

Watermark Market Neutral Fund Limited

ABN 45 163 980 498

Appendix 4E **for the year ended 30 June 2017**

Preliminary Final Report

This preliminary final report is for the reporting period from 1 July 2016 to 30 June 2017. The previous corresponding year end was 30 June 2016.

Results for announcement to the market

Revenue from ordinary activities	Down	56.74%	from	\$24,775,060	to	\$10,717,857
Profit/ (loss) before tax for the year	Down	89.66%	from	\$13,622,111	to	\$1,407,849
Profit/ (loss) from ordinary activities after tax attributable to members	Down	85.36%	from	\$10,615,257	to	\$1,554,483

Dividends

	Dividend Rate	Total Amount	Date of Payment	% Franked
2017				
Ordinary shares - interim 2017	\$0.030	\$2,613,598	27/04/2017	100
Ordinary shares - final 2016	\$0.030	\$2,613,601	20/10/2016	75
2016				
Ordinary shares - interim special 2016	\$0.010	\$871,201	29/04/2016	50
Ordinary shares - interim 2016	\$0.025	\$2,178,002	29/04/2016	50
Ordinary shares - final 2015	\$0.025	\$2,102,619	20/10/2015	50

In addition to the above dividends, since the end of the financial year the Directors have recommended the payment of a final ordinary dividend of 2.5 cents per fully paid share, fully franked with an ex date of 4 October 2017 and a record date of 5 October 2017, to be paid on 31 October 2017, out of the profits reserve at 30 June 2017.

Net tangible assets

	30 June 2017	30 June 2016
	\$	\$
Net tangible asset backing (per share) before tax	0.99	1.05
Net tangible asset backing (per share) after tax	1.01	1.05

Distribution Reinvestment Plan (DRP)

The Dividend Reinvestment Plan is in operation and the recommended Final dividend of 2.5 cents per share qualifies. Participating shareholders will be entitled to be allotted the number of shares (rounded to the nearest whole number) which the cash dividend would purchase at the relevant issue price. The relevant issue price will be at 2% discount to the price (calculated as the weighted average market price of shares sold on the ASX on the record date for the relevant dividend and the 3 trading days preceding that date). The final time for receipt of an election notice for participation in the Dividend Reinvestment Plan is 5pm, 6 October 2017. Shares issued under the DRP will rank equally with existing ordinary shares. The Company reserves the right to issue DRP shortfall at Director's discretion.

Share buy back

In the prior year the Company announced a 12 month on-market buy-back program on 30 November 2016 that expired 13 February 2017. During the period, the Company had bought zero shares.

The Company renewed the share buy-back program for 12 months from 14 February 2017 and has bought back 10,100 shares at an average price of \$0.95.

2017 Annual General Meeting and Director Nominations

The Company advises that its Annual General Meeting is expected to be held on Tuesday 14 November 2017. The time and other details relating to the meeting will be advised in the Notice of Meeting to be sent to all shareholders and released to ASX immediately after despatch.

In accordance with the Company's Constitution and the ASX Listing Rules, valid nominations for the position of director are required to be lodged at the registered office of the Company by 5:00pm (AEST) Monday 18 September 2017.

Audit

This report is based on the financial report which has been audited. All the documents comprise the information required by Listing Rule 4.3A.

Watermark Market Neutral Fund Limited

ABN 45 163 980 498

Financial Statements for the year ended 30 June 2017

Watermark Market Neutral Fund Limited
Corporate directory

Directors

Matthew Kidman
Chairman

Justin Braitling
Non-Independent Director

John Abernethy
Independent Director

Stephen Van Eyk
Independent Director

Robert Ferguson
Independent Director

Company secretary

Mark Licciardo

Registered office

Level 6
139 Macquarie Street
Sydney NSW 2000
Phone: (02) 9252 0225
Fax: (02) 9252 1220
Email: info@wfunds.com.au

For enquiries regarding net asset backing (as advised each month to the Australian Securities Exchange) refer to www.asx.com.au or call (02) 8280 1700.

Share registrar

Boardroom Pty Limited
Level 12
225 George Street
Sydney NSW 2000
Phone: (02) 9290 9600
Fax: (02) 9223 1762

For enquiries relating to shareholdings, dividends (including participation in the Dividend Reinvestment Plan) and related matters, please contact the share registrar.

Auditors

Pitcher Partners
Level 22 MLC Centre
Sydney NSW 2000
Phone: (02) 9221 2099

Securities exchange listing

Australian Securities Exchange (ASX)
The home exchange is Sydney.
ASX code: WMK Ordinary shares

Watermark Market Neutral Fund Limited ABN 45 163 980 498

Financial Statements - 30 June 2017

Contents

	Page
Company Profile	1
Investments at Market Value	3
Corporate Governance Statement	4
Directors' Report	5
Auditor's Independence Declaration	16
Financial Statements	
Statement of Comprehensive Income	17
Statement of Financial Position	18
Statement of Changes in Equity	19
Statement of Cash Flows	20
Notes to the Financial Statements	21
Directors' Declaration	48
Independent Auditor's Report to the Members	49
Shareholder Information	54

Company Profile

Investment Objective

The Company's investment objective is to deliver consistent positive returns with reduced market risk, irrespective of movements in the underlying share market. The Company will also seek to return a consistent stream of fully franked dividends to Shareholders.

Investment Strategy

The Company's Investment Manager employs an equity market neutral strategy in managing the portfolio. A market neutral strategy aims to profit from the outperformance of a long portfolio over a short portfolio of shares. As the portfolios are roughly of equal value, the structure is fully hedged, minimising exposure to the changes in the broader share market. It provides the Company an opportunity to gain exposure to mispriced listed securities; as identified by the Investment Manager, without being fully exposed to the volatility and risks of the share market.

The value of Company's assets (longs) and its liabilities (shorts) move up and down together with movements in the share market, thereby minimising their impact on the portfolio. The Company profits to the extent that the long portfolio outperforms the short portfolio, irrespective of prevailing market direction. In this way, portfolio returns in a market neutral strategy will almost entirely reflect the Manager's success in choosing shares to buy and sell (short).

Investment Philosophy

The Manager believes successful investing requires the following skills:

- An ability to evaluate the true worth of a business and the management charged with running it;
- An understanding of how and why a company's shares come to be mispriced; and
- An appreciation of the risks that may undermine the investment case.

Employing these skills, the Manager believes the best investment opportunities arise when shares in strong, well managed companies can be purchased on attractive terms. These companies typically exhibit the following characteristics:

- A history of superior returns through the economic cycle;
- Management with a track record of creating and distributing value to shareholders; and
- Businesses with a capacity to grow.

Consistent with these same principles, in selecting shares to short sell the Manager looks to sell the shares of companies with weak fundamentals on occasions when they become overvalued.

Investment Universe

The universe from which investments can be selected comprises companies listed in Australia and on international exchanges. The Company may invest up to 50% of its gross exposure in international shares. While the primary focus is Australian shares, access to international shares provides the Manager with the opportunity to better express its investment ideas while developing deeper insights into Australian companies that compete in global markets.

Investment Process

The Manager's investment process is a fundamentally driven, security selection process based on sound investment ideas taken from the investment of public companies. A summary of the investment process is set out below.

Security Selection

Investment ideas come from monitoring economic and industry trends as well as extensive contact with company management and industry sources.

Once identified, investment opportunities are screened to ensure they are of an investment grade. A full qualitative assessment of the proposed investment is completed to establish whether the business is of a suitable quality and attractively priced.

Qualitative Review

Once a suitable investment opportunity has been identified, a full review of financial performance will be completed. This is usually followed by a meeting with management to further develop an understanding of the business and the management philosophy. Where possible, representatives of the Manager will also meet with suppliers, regulators, competitors and customers to gauge the competitive environment.

Short Selling

Short selling is an important part of the investment strategy employed by the Manager. In a market neutral structure, the manager will seek to match long and short exposures to maintain a fully hedged portfolio.

The Manager employs a similar security selection process as above, but is looking for the opposite qualities in companies to borrow and sell. The Manager believes the best "shorting" opportunities are found in poorly managed companies with weak fundamentals where the shares in those companies can be sold for more than they are worth.

When targeting companies to borrow and sell (short), the Manager will target:

- A history of inferior returns.
- Management with a poor track record.
- Businesses operating in highly competitive industries that are struggling to grow.
- Securities which are expensive on a range of valuation measures.

Portfolio Construction

Unlike a traditional fund, the Manager constructs two portfolios, a long and a short portfolio with the weighting of each investment in each portfolio loosely correlated with the level of conviction around individual investment ideas.

This process ensures the Manager constructs portfolios around the best individual investment ideas, with the highest conviction, while retaining a bias in favour of good, well managed companies to buy (long), and weaker businesses to sell (short).

The manager will retain 100% of investors' capital in cash and cash equivalents, held with the Prime Broker and on deposit with an Australian bank. Funds are then raised through the short-sale of securities, with the proceeds invested in the long portfolio. As such, the company can maintain a gross market exposure of up to 400% of Shareholders' capital in mispriced securities while ensuring the portfolio is fully hedged against movements in the underlying share market.

Watermark Market Neutral Fund Limited
Investments at Market Value
30 June 2017

Investments at Market Value

Automobiles & Components

Bayerische Motoren Werke AG	888,908.47	0.77%
O'Reilly Automotive, Inc.	980,986.39	0.85%
	1,869,894.86	1.62%

Consumer Durables & Apparel

Activision Blizzard, Inc.	651,691.96	0.56%
Lululemon Athletica Inc	497,321.32	0.43%
	1,149,013.28	1.00%

Consumer Services

Retail Food Group Limited	173.90	0.00%
Star Entertainment Group Limited	1,227,851.95	1.06%
SKYCITY Entertainment Group Limited	592,270.36	0.51%
	1,820,296.21	1.58%

Media

Fairfax Media Limited	1,520,414.50	1.32%
ProSiebenSat.1 Media SE	881,286.82	0.76%
	2,401,701.32	2.08%

Retailing

Bapcor Ltd	787,326.39	0.68%
Dick's Sporting Goods, Inc.	409,645.88	0.36%
Lowe's Companies, Inc.	1,048,355.61	0.91%
Super Retail Group Limited	343,063.40	0.30%
Trade Me Group Limited	1,356,454.44	1.18%
	3,944,845.73	3.42%

Food & Staples Retailing

Woolworths Ltd	980,863.70	0.85%
	980,863.70	0.85%

Food Beverage & Tobacco

Heineken NV	1,038,608.54	0.90%
Pernod Ricard SA	510,300.80	0.44%
	1,548,909.34	1.34%

