



WATERMARK
FUNDS MANAGEMENT



Australian Leaders Fund
AGM
October 2017

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ALF Performance Review

- ALF has fallen short of the target returns in FY'2017.
 - › **NTA return has been flat (excluding dividend)**
- Comparisons with the share market are unhelpful as the fund is fully hedged
 - › **Insurance has a considerable cost- we don't participate in a rising market**
- ALF's strategy will protect shareholders when this bull market ends
 - › **A key objective of the fund**
- Lower returns leaves less retained profits to payout dividends
- The manager has invested in building depth and experience of team.

ALF Performance Summary – Key Objectives

Objective 1: Absolute Returns in excess of the All Ordinaries Accumulation Index

	1 Year	2 Years (pa)	5 Years (pa)	Since Inception (pa)
Long Portfolio	19.1%	18.8%	18.2%	-
Short Portfolio	15.1%	6.2%	4.8%	-
ALF	2.0%	6.5%	12.3%	13.0%
All Ords Accum	13.1%	7.4%	11.6%	8.8%
Excess	-11.1%	-0.9%	0.7%	4.2%
Avg Net Exposure	-3.0%	-7.0%	18.0%	-
Fund Beta	-0.06	-0.04	0.05	0.69

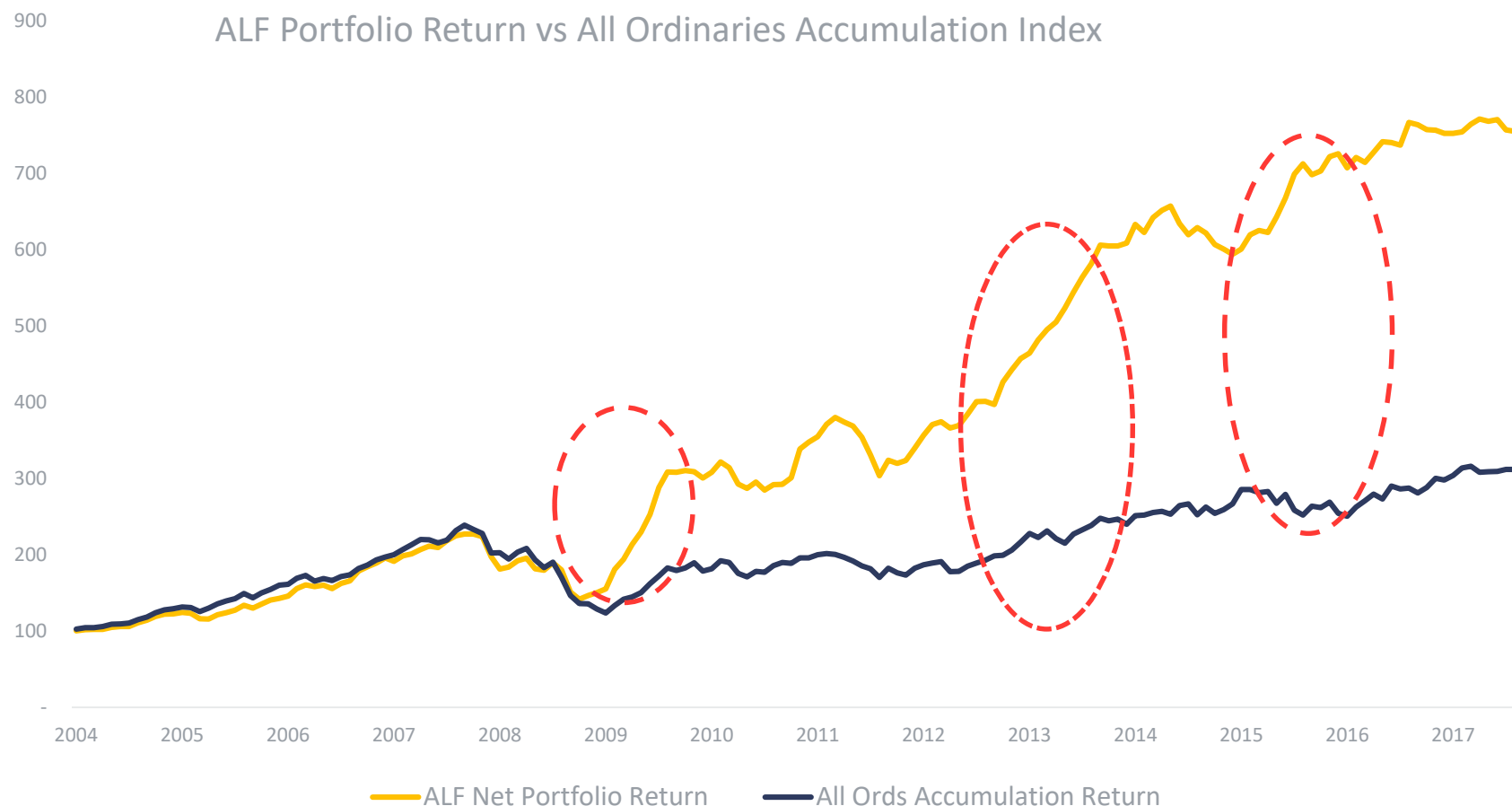
ALF Portfolio Performance as at 30 June 2017

