty in North America and Europe, to focus on positive news, such as corporate profits and GDP growth. This improvement in the economic outlook seems to have strengthened the resolve of the US Federal Reserve to press ahead with policy normalisation this year.

Australian shares also finished the month higher, driven by solid results from the corporate reporting season. Results in general were benign, while companies that disappoint investors were aggressively sold-off or flag challenges ahead are often brutally punished. The domestic economy is growing strongly, fuelled largely by stronger exports in the mining sector, disguising a much weaker backdrop in other parts of the economy.

The Company's portfolio decreased in value by 0.1% during the month, with a handful of weak results for Australian positions detracting from what would otherwise have been a solid month. Investments in the domestic Media and Property sectors performed well, complimented by the Company's international portfolio which continues to add value.

In telecommunications, we have identified a range of opportunities to benefit from divergences between companies in growing markets with improving competitive dynamics (China, France), and those where competitive pressures are building on the short side (USA, Malaysia), or where regulatory change is challenging traditional business models. In Australia, the NBN has completely changed the broadband market, while competition between major players continues to build in the mobile segment. The Fund is short domestic telecom. A short position in US company Verizon has been a success in recent months, while on the long side, an investment in French telco Iliad performed well as expectation builds around consolidation in this part of the market.

Gaming is a segment of the technology sector that has been a rich vein of new investment ideas. Interactive gaming companies have seen a resurgence in recent years with the transition from the sale of physical discs, to digital games. This has already seen a marked uplift in the gross profit per unit, and represents a huge opportunity, given digital sales currently account for just 25% of overall sales. The Fund has investments in Activision and Ubisoft, beneficiaries of this thematic.

The Company's healthcare portfolio performed well again this month, with successful positions across the domestic and international portfolios. Positioning in the Australian portfolio has been driven principally by valuations, with several major players in the sector pushing extremes at either end of the spectrum. In global markets, we continue to back companies that are innovators, such as Merck and Bristol-Myers Squibb, while shorting businesses with little clinical or commercial differentiation.

There were mixed results from domestic retailers during the month. While east-coast property prices continue to provide tailwinds for many businesses, this is fully reflected in share prices. The much-hyped entrance of Amazon to the Australian market is also expected to pose challenges for retailers generally. Super Retail has bucked these trends however, delivering a strong result across all divisions and making a strong contribution to Fund performance in the month.

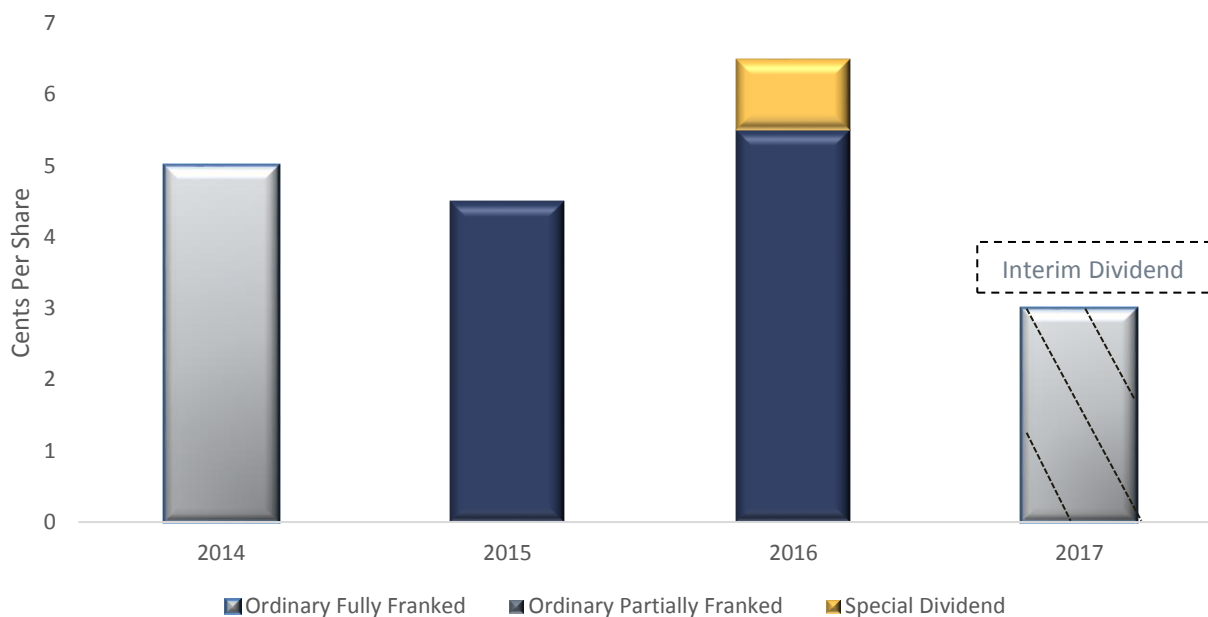
Industrial shares traded up slightly in February, with economic indicators showing positive momentum, while earnings reports were broadly in line with investor expectations. With a risk of disappointment as the stimulus of 2016 fades, the portfolios are fully hedged. Investments in the transport and logistics sectors performed well, partially offset by weaker performance in autos and capital goods. A new investment was initiated in Airbus, a high-quality company with a strong order book, trading at an attractive price. Airbus will see very strong growth in the next few years as hedges roll off.

The action was more subdued in the resources sector in February, with the shares of several large energy and mining companies falling, despite strong profit results and stable commodity prices. We used weaker prices across the energy sector to establish a position in Eni SpA, a major Italian oil & gas producer. The Fund has as a neutral exposure to the sector, with many companies enjoying peak-margins we are looking to get short in areas vulnerable to falling prices. Conversely, we are adding in areas where commodity prices are more reasonable, such as Nickel and Potash.



Dividend History

The Board is committed to paying an consistent stream of franked dividends to shareholders, provided the Company has sufficient profit reserves and franking credits and that it is within prudent business practices. Dividends are paid on a six-monthly basis. A Dividend Reinvestment Plan is available to shareholders. Please contact Boardroom Limited for details on how to participate – 02 9290 9600; callcentre@boardroomlimited.com.au



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