Energy

Inpex Corporation	856,828.01	0.74%
Caltex Australia Limited	697,190.16	0.60%
Eni S.p.A.	1,228,733.77	1.07%
Hess Corporation	1,277,408.86	1.11%
Karoon Gas Australia Ltd	343,354.88	0.30%
Origin Energy Limited	1,314,917.94	1.14%
Oil Search Limited	2,092,723.82	1.81%
Royal Dutch Shell Plc Class B	874,784.51	0.76%
Z Energy Ltd.	1,500,396.40	1.30%
	10,186,338.35	8.83%

Banks

ABN AMRO Group N.V. Shs Depositary receipts	729,127.78	0.63%
Allied Irish Banks p.l.c.	1,034,189.24	0.90%
Australia and New Zealand Banking Group Limited	5,798,769.04	5.03%
Barclays PLC	1,728,270.70	1.50%
UniCredit S.p.A.	2,063,398.44	1.79%
Westpac Banking Corporation	5,762,911.86	5.00%
Wells Fargo & Company	2,030,893.38	1.76%
	19,147,560.44	16.60%

Diversified Financials

AMP Limited	1,764,740.13	1.53%
Janus Henderson Group PLC Registered Shs Chess Depo:	434,694.40	0.38%
Charles Schwab Corporation	879,306.45	0.76%
Synchrony Financial	715,244.60	0.62%
	3,793,985.58	3.29%

Insurance

Aviva plc	1,424,572.10	1.23%
NN Group N.V.	1,993,452.79	1.73%
Suncorp Group Limited	943,767.24	0.82%
	4,361,792.12	3.78%

Health Care Equipment & Services

Fresenius Medical Care AG & Co. KGaA	913,005.29	0.79%
Impedimed Limited	282,517.98	0.24%
Mylan N.V.	615,563.09	0.53%
Ramsay Health Care Limited	2,736,227.20	2.37%
	4,547,313.56	3.94%

Pharmaceuticals Biotech & Life Sciences

Allergan plc	1,676,165.87	1.45%
Genmab A/S	696,132.70	0.60%
Nevro Corp.	1,780,090.44	1.54%
Roche Holding Ltd Genusssch.	1,174,183.23	1.02%
Walgreens Boots Alliance Inc	1,035,829.83	0.90%
Celgene Corporation	1,378,868.78	1.20%
Juno Therapeutics, Inc.	220,400.03	0.19%
Merck & Co., Inc.	2,525,165.26	2.19%
Novartis AG	1,283,204.43	1.11%
Mayne Pharma Group Limited	1,076,113.85	0.93%
	12,846,154.43	11.14%

Capital Goods

Analog Devices, Inc.	950,173.28	0.82%
Eaton Corp. Plc	881,440.87	0.76%
Siemens AG	434,853.57	0.38%
USG Corporation	404,815.86	0.35%
	2,671,283.58	2.32%

Commercial & Professional Services

Brambles Limited	2,019,656.10	1.75%
Downer EDI Limited	829,761.68	0.72%
	2,849,417.78	2.47%

Transportation

Auckland International Airport Limited	1,415,099.25	1.23%
Deutsche Post AG	1,053,858.87	0.91%
Macquarie Atlas Roads Group	798,303.00	0.69%
	3,267,261.12	2.83%

Semiconductors & Semiconductor Equipment

Micron Technology, Inc.	417,312.05	0.36%
	417,312.05	0.36%

Software & Services

Facebook, Inc. Class A	1,692,755.39	1.47%
Fortinet, Inc.	863,943.69	0.75%
Alphabet Inc. Class C	816,263.58	0.71%
Honeywell International Inc.	1,294,410.05	1.12%
Intuit Inc.	438,400.27	0.38%
MYOB Group Ltd.	1,673,535.96	1.45%
NetEase, Inc. Sponsored ADR	900,263.51	0.78%
Ubisoft Entertainment SA	443,002.63	0.38%
	8,122,575.08	7.04%

Technology Hardware & Equipment

Nokia Oyj	1,027,952.45	0.89%
Palo Alto Networks, Inc.	1,059,768.94	0.92%
AU OPTRONICS ADR SWAP MS DEC 17	146,123.32	0.13%
	2,233,844.71	1.94%

Materials

Agrium Inc.	841,094.60	0.73%
Arcor Ltd	1,068,514.57	0.93%
BHP Billiton Limited	2,449,032.72	2.12%
Evolution Mining Limited	1,948,096.99	1.69%
Fletcher Building Limited	2,031,519.94	1.76%
Goldcorp Inc.	1,129,038.05	0.98%
Independence Group NL	1,598,628.15	1.39%
Iluka Resources Limited	1,221,449.60	1.06%
James Hardie Industries PLC Chess Units of Foreign Se	1,716,957.00	1.49%
Newmont Mining Corporation	1,692,573.35	1.47%
Orora Ltd.	733,610.02	0.64%
Orocobre Limited	567,036.17	0.49%
	16,997,551.16	14.74%

Real Estate

Scentre Group	4,912,492.05	4.26%
	4,912,492.05	4.26%

Telecommunication Services

China Telecom Corp. Ltd. Class H	1,324,951.63	1.15%
China Mobile Limited	415,720.96	0.36%
Orange SA	1,290,036.06	1.12%
Vivendi SA	2,251,361.69	1.95%
	5,282,070.35	4.58%

Total Long Portfolio	115,352,476.79	100.00%
Total Short Portfolio	(113,630,558.16)	

Corporate Governance Statement

As an ASX-listed company, Watermark Market Neutral Fund Ltd ("Watermark MNF") and its directors are committed to responsible and transparent financial and business practices to protect and advance shareholders' interests. The Company's strong corporate governance practices are based on the ASX Corporate Governance Principles and Recommendations.

The Board has adopted these ASX principles and recommendations which are complemented by the Company's core principles of honesty and integrity. The corporate governance policies and practices adopted by the Board are outlined in Watermark MNF's Corporate Governance section (<http://wffunds.com.au/fund/watermark-market-neutral-fund-ltd/>).

Directors' Report

The Directors present their report together with the financial statements of Watermark Market Neutral Fund Limited ("the Company") for the year ended 30 June 2017.

Directors

The following persons held office as directors of Watermark Market Neutral Fund Limited during the financial year:

Matthew Kidman (Chairman)
 Justin Braitling (Non-Independent Director)
 John Abernethy (Independent Director)
 Stephen Van Eyk (Independent Director)
 Robert Ferguson (Independent Director)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Principal activities

During the financial year, the principal activities of the Company included making investments in listed companies and unlisted companies.

There was no significant change in the nature of the activity of the Company during the year.

Dividends - Watermark Market Neutral Fund Limited

Dividends paid to members were as follows:

	Dividend Rate	Total Amount	Date of Payment	% Franked
2017				
Ordinary shares - interim 2017	\$0.030	\$2,613,598	27/04/2017	100
Ordinary shares - final 2016	\$0.030	\$2,613,601	20/10/2016	75
2016				
Ordinary shares - interim special 2016	\$0.010	\$871,201	29/04/2016	50
Ordinary shares - interim 2016	\$0.025	\$2,178,002	29/04/2016	50
Ordinary shares - final 2015	\$0.025	\$2,102,619	20/10/2015	50

In addition to the above dividends, since the end of the financial year the Directors have recommended the payment of a final ordinary dividend of 2.5 cents per fully paid share, fully franked to be paid on 31 October 2017 out of profits reserve at 30 June 2017.

Review of operations

Information on the operations and financial position of the Company and its business strategies and prospects is set out in the review of operations and activities on pages to of this Financial Statements.

The profit from ordinary activities after income tax amounted to \$1,554,483 (2016: profit of \$10,615,257).

The net tangible asset backing for each ordinary share as at 30 June 2017 amounted to \$1.01 per share (2016: \$1.05 per share). The equivalent asset backing before tax was \$0.99 per share (2016: \$1.05 per share).

The gross portfolio value increased 3.4% over the financial year while the Reserve Bank of Australia's cash-rate increased by 1.5%, representing an outperformance of 1.9%. After deducting costs in funding the balance sheet, along with management fees and other expenses, the fund reported a positive 1.2% return for the year.

Financial Position

The net asset value of the Company for the current financial year ended was \$88,707,997 (2016: \$92,151,212).

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Company during the year ended 30 June 2017.

Matters subsequent to the end of the financial period

On 24 July, the Company announced the resignation of Sophia Gartzonis as Company Secretary effective 24 July 2017. Following the resignation, Mark Licciardo of Mertons Corporate Services Pty Ltd was appointed as Company Secretary, effective 24 July 2017.

Other than the dividend declared after year end, no other matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

Likely developments and expected results of operations

The Company will continue to pursue its investment objectives for the long term benefit of the members. This will require continual review of the investment strategies that are currently in place and may require changes to these strategies to maximise returns.

Environmental regulation

The Company is not affected by any significant environmental regulation in respect of its operations.

To the extent that any environmental regulations may have an incidental impact on the Company's operations, the Directors of the Company are not aware of any breach by the Company of those regulations.

Information on directors

Matthew Kidman Chair - Chairman Age 48.

Experience and expertise

Matthew Kidman has over 20 years' experience in the finance industry. He spent four years as finance journalist at the Sydney Morning Herald, during which time he was appointed finance editor of the newspaper. In 1998 Matthew joined the funds management group Wilson Asset Management as a portfolio manager, his roles since then included positions as stock analyst, dealer, portfolio manager and senior executive of the management group. He was appointed to the board of WAM Capital Pty Limited in 1999.

Matthew holds a Bachelor of Economics and Bachelor of Laws degree and a Graduate Diploma in Applied Finance, all from Macquarie University.

Other current directorships

Matthew is the director of WAM Capital Pty Limited, WAM Research Pty Limited, WAM Active Limited, Incubator Capital Limited and Sardon Capital Investments Limited. He is also founder of funds management group Centennial Asset Management Pty Limited.

Former directorships in last 3 years

Matthew Kidman resigned as director of financial planning group Centrepont Alliance Limited in November 2015.

Special responsibilities

Chairman of the Board.

Interests in shares and options

Details of Matthew Kidman's interests in shares of the Company are included later in this report.

Interests in contracts

Matthew Kidman has no interests in contracts of the Company.

Information on directors (continued)

Justin Braitling Non-Independent Director Age 50.

Experience and expertise

Justin Braitling has over 25 years' experience in investing in Australian and international companies. He was an Investment Analyst and Portfolio Manager at Bankers Trust for 12 years from January 1991 to June 2002. He was a key member of the investment team at Bankers Trust that was consistently ranked in the top quartile of managers by InTech.

Other current directorships

Justin Braitling is the sole Director of the investment management company, Watermark Funds Management Pty Limited.

Justin Braitling has been a Director of Australian Leaders Fund Limited since October 2003 of which he became Chairman in February 2007.

Former directorships in last 3 years

Justin Braitling has not held any other directorships of listed companies within the last three years.

Special responsibilities

Investment Manager of the Company.