- Stock selection has been strong in the long portfolio
- Shorts have detracted from returns in recent months –a tough markets for short sellers
- With a fully hedged portfolio we get no uplift from the share market

ALF Performance Review – Key Objectives

Objective 1: Absolute Returns in excess of the All Ordinaries Accumulation Index

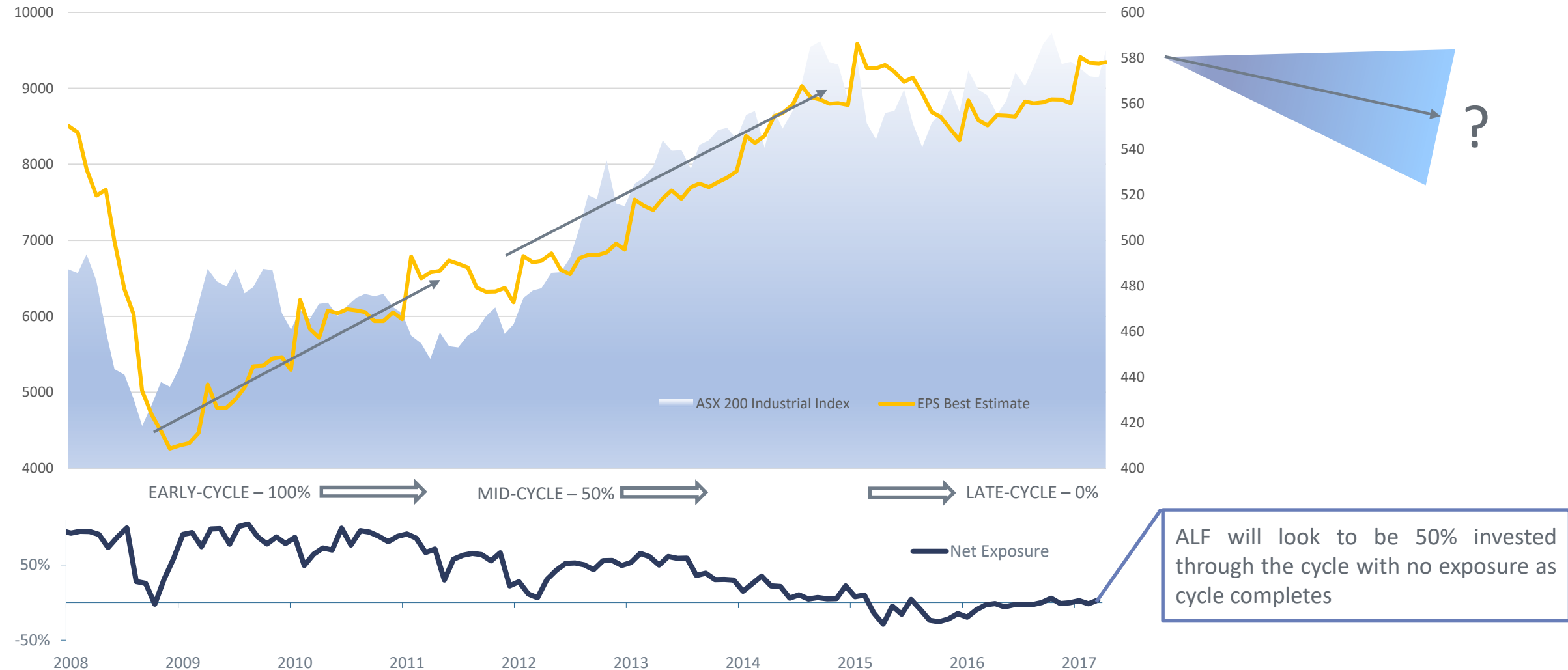
ALF Portfolio Return vs All Ordinaries Accumulation Index