Interests in shares and options

Details of Justin Braitling's interests in shares of the Company are included later in this report.

Interests in contracts

Details of Justin Braitling's interests in contracts of the Company are included later in this report.

Information on directors (continued)

John Abernethy Independent Director Age 58.

Experience and expertise

John Abernethy has over 30 years' experience in funds management and corporate advisory. He holds a Bachelor of Commerce and Bachelor of Laws (BCom/LLB) from the University of New South Wales. He spent ten years at NRMA Investments as Head of Equities. In 1994 he joined Poynton Corporate Limited as an Executive Director before forming Clime Investment Management Limited in 1996.

Other current directorships

John Abernethy is the Chairman of Clime Capital Limited. He is a Director of Clime Investment Management Limited, Jasco Holdings Limited, WAM Research Limited (appointed May 2002), WAM Active Limited (appointed November 2007) and Australian Leaders Fund Limited.

Former directorships in last 3 years

John Abernethy has not held any other directorships of listed companies within the last three years.

Special responsibilities

Chairman of the Audit Committee

Interests in shares and options

John Abernethy has no interests in shares and options of the Company.

Interests in contracts

John Abernethy has no interests in contracts of the Company.

Information on directors (continued)

Robert Ferguson Independent Director Age 71.

Experience and expertise

Robert Ferguson's career spans over 30 years' in research, finance, investment management and property. Robert commenced employment in 1971 with Bankers Trust Australia Ltd and was its CEO between 1985 and 1999 and Chairman from 1999 to 2001. Robert has extensive experience in both executive and non-executive roles.

Robert holds a B.Ec (Hons) from the University of Sydney.

Other current directorships

Robert is the Chairman of GPT Management Holdings Limited; Non-Executive Chairman of Primary Health Care Limited; Non-Executive Director of Tyro Payments Limited and Chairman of SmartWard Holdings Pty Ltd.

Former directorships in last 3 years

Robert Ferguson has not held any other directorships of listed companies within the last three years.

Special responsibilities

Member of the Audit Committee

Interests in shares and options

Details of Robert Ferguson's interests in shares of the Company are included later in this report.

Interests in contracts

Robert Ferguson has no interests in contracts of the Company.

Information on directors (continued)

Stephen Van Eyk Independent Director Age 65.

Experience and expertise

Stephen has over 25 years' experience in the financial services industry, with over 15 years as Managing Director of research house van Eyk Research. Stephen was presented with the Lifetime Achievement Award at the 2013 Fund Manager awards.

Stephen holds a Commerce Degree from the UNSW and is a fellow of the Financial Services Institute.

Other current directorships

Stephen Van Eyk has not held any other directorships of listed companies outside the Company.

Former directorships in last 3 years

Stephen Van Eyk has not held any other directorships of listed companies within the last three years.

Special responsibilities

Member of the Audit Committee

Interests in shares and options

Details of Stephen Van Eyk's interests in shares of the Company are included later in this report.

Interests in contracts

Stephen Van Eyk has no interests in contracts of the Company.

Company secretary

Matthew McShane of Link Fund Solutions Pty Limited (formerly White Outsourcing Pty Limited) resigned as Company Secretary, effective 9 December 2016. Following the resignation, Sophia Gartzonis of Link Fund Solutions Pty Limited (previously White Outsourcing Pty Limited) was appointed as Company Secretary, effective 9 December 2016.

Sophia Gartzonis resigned as Company Secretary, effective 24 July 2017. Following the resignation, Mark Licciardo of Mertons Corporate Services Pty Ltd was appointed as Company Secretary, effective 24 July 2017.

Mark Licciardo is the founder and Managing Director of Mertons Corporate Services Pty Ltd. As a former company secretary of ASX 50 companies, Transurban Group and Australian Foundation Investment Company Limited, his expertise includes working with boards of directors in the areas of corporate governance, business management, administration, consulting and company secretarial matters. He is also the former Chairman of the Governance Institute of Australia Victoria division and Melbourne Fringe Festival and a current non-executive director of a number of public and private companies.

Mark Licciardo holds a Bachelor of Business Degree (Accounting) from Victoria University and a Graduate Diploma in Company Secretarial Practice, is a Fellow of the Australian Institute of Company Directors, the Institute of Chartered Secretaries and Administrators and the Governance Institute of Australia.

Watermark Market Neutral Fund Limited
Directors' Report
For the year ended 30 June 2017
(continued)

Meetings of directors

The numbers of meetings of the Company's board of Directors and of each board committee held during the year ended 30 June 2017, and the numbers of meetings attended by each Director were:

	Directors' Meetings		Meetings of committees	
			Audit	
	A	B	A	B
Matthew Kidman	4	4	3*	3
Justin Braitling	4	4	3*	3
John Abernethy	4	4	3	3
Stephen Van Eyk	4	4	3	3
Robert Ferguson	4	4	3	3

A = Number of meetings attended

B = Number of meetings held during the time the Director held office or was a member of the committee during the year

* Not a member of the relevant committee

Remuneration report (audited)

This report details the nature and amount of remuneration for key management personnel of Watermark Market Neutral Fund Limited in accordance with the *Corporations Act 2001*.

Fees and payments to Directors reflect the demands that are made on and the responsibilities of the Directors and are reviewed annually by the Board. The Company determines the remuneration levels and ensures they are competitively set to attract and retain appropriately qualified and experienced Directors.

Directors' base fees are set at a maximum of \$180,000 per annum. Directors do not receive bonuses nor are they issued options on securities. Directors' fees cover all main board activities and membership of committees. Under the ASX Listing Rules, the maximum fees paid to Directors may not be increased without approval from the Company at a general meeting. Directors will seek approval from time to time as appropriate.

Details of remuneration

The following tables show details of the remuneration received by key management personnel of the Company for the current and previous financial year.

2017	Short-term employee benefits		Post-employment benefits
	Salary and fees	Superannuation	Total
Name	\$	\$	\$
Matthew Kidman	27,397	2,603	30,000
John Abernethy	27,397	2,603	30,000
Stephen Van Eyk	27,397	2,603	30,000
Robert Ferguson	27,397	2,603	30,000
Justin Braitling	9,132	868	10,000
Total key management personnel compensation	118,720	11,280	130,000

Watermark Market Neutral Fund Limited
Directors' Report
For the year ended 30 June 2017
(continued)

Remuneration report (audited) (continued)

Details of remuneration (continued)

2016	Short-term employee benefits	Post-employment benefits	
Name	Salary and fees \$	Superannuation \$	Total \$
Matthew Kidman	27,397	2,603	30,000
John Abernethy	27,397	2,603	30,000
Stephen Van Eyk	27,397	2,603	30,000
Robert Ferguson	27,397	2,603	30,000
Justin Braithling	9,132	868	10,000
Total key management personnel compensation	118,720	11,280	130,000

The following table comprises the company performance and non-executive directors' remuneration:

	2017	2016	2015
Operating profit/(loss) after tax	\$1,554,483	\$10,615,257	(\$753,232)
Dividends paid (cents per share)	6.0	6.0	4.5
Net tangible asset (\$ per share)	\$1.01	\$1.05	\$0.99
Total Directors' remuneration	\$130,000	\$130,000	\$130,000
Total Shareholder's Equity	\$88,707,997	\$92,151,212	\$83,609,816

Director Related Entity Remuneration

All transactions with related entities were made on normal commercial terms and conditions.

Watermark Fund Management Pty Limited is a Director associated entity and has been appointed to manage the investment portfolio of Watermark Market Neutral Fund Limited. Watermark Funds Management Pty Limited operates a funds management business. In its capacity as manager, Watermark Funds Management Pty Limited was paid a management fee of 1% p.a. (plus GST) on the net value of the portfolio amounting to \$921,386 (2016: \$925,571). As at 30 June 2017, the balance payable to the manager was \$79,239 (2016: \$84,406).

In addition, Watermark Funds Management Pty Limited is to be paid, annually in arrears, a performance fee being 20% of:

- where the level of the Reserve Bank of Australia's cash-rate has increased over that year, the amount of the increase in the Value of the Portfolio exceeds this increase; or
- where the Reserve Bank of Australia's cash-rate has decreased over that year, the amount of the increase in the Value of the Portfolio.

No performance fee is payable in respect of any performance period where the portfolio has decreased in value over that period. On the 19 May 2015, the Company announced, if the portfolio underperforms the benchmark over a financial year that underperformance is to be recouped before any entitled performance fee can be accrued.

For the year ended 30 June 2017, in its capacity as manager, Watermark Funds Management Pty Limited was paid a performance fee amounting to \$163,954 (2016: \$2,750,119). As at 30 June 2017, the balance payable to the manager was \$175,951 (2016: \$2,951,347).

These amounts are in addition to the above Directors remuneration.

No Director has received or become entitled to receive a benefit (other than those detailed above) by reason of a contract made by the Company or a related Company with the Director or with a firm of which he is a member or with a Company in which he has substantial financial interest.

Remuneration report (audited) (continued)

Details of remuneration (continued)

Remuneration of Executives

There are no executives that are paid by the Company. Watermark Funds Management Pty Limited the investment manager of the Company remunerated Justin Braitling as employees and/or as a Director of the Company during the financial year. The Manager is appointed to provide day-to-day management of the Company and is remunerated as outlined above.

Equity Instrument Disclosures Relating to Directors

As at the date of this report, the Company's Directors and their related parties held the following interests in the Company:

Ordinary Shares Held

2017

Director	Position	Balance at 17 August 2016	Acquisitions	Disposals	Balance at 31 August 2017
Matthew Kidman	Chairman	64,563	-	-	64,563
Justin Braitling	Non-Independent Director	713,001	-	-	713,001
Robert Ferguson	Independent Director	1,000,000	-	-	1,000,000
Stephen Van Eyk	Independent Director	115,426	49,079	-	164,505
John Abernethy	Independent Director	-	30,000	-	30,000
		1,892,990	79,079	-	1,972,069

2016

Director	Position	Balance at 28 August 2015	Acquisitions/ Options Exercised	Disposals	Balance at 16 August 2016
Matthew Kidman	Chairman	50,000	14,563	-	64,563
Justin Braitling	Non-Independent Director	683,001	30,000	-	713,001
Robert Ferguson	Independent Director	1,000,000	-	-	1,000,000
Stephen Van Eyk	Independent Director	48,780	66,646	-	115,426
John Abernethy	Independent Director	-	-	-	-
		1,781,781	111,209	-	1,892,990

There are no outstanding shares held by people other than Directors or key management personnel.

Options Held

None of the Directors held options during the year ended 30 June 2017 and 30 June 2016.