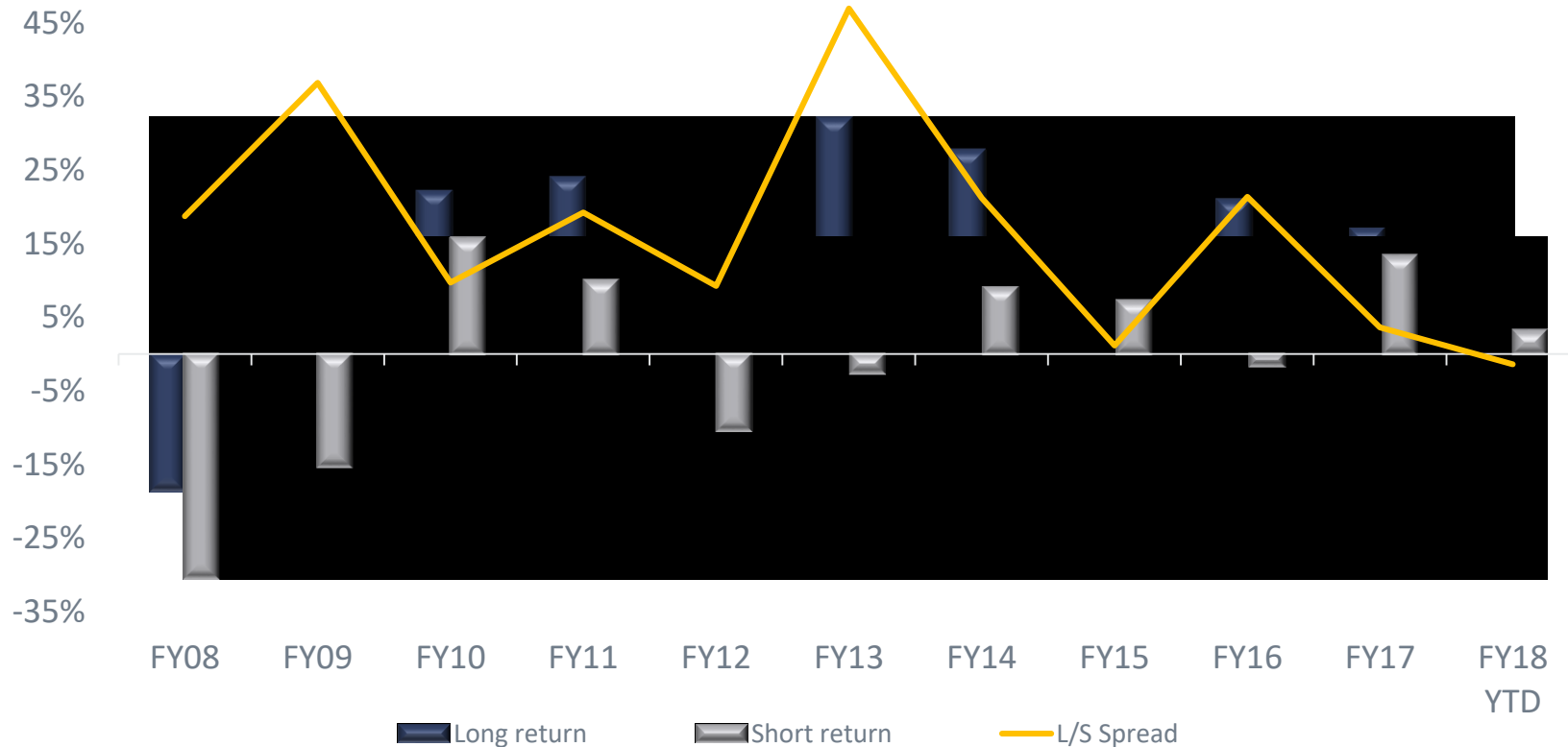
- ALF's performance has rarely been a straight line
- Periods of strong performance generally followed by periods of consolidation
- Returns have a low correlation with the share market
- ALF underperformed in FY17 after outperforming by 9% in FY16
- The Fund has beaten its benchmark by 4% pa. since inception