End of remuneration report

Insurance and indemnification of officers and auditors

(a) Insurance of officers

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company, the Company Secretary and any related body corporate against liability incurred as such by a Director or Secretary to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

(b) Indemnity of auditors

No indemnities have been given or insurance premiums paid during or since the end of the financial year, for any person who is or has been an auditor of the Company.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit services

The Board of Directors, in accordance with advice from the Audit & Risk Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the services disclosed in Note 20 did not compromise the external auditor's independence for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 16.

Rounding of amounts

The Company is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the ASIC relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest dollars in accordance with that ASIC Corporations Instrument, unless otherwise indicated.

This report is made in accordance with a resolution of Directors.



Matthew Kidman
Chairman

Sydney
31 August 2017

Auditor's Independence Declaration
To the Directors of Watermark Market Neutral Fund Limited
A.B.N. 45 163 980 498

In relation to the independent audit for the year ended 30 June 2017, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) no contraventions of any applicable code of professional conduct.

This declaration is in respect of Watermark Market Neutral Fund Limited during the year.



S M WHIDDETT
Partner

PITCHER PARTNERS
Sydney

31 August 2017

Watermark Market Neutral Fund Limited
Statement of Comprehensive Income
For the year ended 30 June 2017

Statement of Comprehensive Income

		Year ended	
	Notes	2017 \$	2016 \$
Investment income from ordinary activities			
Net realised gains on investments		8,712,260	17,708,291
Net unrealised (losses)/gains on investments		(3,328,276)	1,222,287
Dividends		2,438,370	2,714,737
Interest		2,432,079	2,782,466
Trust distributions		160,850	236,174
Other income		-	88,428
Net foreign exchange gains		302,574	22,677
		<u>10,717,857</u>	<u>24,775,060</u>
Expenses			
Management fees	22(b)	(921,386)	(925,571)
Performance fees	22(b)	(163,954)	(2,750,119)
Brokerage expense		(1,288,213)	(1,548,997)
Short dividend expense		(3,836,983)	(3,387,306)
Interest expense		(1,748,121)	(1,238,621)
Stock loan fees		(736,023)	(686,575)
Accounting fees		(115,681)	(115,230)
Share registry fees		(68,471)	(61,639)
Legal fees		(7,871)	(9,788)
Directors' fees	19(a)	(130,000)	(130,000)
ASX fees		(54,159)	(49,216)
Audit fees	20	(41,199)	(60,075)
Imputation credits		(99,329)	(95,833)
Other expenses		(98,618)	(93,979)
		<u>(9,310,008)</u>	<u>(11,152,949)</u>
Profit before income tax		1,407,849	13,622,111
Income tax benefit/(expense)	7	<u>146,634</u>	<u>(3,006,854)</u>
Profit for the year		1,554,483	10,615,257
Other comprehensive income for the year, net of tax		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u>1,554,483</u>	<u>10,615,257</u>
		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share	25	1.78	12.52
Diluted earnings per share	25	1.78	12.52

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Watermark Market Neutral Fund Limited
Statement of Financial Position
As at 30 June 2017

Statement of Financial Position

		At	
	Notes	2017 \$	2016 \$
ASSETS			
Current assets			
Cash and cash equivalents	8	80,021,172	93,247,732
Trade and other receivables	9	11,169,327	4,179,652
Financial assets at fair value through profit or loss	10	115,206,353	104,512,860
Current tax assets		-	1,534,384
Prepayment		24,393	-
Total current assets		206,421,245	203,474,628
Non-current assets			
Deferred tax assets	12	1,425,362	253,992
Total non-current assets		1,425,362	253,992
Total assets		207,846,607	203,728,620
LIABILITIES			
Current liabilities			
Trade and other payables	13	5,915,874	4,869,408
Financial liabilities at fair value through profit or loss	14	113,180,962	106,552,187
Current tax liabilities		567	-
Total current liabilities		119,097,403	111,421,595
Non-current liabilities			
Deferred tax liabilities	15	41,207	155,813
Total non-current liabilities		41,207	155,813
Total liabilities		119,138,610	111,577,408
Net assets		88,707,997	92,151,212
EQUITY			
Issued capital	16	86,782,148	86,552,644
Reserves	17(a)	2,954,036	6,364,468
Accumulated losses	17(b)	(1,028,187)	(765,900)
Total equity		88,707,997	92,151,212

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Watermark Market Neutral Fund Limited
Statement of Changes in Equity
For the year ended 30 June 2017

Statement of Changes in Equity

	Notes	Issued Capital \$	Profits Reserves \$	Accumulated losses \$	Total \$
Balance at 1 July 2015		83,474,683	888,365	(753,232)	83,609,816
Profit for the year		-	-	10,615,257	10,615,257
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	-	10,615,257	10,615,257
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	18	-	(5,151,822)	-	(5,151,822)
On market buy back	16	(9,500)	-	-	(9,500)
Share placement share issued	16	3,116,045	-	-	3,116,045
Costs of issued capital	16	(28,584)	-	-	(28,584)
Transfer to profits reserve	17	-	10,627,925	(10,627,925)	-
		3,077,961	5,476,103	(10,627,925)	(2,073,861)
Balance at 30 June 2016		86,552,644	6,364,468	(765,900)	92,151,212
Balance at 1 July 2016		86,552,644	6,364,468	(765,900)	92,151,212
Profit for the year		-	-	1,554,483	1,554,483
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	-	1,554,483	1,554,483
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	18	239,767	(5,227,202)	-	(4,987,435)
On market buy back	16	(107)	-	-	(107)
Costs of issued capital	16	(10,156)	-	-	(10,156)
Transfer to profits reserve	17	-	1,816,770	(1,816,770)	-
		229,504	(3,410,432)	(1,816,770)	(4,997,698)
Balance at 30 June 2017		86,782,148	2,954,036	(1,028,187)	88,707,997

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Watermark Market Neutral Fund Limited
Statement of Cash Flows
For the year ended 30 June 2017

Statement of Cash Flows

	Year ended	
Notes	2017 \$	2016 \$
Cash flows from operating activities		
Purchase of financial assets	(323,918,366)	(293,048,266)
Proceeds from sale of financial assets	329,162,369	280,052,641
Proceeds from short sale of financial liabilities	(300,108,002)	311,380,185
Re-purchase of financial liabilities	292,251,357	(275,485,273)
Interest received	2,540,340	2,785,402
Interest paid	(1,737,244)	(1,253,258)
Dividends and trust distributions received	2,862,664	2,684,153
Dividends paid on short stocks	(3,619,918)	(3,493,930)
Underwriting income	-	79,126
Other income received	-	8,696
Income taxes paid	399,962	(1,759,628)
Investment management fees paid	(925,723)	(916,867)
Performance fees paid	(2,750,119)	-
Brokerage expense	(1,267,506)	(1,536,450)
Stock loan fees	(767,782)	(681,360)
Payments for other expenses	(649,115)	(592,178)
Net cash (outflow)/inflow from operating activities	24(a) <u>(8,527,083)</u>	18,222,993
Cash flows from financing activities		
Payments for shares bought back	(107)	(233,015)
Shares issued	239,767	-
Share issue transaction costs	(14,509)	(40,833)
Dividends paid	(5,227,202)	(5,158,629)
Shares purchased under share purchase plan	-	3,116,045
Net cash (outflow) from financing activities	<u>(5,002,051)</u>	(2,316,432)
Net (decrease)/increase in cash and cash equivalents	(13,529,134)	15,906,561
Cash and cash equivalents at the beginning of the year	93,247,732	77,318,497
Effects of exchange rate changes on cash and cash equivalents	302,574	22,674
Cash and cash equivalents at end of the year	8 <u>80,021,172</u>	93,247,732
Non-cash investing and financing activities		
Dividends reinvested	24(b) <u>239,767</u>	-

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

1 General information

Watermark Market Neutral Fund Limited (the "Company") is a listed public company incorporated and domiciled in Australia. The address of Watermark Market Neutral Fund Limited's registered office is Level 6, 139 Macquarie Street, Sydney, NSW 2000. The financial statements of Watermark Market Neutral Fund Limited are for the year ended 30 June 2017. The Company is primarily involved in making investments, and deriving revenue and investment income from listed securities and unit trusts in Australia.

2 Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the entity Watermark Market Neutral Fund Limited.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Watermark Market Neutral Fund Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial statements were authorised for issue by the Board of Directors on 31 August 2017.

(i) Compliance with IFRS

The financial statements of the Watermark Market Neutral Fund Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) New and amended standards adopted by the Company

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2016 that have a material impact on the Company.

(iii) Historical cost convention

These financial statements have been prepared under the accruals basis and are based on historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through profit or loss.

(iv) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 5.

(v) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below.

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

Title of standard	Nature of change	Impact	Mandatory application date/ Date of adoption by the Company
AASB 9 <i>Financial Instruments</i>	AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the AASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard.	<p>Following the changes approved by the AASB in December 2014, the Company no longer expects any impact from the new classification, measurement and derecognition rules on the Company's financial assets and financial liabilities.</p> <p>There will also be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities.</p> <p>The derecognition rules have not changed from the previous requirements, and the Company does not apply hedge accounting. The new standard also introduces expanded disclosure requirements and changes in presentation.</p> <p>The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses.</p> <p>The Company has not yet assessed how the impairment provisions would be affected by the new rules.</p>	<p>Must be applied for financial years commencing on or after 1 January 2018.</p> <p>Based on the transitional provisions in the completed IFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety.</p> <p>The Company has not yet decided whether it will early adopt AASB 9.</p>

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

Title of standard	Nature of change	Impact	Mandatory application date/ Date of adoption by the Company
AASB 15 <i>Revenue from Contracts with Customers</i>	<p>The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts.</p> <p>The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards.</p> <p>The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (eg 1 July 2017), ie without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.</p>	<p>The Company's main sources of income are interest, dividends and distributions and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. As a consequence, the Directors do not expect the adoption of AASB 15 to have a significant impact on the Company's accounting policies or the amounts recognised in the financial statements.</p>	<p>Mandatory for financial years commencing on or after 1 January 2017.</p> <p>The Company has not yet decided whether it will early adopt AASB 15.</p>

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2 Significant accounting policies (continued)

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Australian dollars, which is Watermark Market Neutral Fund Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss in the Statement of Comprehensive Income.

(c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of rebates and amounts collected on behalf of third parties.

Revenue is recognised where it is probable that the economic benefit will flow to the entity and can be reliably measured.

(i) Investment income

Profits and losses realised from the sale of investments and unrealised gains and losses on securities held at fair value are included in the Statement of Comprehensive Income in the year they are incurred in accordance with the policies described in Note 2(h).

(ii) Dividends and trust distributions

Dividends and trust distributions are recognised as revenue when the right to receive payment is established.

(iii) Interest income

Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.