ALF Performance Summary – Key Objectives

Objective 2: Capital preservation when risks are elevated



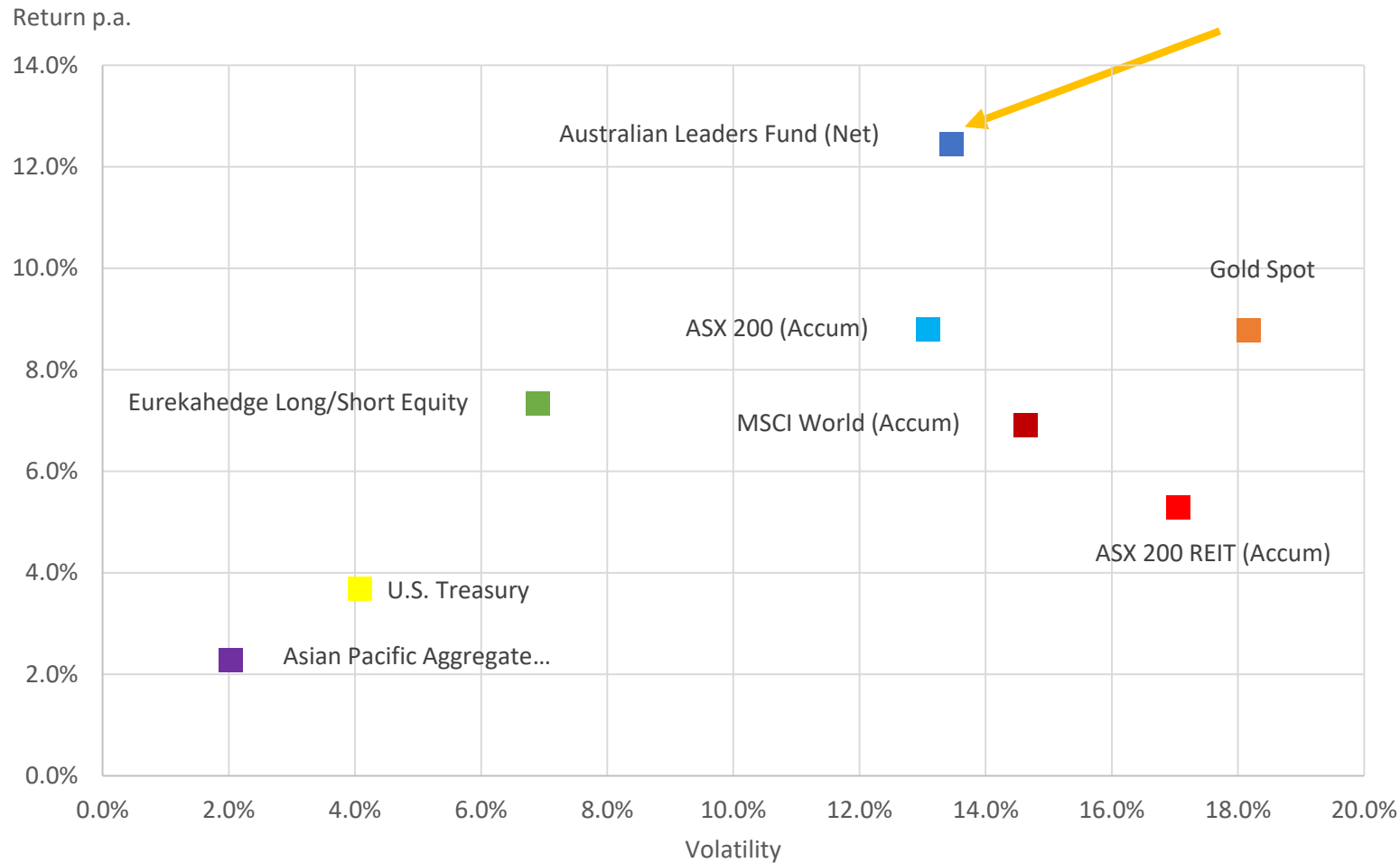
Cost of Portfolio Insurance in a Rising Market



- Watermark has consistently added value through creating a positive spread. Outperformance of Longs Vs Shorts
- Returns have varied through the cycle.
- When fully hedged like this, the value of the fund should only fall if the manager is unable to create a positive spread. (before costs)

Equally weighted long and short portfolio returns for ALF – DOES NOT REPRESENT ACTUAL FUND RETURN