(iv) Other income

The Company recognises other income when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(d) Income tax

The income tax expense/(income) for the year comprises current income tax expense/(income) and deferred tax expense/(income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities/(assets) are measured at the amounts expected to be paid to/(recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense/(income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

2 Significant accounting policies (continued)

(d) Income tax (continued)

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(e) Cash and cash equivalents

For the purpose of presentation in the Statement of Cash Flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

(f) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the year. Trades are recorded on trade date, and for equities normally settled within three business days. A provision for impairment of amounts due from brokers is recognised in the Statement of Comprehensive Income when there is objective evidence that the Company will not be able to collect all amounts due from the relevant broker. Indicators that the amount due from brokers is impaired include significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation and default in payments.

(g) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade and other receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly.

2 Significant accounting policies (continued)

(h) Financial assets and liabilities

The Company's investments are classified as at fair value through profit or loss. They comprise:

Classification

(i) Financial assets and liabilities at fair value through profit or loss - held for trading

Financial assets are classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if they are expected to be settled within 12 months; otherwise they are classified as non-current.

The Company makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are classified as current financial liabilities at fair value through profit or loss.

Dividends expense on short sales of securities, which have been classified at fair value through profit or loss, is recognised in the Statement of Comprehensive Income.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 9) in the Statement of Financial Position.

Recognition and derecognition

Purchases and sales of financial assets and liabilities at fair value through profit or loss are recognised on trade-date - the date on which the Company commits to purchase or sell the asset or liability. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Measurement

Financial Instruments are initially measured at fair value adjusted for transaction costs, except where the instrument is classified, as fair value through profit or loss, in which case transaction costs are immediately recognised as expenses in profit or loss.

Transaction costs of financial assets and financial liabilities at fair value through profit or loss are expensed in the Statement of Comprehensive Income.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Statement of Comprehensive Income.

When an investment is disposed, the cumulative gain or loss, net of tax thereon, is recognised as realised gains and losses from the sale of financial instruments in the Statement of Comprehensive Income.

Determination of Fair Value

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

The Company's accounting policy on fair value measurements is discussed in Note 4.

Under AASB 13, if an investment has a bid price and an ask price, the price within the bid-ask spread that is more representative of fair value in the circumstances shall be used to measure fair value. Accordingly, the Company uses the last sale price as a basis of measuring fair value.

2 Significant accounting policies (continued)

(h) Financial assets and liabilities (continued)

Derivatives

As at 30 June 2017, the Company also held derivative instruments in the form of **swaps**. Derivatives are classified as at fair value through profit or loss - held-for-trading unless they are designated as hedges. Assets in this category are classified as current assets if they are expected to be settled within 12 months; otherwise they are classified as non-current.

Derivatives in a net receivable position (positive fair value) are reported as financial assets at fair value through profit or loss - held-for-trading. All derivatives in a net payable position (negative fair value) are reported as financial liabilities at fair value through profit or loss - held-for-trading.

(i) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(j) Finance costs

Finance costs are recognised as expenses in the year in which they are incurred using the effective interest rate method.

(k) Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(l) Profits reserve

A profits reserve has been created representing an amount allocated from current and retained earnings that is preserved for future dividend payments.

(m) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

In accordance with the *Corporations Act 2001*, the Company may pay a dividend where the Company's assets exceed its liabilities, the payment of the dividend is fair and reasonable to the Company's shareholders as a whole and the payment of the dividend does not materially prejudice the Company's ability to pay its creditors.

It is the Directors' policy to pay fully franked dividends provided the Company has sufficient profit reserves and franking credits and to distribute the majority of franking credits received each year. Franking credits are generated by receiving fully franked dividends from shares held in the Company's investment portfolio, and from the payment of corporate tax on its other investment income, unfranked income and net realised gains.

From time to time the Board will offer a dividend reinvestment plan, although the DRP was suspended in respect of the interim dividend for the current reporting years.

2 Significant accounting policies (continued)

(n) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year and adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(o) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Where applicable, the Company qualifies for Reduced Input Tax Credits (RITC) at a rate of at least 75%; hence fees for these services have been recognised in the Statement of Comprehensive Income net of the amount of GST recoverable from the taxation authority.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(p) Rounding of amounts

The Company is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the ASIC relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest dollars in accordance with that ASIC Corporations Instrument, unless otherwise indicated.

(q) Comparatives

Where necessary, comparative information has been reclassified to be consistent with current reporting period.

3 Financial risk management

The Company's financial instruments consist mainly of deposits with banks, trading portfolios, trade and other receivables and trade and other payables.

The Company's activities expose it to a variety of financial risks: market risk (including interest rate risk, foreign exchange risk and price risk), credit risk and liquidity risk. The Board of the Company has implemented a risk management framework to mitigate these risks.

(a) Market risk

The standard defines this as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

(i) Price risk

Exposure

The Company is exposed to currency risk arising from its investments denominated other than in Australian dollars. The Fund retains a natural hedge of its foreign exchange risk as it holds both assets and liabilities denominated in foreign currencies. Any residual foreign exchange risk is actively managed by the Investment Manager through its treasury management framework.

The Company seeks to manage and constrain market risk by diversification of the investment portfolio across multiple stocks and industry sectors. The portfolio is maintained by the Investment Manager within a range of parameters governing the levels of acceptable exposure to stocks and industry sectors. The relative weightings of the individual securities and relevant market sectors are reviewed normally weekly and risk can be managed by reducing exposure where necessary.

The table below analyses the Company's concentration of price risk by region.

2017	Long Exposure	%	Short Exposure	%	Net Exposure	% Net Exposure
Australia	56,540,437	49.08%	(62,156,599)	54.91%	(5,616,162)	(277.30)%
North America	31,105,190	27.00%	(23,287,273)	20.58%	7,817,917	386.00%
Europe	24,963,225	21.67%	(27,737,090)	24.51%	(2,773,865)	(136.95)%
Rest of World	2,597,501	2.25%	-	0.00%	2,597,501	128.25%
Total	115,206,353	100.00%	(113,180,962)	100.00%	2,025,391	100.00%

2016	Long Exposure	%	Short Exposure	%	Net Exposure	% Net Exposure
Australia	72,539,547	69.41%	(75,097,682)	70.48%	(2,558,135)	125.43%
North America	15,665,970	14.99%	(20,192,557)	18.95%	(4,526,587)	221.96%
Europe	13,825,664	13.23%	(11,261,948)	10.57%	2,563,716	(125.70)%
Rest of World	2,481,679	2.37%	-	-	2,481,679	(121.69)%
Total	104,512,860	100.00%	(106,552,187)	100.00%	(2,039,327)	100.00%

The North American region includes the United States and Canada. Europe includes countries in mainland Europe and the United Kingdom.

As at 30 June 2017 two securities represented over 5 per cent of the long or short investment portfolio.

As at 30 June 2016 no individual securities represented over 5% of the long or short investment portfolio.

Sensitivity

The following table illustrates the effect on the Company's equity from possible changes in other market risk that were reasonably possible based on the risk the Company was exposed to at reporting date, assuming a flat tax rate of 30 per cent:

3 Financial risk management (continued)

(a) Market risk (continued)

	Impact on post-tax profit/(loss)	
	2017	2016
	\$	\$
Decrease 5%	(70,889)	71,376
Increase 5%	70,889	(71,376)
Decrease 10%	(141,777)	142,753
Increase 10%	141,777	(142,753)

Post-tax profit/(loss) for the year would decrease/increase as a result of gains/(losses) on equity securities classified as at fair value through profit or loss.

At balance date, the net portfolio position was \$2,025,391 long (2016: \$2,039,327 short) therefore there is a small price risk impact on post-tax profit (2016: post-tax profit).

(ii) Foreign exchange risk

Exposure

The Company operates internationally and holds both monetary and non-monetary assets denominated in currencies other than the Australian dollar. The foreign exchange risk relating to non-monetary assets and liabilities is a component of price risk. Foreign exchange risk arises as the value of monetary securities denominated in other currencies will fluctuate due to changes in exchange rates. The risk is measured using sensitivity analysis. The Investment Manager monitors the Company's currency positions on a daily basis.

The net value of monetary assets and liabilities denominated in other currencies that is exposed to foreign exchange risk was (\$5,986,558) as at 30 June 2017 (2016: \$5,713,399).

Sensitivity

The analysis is based on the assumption that the Australian dollar weakened and strengthened by 10% (2016: 10%) against the foreign currencies to which the Company is exposed. The impact on post-tax profit for the year (2016: post-tax loss) would be \$419,059 higher/\$419,059 lower (2016: \$399,938 higher/\$399,938 lower).

(iii) Cash flow and fair value interest rate risk

The Company's interest bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis.

The table below summarises the Company's exposure to interest rate risks. It includes the Company's assets and liabilities at fair values, categorised by the earlier of contractual repricing or maturity dates.

At 30 June 2017

	Floating interest rate \$	Non- interest bearing \$	Total \$
Financial assets			
Cash and cash equivalents	80,021,172	-	80,021,172
Trade and other receivables	-	11,169,327	11,169,327
Financial assets held at fair value through profit or loss	-	115,206,353	115,206,353
	<u>80,021,172</u>	<u>126,375,680</u>	<u>206,396,852</u>
Financial liabilities			
Trade and other payables	-	(5,915,874)	(5,915,874)
Financial liabilities held at fair value through profit or loss	-	(113,180,962)	(113,180,962)
Current tax liabilities	-	(567)	(567)

3 Financial risk management (continued)

(a) Market risk (continued)

At 30 June 2017

	Floating interest rate \$	Non- interest bearing \$	Total \$
		-	(119,097,403)
Net exposure to interest rate risk	80,021,172	7,278,277	87,299,449

At 30 June 2016

	Floating interest rate \$	Non- interest bearing \$	Total \$
Financial assets			
Cash and cash equivalents	93,247,732	-	93,247,732
Trade and other receivables	-	4,179,652	4,179,652
Financial assets held at fair value through profit or loss	-	104,512,860	104,512,860
Current tax assets	-	1,534,384	1,534,384
	93,247,732	110,226,896	203,474,628
Financial liabilities			
Trade and other payables	-	(4,869,408)	(4,869,408)
Financial liabilities held at fair value through profit or loss	-	(106,552,187)	(106,552,187)
	-	(111,421,595)	(111,421,595)
Net exposure to interest rate risk	93,247,732	(1,194,699)	92,053,033

Sensitivity

At 30 June 2017, if interest rates had increased by 75 or decreased by 75 basis points from the year end rates with all other variables held constant, post-tax profit for the year would have been \$420,111 higher/\$420,111 lower (2016 changes of 75 bps/75 bps: \$489,551 higher/\$489,551 lower on post-tax profit), mainly as a result of higher/lower interest income from cash and cash equivalents.

(b) Credit risk

The standard defines this as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Under the arrangements which the Company has entered into to facilitate stock borrowing for covered short selling, borrowed stock is collateralised by the long stock portfolio. If the stock borrowing counterparty became insolvent, it is possible that the Company may not recover all of the collateral that the Fund gave to the counterparty. The collateral on securities sold short is set at 100% (2016: 100%) of the borrowed stock.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Statement of Financial Position and Notes to the Financial Statements.

Credit risk is managed as noted in Note 8 with respect to cash and cash equivalents, Note 9 for trade and other receivables and Note 10 for financial assets at fair value through profit or loss. None of these assets are over-due or considered to be impaired.

3 Financial risk management (continued)

(c) Liquidity risk

The standard defines this as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Investment Manager monitors its cash-flow requirements daily in relation to the investing account taking into account upcoming dividends, tax payments and investing activity.

The Company's inward cash flows depend upon the level of dividend and distribution revenue received. Should these decrease by a material amount, the Company would amend its outward cash flows accordingly. As the Company's major cash outflows are the purchase of securities and dividends paid to shareholders, the level of both of these is managed by the Board and Investment Manager.

The assets of the Company are largely in the form of readily tradeable securities which can be sold on-market if necessary.

Maturities of financial liabilities

The tables below analyse the Company's financial liabilities into relevant maturity groupings based on their contractual maturities at year end date.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Contractual maturities of financial liabilities	Less than 1 month \$	Total contractual undiscounted cash flows \$
At 30 June 2017		
Non-derivatives		
Trade and other payables	5,915,874	5,915,874
Financial liabilities at fair value through profit or loss	113,180,670	113,180,670
Current tax liabilities	567	567
Total non-derivatives	<u>119,097,111</u>	<u>119,097,111</u>
Derivatives		
Net settled (equity swaps)	(292)	(292)
Total derivatives	<u>(292)</u>	<u>(292)</u>

3 Financial risk management (continued)

(c) Liquidity risk (continued)

Contractual maturities of financial liabilities	Less than 1 month	Total contractual undiscounted cash flows
At 30 June 2016	\$	\$

Non-derivatives

Trade and other payables	4,869,408	4,869,408
Financial liabilities at fair value through profit or loss	106,552,187	106,552,187
Total non-derivatives	111,421,595	111,421,595

4 Fair value measurements

The Company measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Financial assets and financial liabilities at fair value through profit or loss (FVTPL)
- Derivative financial instruments

The Company has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

(a) Fair value hierarchy

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

(i) Recognised fair value measurements

The following table presents the Company's assets and liabilities measured and recognised at fair value at year end.

At 30 June 2017	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets				
Equity securities	56,540,437	-	-	56,540,437
Equity securities international	58,665,916	-	-	58,665,916
Total financial assets	115,206,353	-	-	115,206,353
Financial liabilities				
Equity securities sold short	62,115,448	-	-	62,115,448
Trading derivatives	292	-	-	292
Equity securities international	51,024,071	-	-	51,024,071
Unlisted equity securities	-	41,151	-	41,151
Total financial liabilities	113,139,811	41,151	-	113,180,962

4 Fair value measurements (continued)

(a) Fair value hierarchy (continued)

At 30 June 2016	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets				
Equity securities	72,539,547	-	-	72,539,547
Equity securities international	31,593,711	-	-	31,593,711
Unlisted equity securities	-	379,602	-	379,602
Total financial assets	104,133,258	379,602	-	104,512,860
Financial liabilities				
Equity securities sold short	75,056,531	-	-	75,056,531
Equity securities international	31,454,505	-	-	31,454,505
Unlisted equity securities	-	41,151	-	41,151
Total financial liabilities	106,511,036	41,151	-	106,552,187

Included within Level 1 of the hierarchy are listed investments. The fair value of these financial assets and liabilities have been based on the last sale prices at the end of the reporting year, excluding transaction costs.

The majority of the investments included in Level 2 of the hierarchy include amounts in relation to Initial Public Offerings and Placements in which the Company has subscribed to during the year. These investments have not listed on the Australian Securities Exchange as at year end and therefore represent investments in an inactive market. In valuing these unlisted investments, included in Level 2 of the hierarchy, the fair value has been determined using the valuation technique of the subscription price and the amount of securities subscribed for by the Company under the relevant offers.

The fair value of equity swaps is the estimated amount that the Fund would receive or pay to terminate the swap at the reporting date, taking into account current indices and the current credit worthiness of the swap counterparties.

There were transfers between levels 1 and 2 for recurring fair value measurements during the year, relating to the listing of the unlisted equity securities as at year end. There were no transfers in and out of level 3.

The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

(ii) Disclosed fair values

For all financial instruments other than those measured at fair value their carrying value approximates fair value.

The carrying amounts of trade and other receivables and payables are reasonable approximations of their fair values due to their short-term nature.

5 Critical accounting estimates and judgements

(a) Significant estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(b) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

6 Segment information

The Company has only one reportable segment. The Company operates in one industry being the securities industry, deriving revenue from dividend and trust distribution income, interest income and from the sale of its trading portfolio.

7 Income tax benefit/(expense)

(a) Income tax benefit/(expense) through profit or loss

	Year ended	
	2017	2016
	\$	\$
Deferred tax on temporary differences	1,415,783	47,974
Tax on permanent differences	(1,276,996)	(3,042,137)
Adjustments for current tax of prior periods	7,847	(12,691)
	<u>146,634</u>	<u>(3,006,854)</u>
<i>Income tax (benefit)/expense is attributable to:</i>		
Profit/(loss) from continuing operations	<u>(146,634)</u>	<u>3,006,854</u>

(b) Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable/(receivable)

	Year ended	
	2017	2016
	\$	\$
Profit from continuing operations before income tax	1,407,849	13,622,111
Tax at the Australian tax rate of 30.0%	422,355	4,086,633
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Franking credits on dividends received	(513,618)	(475,646)
Foreign tax credits on dividends received	(231,615)	(75,123)
Imputation credit gross up	154,085	142,694
Temporary differences	(56,360)	-
Over-provision in prior year	(7,847)	12,691
Realised gain/loss not subject to tax	-	(667,669)
Franked dividends not subject to tax	16,881	(39,263)
Foreign tax gross up on dividend income	69,485	22,537
Income tax (benefit)/expense	<u>(146,634)</u>	<u>3,006,854</u>

The applicable weighted average effective tax rates are as follows: (10.40)% 22.07%

The negative effective tax rate in the current year was mainly due to losses incurred and franking credits received. The positive effective tax rate in the prior year is mainly due to profits realised, net of gains from securities that are not subject to tax.

7 Income tax benefit/(expense) (continued)

(c) Amounts recognised directly in equity

		Year ended	
		2017	2016
	Notes	\$	\$
Aggregate deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:			
Net deferred tax - debited directly to equity	12	126,883	241,240

8 Current assets - Cash and cash equivalents

	At	
	2017	2016
	\$	\$
Current assets		
Cash at bank	71,021,172	40,247,732
Term Deposits	9,000,000	53,000,000
	80,021,172	93,247,732

(a) Risk exposure

The Company's exposure to interest rate risk is discussed in Note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

Cash investments are made with the following financial institutions:

	Standard & Poor's Rating
Australia and New Zealand Banking Group Ltd	AA-
UBS AG Investment Bank	A+
National Australia Bank	AA-
Morgan Stanley	BBB+

9 Current assets - Trade and other receivables

	At	
	2017	2016
	\$	\$
Dividends and distributions receivable	201,480	461,574
Interest receivable	149,337	252,115
GST receivable	63,684	275,064
Unsettled trades	10,754,826	3,190,899
	11,169,327	4,179,652

Receivables are non-interest bearing and unsecured.

Fair value and credit risk

Due to the short-term nature of these receivables, the carrying amounts are reasonable approximations of their fair values.

10 Current assets - Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are all held for trading and include the following:

	2017 \$	At 2016 \$
International listed equity securities	58,665,916	31,593,711
Australian listed equity securities	56,540,437	72,539,547
Other unlisted equity securities	-	379,602
Total securities	115,206,353	104,512,860

The market values of all investments as at 30 June 2017 are disclosed on page 3 of the Financial Statements. Listed securities are readily saleable with no fixed terms.

Changes in fair values of financial assets at fair value through profit or loss are recorded in investment income in the Statement of Comprehensive Income.

(a) Investment transactions

The total number of contract notes that were issued for transactions in securities during the financial year was 4,135 (2016: 4,110). Each investment transaction may involve multiple contract notes.

The total brokerage paid on these contract notes was \$2,600,735 (2016: \$3,067,594).

(b) Risk exposure and fair value measurements

Information about the Company's exposure to price risk and about the methods and assumptions used in determining fair value is provided in Note 3.

11 Derivative financial instruments

In the normal course of business, the Company enters into transactions in derivative financial instruments with certain risks. A derivative is a financial instrument or other contract whose value depends on, or is derived from, underlying assets, liabilities or indices. Derivative transactions include a wide assortment of instruments, such as forwards, futures, options and swaps.

Derivatives are considered to be part of the investment process. The use of derivatives is an essential part of the Company's portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multi-faceted and includes:

- (i) hedging to protect an asset of the Company against a fluctuation in market values or to reduce volatility;
- (ii) as a substitute for physical securities; and
- (iii) adjustment of asset exposures within the parameters set out in the investment strategy.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

11 Derivative financial instruments (continued)

The Company holds the following derivative instruments:

Equity swaps:

An equity swap is an agreement between counterparties to exchange a set of payments, determined by a stock or index return, with another set of payments (usually an interest-bearing (fixed or floating rate) instrument, but they can also be the return on another stock or index). Equity swaps are used to substitute for a direct transaction in stock. The two cash flows are usually referred to as "legs". As with other swaps, the difference in the payment streams is netted.

	Fair values \$		
	Notional values \$	Assets \$	Liabilities \$
Equity swaps	303,765	-	292
Total	303,765	-	292

12 Non-current assets - Deferred tax assets

	2017 \$	At 2016 \$
The balance comprises temporary differences attributable to:		
Tax losses	1,288,711	23
Capitalised share issue costs	126,883	241,240
Accrued expenses	9,768	12,729
	<u>1,425,362</u>	<u>253,992</u>
Movements		Total \$
At 1 July 2015		378,155
Charged to		
- profit or loss		(18,575)
- directly to equity		(105,588)
At 30 June 2016		<u>253,992</u>
At 1 July 2016		253,992
Credited to		
- profit or loss		1,044,487
- directly to equity		126,883
At 30 June 2017		<u>1,425,362</u>

13 Current liabilities - Trade and other payables

	2017	At 2016
	\$	\$
Management fees payable	79,239	84,406
Performance fees payable	175,951	2,951,347
Unsettled trades	5,126,786	1,235,149
Interest payable	121,840	105,480
Other payables	412,058	493,026
	<u>5,915,874</u>	<u>4,869,408</u>

Trade and other payables are unsecured and are usually paid within 30 days of recognition.