Alternative strategies like ALF are a separate asset class

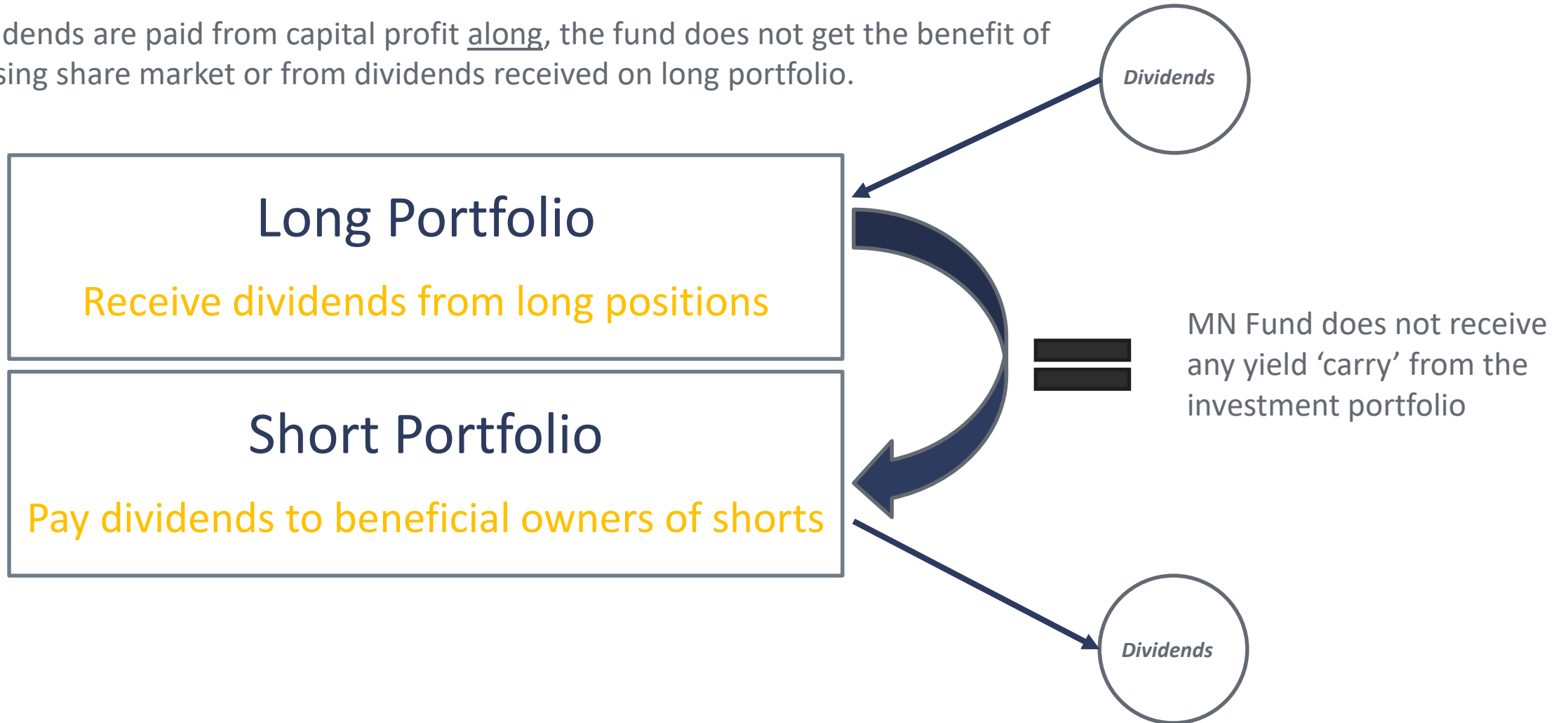


- With an average net exposure through the cycle of 50%, ALF behaves differently to equities and other asset classes
- ALF offers an 'equity-like' exposure with an ability to hedge equity market risk
- ALF has outperformed hedge funds globally

Bloomberg asset class index returns since Jan 2004 for: ASA51, ASA5PROP, NDDUWI, GOLDS Comdty, EHF1252, LUATTRUU, LAPCTRIU Indices. ALF in Jan 2004. ALF portfolio return is net of all fees.

Where do dividends come from when ALF is fully hedged?

Dividends are paid from capital profit along, the fund does not get the benefit of a rising share market or from dividends received on long portfolio.