Due to the short-term nature of these payables, the carrying amounts are reasonable approximations of their fair values.

14 Current liabilities - Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are all held for trading and include the following:

	2017	At 2016
	\$	\$
International listed equity securities sold short	51,024,071	31,454,505
Australian listed equity securities sold short	62,156,599	75,056,531
Other unlisted equity securities sold short	-	41,151
Trading derivatives	292	-
	<u>113,180,962</u>	<u>106,552,187</u>

A short sale occurs when the Investment Manager borrows a security and sells the security on market to a third party, generating cash proceeds. The Investment Manager will reacquire the same security and return it to the lender to close the transaction. In doing so, the Company is exposed to price risk of those securities sold short.

15 Non-current liabilities - Deferred tax liabilities

	2017	At 2016
	\$	\$
The balance comprises temporary differences attributable to:		
Net unrealised gains on investments	-	96,802
Other temporary differences	41,207	59,011
	<u>41,207</u>	<u>155,813</u>

15 Non-current liabilities - Deferred tax liabilities (continued)

Movements	Total \$
At 1 July 2015	199,637
Credited to - profit or loss	(43,824)
At 30 June 2016	<u>155,813</u>
At 1 July 2016	155,813
Credited to - profit or loss	(114,606)
At 30 June 2017	<u>41,207</u>

16 Issued capital

(a) Share capital

	Notes	30 June 2017 Shares	30 June 2016 Shares	2017 \$	2016 \$
Ordinary shares	16(b)	87,357,985	87,120,041	86,782,148	86,552,644

(b) Movements in ordinary share capital

Details	Notes	Number of shares	\$
Opening balance 1 July 2015		84,104,755	83,474,683
On-market buy back	16(e)	(10,000)	(9,500)
Share placement shares issued		3,025,286	3,116,045
Cost of issued capital		-	(28,584)
Closing balance 30 June 2016		<u>87,120,041</u>	<u>86,552,644</u>
Opening balance 1 July 2016		87,120,041	86,552,644
On-market buy back	16(e)	(100)	(107)
DRP shares issued for dividend payment	16(d)	238,044	239,767
Cost of issued capital		-	(10,156)
Closing balance 30 June 2017		<u>87,357,985</u>	<u>86,782,148</u>

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

16 Issued capital (continued)

(d) Dividend reinvestment plan

The Company has established a dividend reinvestment plan "DRP" under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. Shares are issued under the plan at a discount to the market price. The discount is determined from time to time and is capped at 3%. Prior year the DRP price was \$1.07.

(e) Share buy-back

In the prior year the Company announced a 12 month on-market share buy-back program on 30 November 2016 that expired 13 February 2017. During the period, the Company had bought zero shares.

The Company renewed the share buy-back program for 12 months from 14 February 2017 and has bought back 10,100 shares at an average price of \$0.95.

(f) Capital risk management

The Board of Directors will actively manage the capital of the Company. The overriding intention is to deliver value to shareholders.

To achieve this the Board monitor the monthly NTA results, investment performance, the Company's Indirect Cost Ratio and share price movements.

The Company is not subject to any externally imposed capital requirements.

17 Reserves and accumulated losses

(a) Reserves

	2017	At	2016
	\$		\$
Profits reserve	2,954,036		6,364,468

This reserve details an amount preserved for future dividend payments as outlined in accounting policy Note 2(l).

		2017	At	2016
	Notes	\$		\$
Movements:				
Opening balance		6,364,468		888,365
Transfer from current and retained earnings		1,816,770		10,627,925
Dividends paid	18	(5,227,202)		(5,151,822)
Closing balance		2,954,036		6,364,468

17 Reserves and accumulated losses (continued)

(b) Accumulated losses

Movements in (accumulated losses) were as follows:

	2017 \$	At 2016 \$
Opening balance	(765,900)	(753,232)
Net profit for the year	1,554,483	10,615,257
Transfer to profits reserve	(1,816,770)	(10,627,925)
Closing balance	<u>(1,028,187)</u>	<u>(765,900)</u>

18 Dividends

(a) Dividend rate

Dividends paid and the applicable franking rates are noted in the table below.

	Dividend Rate	Total Amount	Date of Payment	% Franked
2017				
Ordinary shares - interim 2017	\$0.030	\$2,613,598	27/04/2017	100
Ordinary shares - final 2016	\$0.030	\$2,613,601	20/10/2016	75
Total		\$5,227,199		
2016				
Ordinary shares - interim special 2016	\$0.010	\$871,201	29/04/2016	50
Ordinary shares - interim 2016	\$0.025	\$2,178,002	29/04/2016	50
Ordinary shares - final 2015	\$0.025	\$2,102,619	20/10/2015	50
Total		\$5,151,822		

(b) Dividends not recognised at the end of the reporting period

	Year ended 2017 \$	2016 \$
In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend of 2.5 cents per fully paid ordinary share (2016: 3.0 cents), fully franked (2016: 75% franked) based on tax paid at 30%. The aggregate amount of the proposed dividend with an ex date of 4 October 2017 and a record date of 5 October 2017, expected to be paid on 31 October 2017 out of the profits reserve at 30 June 2017, but not recognised as a liability at year end, is	<u>2,183,950</u>	<u>2,613,601</u>

18 Dividends (continued)

(c) Dividend franking account

The franked portions of the final dividends recommended after 30 June 2017 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ended 30 June 2018.

	2017 \$	2016 \$
Opening balance of franking account	3,448,029	2,316,721
Franking credits on dividends received	527,009	634,772
Tax paid during the year	1,161,071	4,448,648
Tax refunded during the year	(1,561,033)	(2,689,020)
Franking credits on ordinary dividends paid	(1,960,200)	(1,103,965)
Franking credits lost under 45 day rule	(13,391)	(159,127)
Closing balance of franking account	1,601,485	3,448,029
Adjustments for tax payable/refundable in respect of the current year's profits (2016: profit) and the receipt of dividends	54,550	(1,445,117)
Adjusted franking account balance	1,656,035	2,002,912
Impact on the franking account of dividends proposed or declared before the financial report authorised for issue but not recognised as a distribution to equity holders during the year	(935,978)	(840,086)
Franking credits available/(shortfall) for subsequent reporting years based on a tax rate of 30.0%	720,057	1,162,826

The Company's ability to continue to pay franked dividends is dependent upon the receipt of franked dividends from investments and the payment of tax.

19 Key management personnel disclosures

(a) Key management personnel compensation

	Year ended 2017 \$	2016 \$
Short-term employee benefits	118,721	118,721
Post-employment benefits	11,279	11,279
	130,000	130,000

Detailed remuneration disclosures are provided in the remuneration report on pages 12 to 14.

There are no executives that are paid by the Company, The Manager remunerated Justin Braitting as an employee and/or Directors of the Manager during the financial year to 30 June 2017.

19 Key management personnel disclosures (continued)

(b) Equity instrument disclosures relating to key management personnel

(i) Option holdings

None of the key management personnel held options during the year ended 30 June 2017.

(ii) Share holdings

The numbers of shares in the Company held during the financial year by each Director of Watermark Market Neutral Fund Limited and other key management personnel of the Company, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2017 Name	Balance at the start of the year	Net movement	Balance at 30 June 2017
Directors of Watermark Market Neutral Fund Limited			
Ordinary shares			
Matthew Kidman	64,563	-	64,563
Justin Braitling	713,001	-	713,001
John Abernethy	-	30,000	30,000
Stephen Van Eyk	115,426	49,079	164,505
Robert Ferguson	1,000,000	-	1,000,000
	1,892,990	79,079	1,972,069
<hr/>			
2016 Name	Balance at the start of the year	Net movement	Balance at 30 June 2016
Directors of Watermark Market Neutral Fund Limited			
Ordinary shares			
Matthew Kidman	50,000	14,563	64,563
Justin Braitling	683,001	30,000	713,001
John Abernethy	-	-	-
Stephen Van Eyk	48,780	66,646	115,426
Robert Ferguson	1,000,000	-	1,000,000
	1,781,781	111,209	1,892,990

20 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms:

Pitcher Partners

(i) Audit and other assurance services

	Year ended	
	2017	2016
	\$	\$
<i>Audit and other assurance services</i>		
Audit and review of financial statements	30,474	42,227
Total remuneration for audit and other assurance services	30,474	42,227
<i>Taxation services</i>		
Tax compliance services	10,725	17,848
Total remuneration	41,199	60,075

The Company's Audit Committee oversees the relationship with the Company's External Auditors. The Audit Committee reviews the scope of the audit and the proposed fee. It also reviews the cost and scope of other services provided by the audit firm, to ensure that they do not compromise independence.

21 Contingencies

The Company had no contingent liabilities at 30 June 2017 (2016: nil).

22 Related party transactions

(a) Key management personnel

Disclosures relating to key management personnel are set out in Note 19.

(b) Transactions with other related parties

All transactions with related entities were made on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Watermark Funds Management Pty Limited is a Director associated entity and has been appointed to manage the investment portfolio of Watermark Market Neutral Fund Limited. In its capacity as manager, Watermark Funds Management Pty Limited was paid a management fee of 1% p.a. (plus GST) on the net value of the portfolio amounting to \$921,386 (2016: \$925,571).

As at 30 June 2017, the balance payable to the Investment Manager was \$79,239 (2016: \$84,406).

In addition, Watermark Funds Management Pty Limited is to be paid, annually in arrears, a performance fee being 20% of:

- where the level of the Reserve Bank of Australia's cash-rate has increased over that year, the amount by which the Value of the Portfolio exceeds this increase; or
- where the Reserve Bank of Australia's cash-rate has decreased over that year, the amount of the increase in the Value of the Portfolio.

22 Related party transactions (continued)

(b) Transactions with other related parties (continued)

No performance fee is payable in respect of any performance period where the portfolio has decreased in value over that period. On the 19 May 2015, the Company announced, if the portfolio underperforms the benchmark over a financial year that underperformance is to be recouped before any entitled performance fee can be accrued.

For the year ended 30 June 2017 in its capacity as manager, Watermark Funds Management Pty Limited was paid a performance fee amounting to \$163,954 (2016: \$2,750,119).

No Director has received or become entitled to receive a benefit (other than those detailed above) by reason of a contract made by the Company or a related Company with the Director or with a firm of which he is a member or with a Company in which he has substantial financial interest.