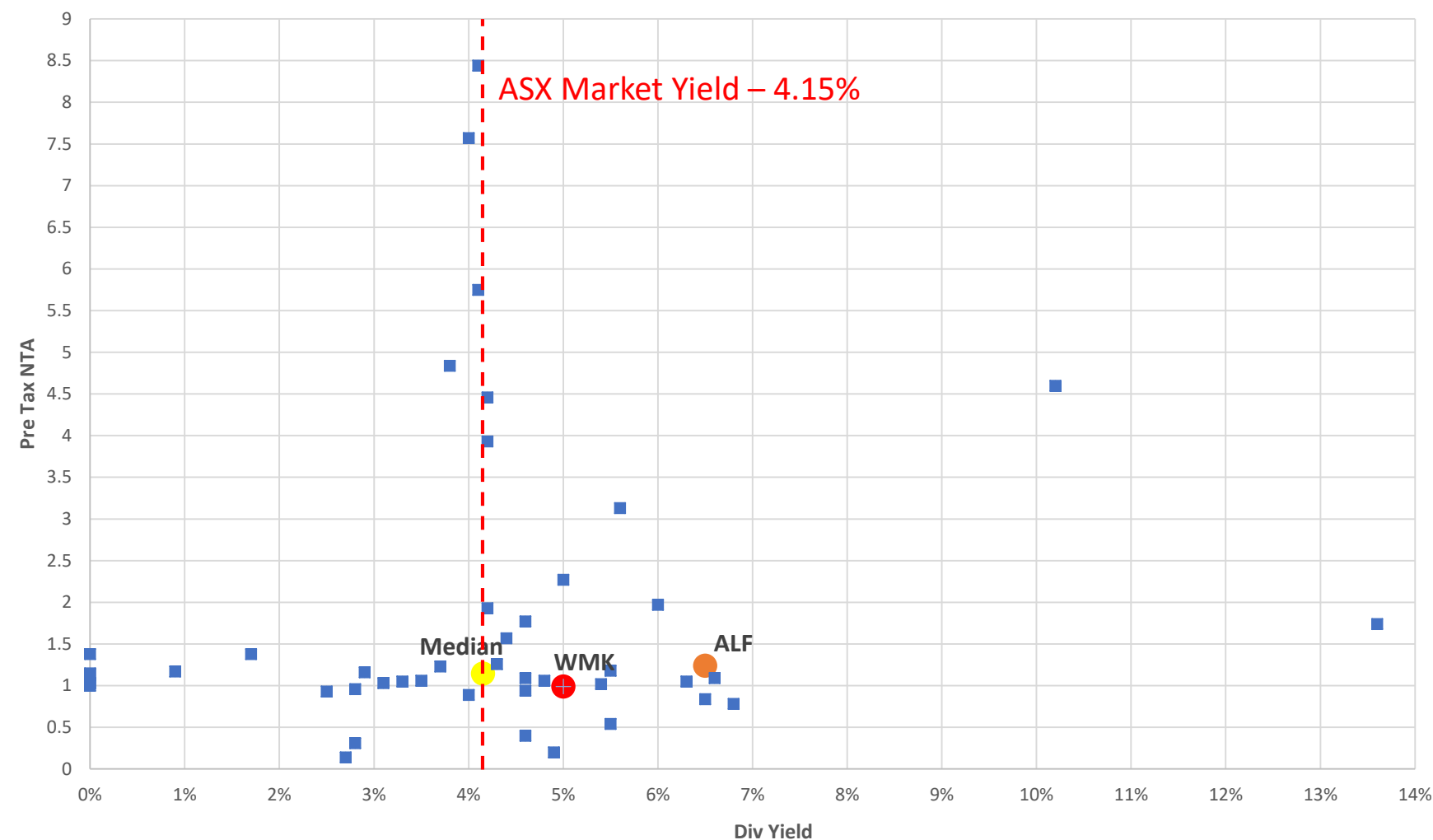


Where do dividends come from when ALF is fully hedged?

Long Only Manager	Target	Predictability	ALF (When Hedged)	Target	Predictability
Dividends Received (long)	4% pa	High	Dividends Received (long)	4%	High
Dividends Paid (short)	0	High	Dividends Paid (short)	(4)%	High
Capital Gain (market)	4%	Low	Capital Gain (market)	0%	High
Interest Income	0%	Medium	Interest Income	1.5%	High
Capital Gain (outperformance of Q1 mgr)	3%	Low	Capital Gain (outperformance)	8-10%	Low
Total	11%	Low	Total	11.5%	Low
Less Tax	3%		Less Tax	3%	
Profit (to fund dividend)	8%	Low	Profit (to fund dividend)	8.5%	Low

For illustrative purposes only.

Dividend yields / NTA in the Australian LIC peer group



Source: Independent Investment Research. Data as at 31 August 2017. Based on fully paid ordinary shares available for trade. Pre tax-NTA includes tax paid on realised gains