Accounting and company secretarial duties are outsourced to Link Fund Solutions Pty Limited (formerly White Outsourcing Pty Limited). Matthew McShane (resigned 09/12/2016) and Sophia Gartzonis (appointed 09/12/2016, resigned 24/07/2017) is a Manager of Accounting Services at Link Fund Solutions Pty Limited (formerly White Outsourcing Pty Limited) which received fees net of reduced input tax credits of \$115,681 during the year (2016: \$115,230) for the services rendered pursuant to an Administrative Services Agreement entered into by the Company. As at 30 June 2017, the balance payable to Link Fund Solutions Pty Limited (formerly White Outsourcing Pty Limited) was \$14,410 (2016: \$16,776). Neither Mr McShane nor Ms Gartzonis received any fees as an individual. Link Fund Solutions Pty Limited (formerly White Outsourcing Pty Limited) is remunerated in accordance with the Service Level Agreement dated 25 June 2013. The agreement has no fixed term.

23 Events occurring after the reporting period

On 24 July 2017, the Company announced the resignation of Sophia Gartzonis as Company Secretary effective 24 July 2017. Following the resignation, Mark Licciardo of Mertons Corporate Services Pty Ltd was appointed as Company Secretary, effective 24 July 2017.

Other than the dividend declared after year end, no other matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

24 Reconciliation of profit after income tax to net cash (outflow)/inflow from operating activities

(a) Reconciliation of profit after income tax to net cash (outflow)/inflow from operating activities

	Year ended	
	2017	2016
	\$	\$
Profit for the year	1,554,483	10,615,257
Fair value losses/(gains) on financial assets at fair value through profit or loss	(4,064,718)	6,317,405
Effects of foreign currency exchange rate changes on cash and cash equivalents	(302,574)	(22,674)
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(6,989,675)	4,013,777
(Increase)/decrease in other current assets	(24,393)	1,154,637
(Increase)/decrease in deferred tax assets	(1,167,017)	136,413
Increase/(decrease) in trade and other payables	1,046,466	(3,947,998)
Decrease in provision for income taxes payable	567	-
(Decrease) in deferred tax liabilities	(114,606)	(43,824)
(Increase)/decrease in trade and other receivables	1,534,384	-

24 Reconciliation of profit after income tax to net cash (outflow)/inflow from operating activities (continued)

(a) Reconciliation of profit after income tax to net cash (outflow)/inflow from operating activities (continued)

	Year ended	
	2017	2016
	\$	\$
Net cash (outflow)/inflow from operating activities	<u>(8,527,083)</u>	<u>18,222,993</u>

(b) Non-cash financing activities

	Year ended	
	2017	2016
	\$	\$
Dividends reinvested	<u>239,767</u>	<u>-</u>

25 Earnings per share

(a) Basic earnings per share

	Year ended	
	2017	2016
	Cents	Cents
Basic earnings per share attributable to the ordinary equity holders of the Company	<u>1.78</u>	<u>12.52</u>

(b) Diluted earnings per share

	Year ended	
	2017	2016
	Cents	Cents
Diluted earnings per share attributable to the ordinary equity holders of the Company	<u>1.78</u>	<u>12.52</u>

Diluted earnings per share is the same as basic earnings per share. As at 30 June 2017 and 30 June 2016, the Company had no securities outstanding which have the potential to convert to ordinary shares and dilute the basic earnings per share.

(c) Weighted average number of shares used as denominator

	2017	2016
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	<u>87,161,757</u>	<u>84,784,391</u>
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	<u>87,161,757</u>	<u>84,784,391</u>

Watermark Market Neutral Fund Limited
Directors' Declaration
30 June 2017

In the opinion of the directors of Watermark Market Neutral Fund Limited:

- (a) the financial statements and notes set out on pages 17 to 47 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the Company's financial position as at 30 June 2017 and of its performance for the year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (c) Note 2(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board, and
- (d) The Directors have given the declarations required by section 295A of the *Corporations Act 2001* from the Manager, Watermark Funds Management Pty Limited declaring that:
 - (i) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - (ii) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (iii) the financial statements and notes for the financial year give a true and fair view.

This declaration is made in accordance with a resolution of the Board of Directors.



Matthew Kidman
Chairman

Sydney
31 August 2017

**Independent Auditor's Report
to the Members of Watermark Market Neutral Fund Limited
A.B.N. 45 163 980 498**

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Watermark Market Neutral Fund Limited (the Company), which comprises the statement of financial position as at 30 June 2017, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Opinion

In our opinion

- a) the financial report of Watermark Market Neutral Fund Limited is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the Company's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a) Basis of preparation.

Basis of Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the *Auditor's Responsibility* section of our report. We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. We have communicated the key audit matters to the Audit Committee, but they are not a comprehensive reflection of all matters that were identified by our audit and that were discussed with the Audit Committee. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the matter
Financial Assets and Financial Liabilities Refer to Note 4: Fair value Measurements, Note 10: Financial assets at fair value through profit or loss, Note 11: Derivative financial instruments and Note 14: Financial liabilities at fair value through profit or loss	
<p>We focused our audit effort on the valuation, existence and completeness of the Company's financial assets and financial liabilities as they are its largest asset and liability and represent the most significant driver of the Company's Net Tangible Assets and profits.</p> <p>The quantum of investments held inherently makes financial assets and financial liabilities a key audit matter, in addition however, there may be judgements involved in determining the fair value of the investments.</p> <p>We therefore identified the valuation, existence and ownership of investments as an area of focus</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> ▪ We obtained an understanding of the investment management process and controls; ▪ We reviewed the independent audit report on internal controls (ASAE 3402 Assurance Reports on Controls at a Service Organisation) for the period 1 July 2016 to 30 June 2017 for the Administrator; ▪ We reviewed the latest available independent audit report on internal controls (ASAE 3402 Assurance Reports on Controls at a Service Organisation) for the Company's Custodians. ▪ We made enquiries as to whether there had been any changes to these controls or their effectiveness ▪ For the period since the last internal controls audits, we obtained and tested a sample of monthly reconciliations between the Administrator and the Custodians, and obtained confirmation of subsequent settlement of purchase and sale transactions; ▪ We agreed the investment holdings to a confirmation obtained directly from the Custodian; ▪ We assessed the Company's valuation of individual investment holding to independent sources where readily observable data was available. For investments where there was little or less observable market data, we obtained and assessed other relevant valuation data; ▪ We evaluated the appropriateness of the accounting treatment of revaluations of financial assets and financial liabilities for current/deferred tax and realised/unrealised gains or losses; and ▪ We assessed the adequacy of disclosures in the financial statements.

Key audit matter	How our audit addressed the matter
Management and Performance Fees Refer to Note 13: Trade and other payables, Note 22: Related party transactions and the Remuneration Report	
<p>We focused our audit effort on the accuracy and completeness of management and performance fees as they are significant expenses of the Company and their calculation may require adjustments for events in accordance with the Investment Management Agreement between the Company and the Investment Manager.</p> <p>In addition to their quantum, as these transactions are made with related parties, there are additional inherent risks associated with these transactions, including the potential for these transactions to be made on terms and conditions more favourable than if they had been with an independent third-party.</p> <p>We therefore identified the accuracy of management and performance fees as an area of focus.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> ▪ Making enquiries with the Investment Manager and the Directors with respect to any significant events during the period and associated adjustments made as a result, in addition to having reviewed ASX announcements; ▪ In order to verify the Company's calculation, we recalculated management and performance fees in accordance with our understanding of the Investment Management Agreement; ▪ Considered the treatment of events that may be significant to the calculation of management and performance fees; ▪ Tested key inputs used in the calculation of the management and performance fees and performed a reasonableness test; ▪ Considered the appropriateness of the current methodology in relation to calculation of the management and performance fees; ▪ We also assessed the adequacy of disclosures made in the financial statements in relation to these related party transactions.

Other information

The Directors are responsible for the other information. The other information comprises the information in the Company's annual report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially consistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibility for the Financial Report

The directors of Watermark Market Neutral Fund Limited are responsible for the preparation and fair presentation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our responsibility is to express an opinion on the financial report based on our audit. Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report.

The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial report. We are responsible

for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON THE REMUNERATION REPORT

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 14 of the directors' report for the year ended 30 June 2017. In our opinion, the Remuneration Report of Watermark Market Neutral Fund Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of Watermark Market Neutral Fund Limited are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



S M WHIDDETT
Partner



PITCHER PARTNERS
Sydney

31 August 2017

Watermark Market Neutral Fund Limited
Shareholder information
30 June 2017

The Shareholder information set out below was applicable as at 31 July 2017.

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report, is listed below.

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

Holding	Class of equity security Ordinary shares		
	No. of Shareholders	Shares	Percentage
1 - 1000	91	45,012	0.05
1,001 - 5,000	219	692,367	0.79
5,001 - 10,000	358	3,103,165	3.55
10,001 - 100,000	1,596	55,792,374	63.87
100,001 and over	116	27,725,067	31.74
	2,380	87,357,985	100.00

There were 47 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders

Name	Ordinary shares Number held	Percentage of issued shares
HSBC Custody Nominees (Australia) Limited	3,709,736	4.25
Mr Robert Ferguson & Ms Jennifer Ferguson & Ms Rachel Ferguson <Torryburn Super Fund A/C>	1,000,000	1.14
Penson Holdings Pty Ltd	700,000	0.80
Brayhope Pty Ltd <Jet Retirement Plan A/C>	655,070	0.75
Mr Stephen Richard Brown <The Adaptor A/C>	625,000	0.72
Zanacorp Financial Group Pty Ltd	526,647	0.60
BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd DRP	497,721	0.57
C M Copeland Pty Ltd	472,232	0.54
Mr Donald Wilson & Mrs Elsie Wilson <The Wilson Super Fund A/C>	463,402	0.53
Eliza Braitling Foundation Pty Limited	438,000	0.50
Richjeca Pty Ltd <Richjeca A/C>	400,000	0.46
Wattles Nest Pty Ltd <Wattles Nest Super Fund A/C>	400,000	0.46
Horton Pty Ltd	394,563	0.45
S & G Frisken Pty Limited <Frisken Family A/C>	348,039	0.40
Mr James William Tonkin & Mrs Sharon Kathleen Tonkin <Tonkin Family S/F A/C>	346,300	0.40
Graham Evans Investments Pty Ltd <Graham Evans Super Fund A/C>	321,000	0.37
Mamara Pty Limited	300,000	0.34
Atrol Pty Ltd <The Atrol Super Fund A/C>	300,000	0.34
Mr Neil James Richardson & Mrs Joanne Lesley Richardson <NJ Richardson Super Fund A/C>	299,187	0.34
Norwood Investments (Aust) Pty Ltd	296,500	0.34
	12,493,397	14.30

C. Substantial holders

There are no substantial shareholders.

D. Voting rights

The voting rights attaching to each class of equity securities are set out below:

Each share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

E. Stock Exchange Listing

Quotation has been granted for all of the ordinary shares and options of the Company on all Member Exchanges of the ASX Limited.

F. Unquoted Securities

There are no unquoted shares.

G. Securities Subject to Voluntary Escrow

There are no securities subject to voluntary escrow.