



WATERMARK

MARKET NEUTRAL FUND

Watermark Market Neutral Fund Limited (WMK) ASX ANNOUNCEMENT/MEDIA RELEASE

14th November 2017

Chairman's Address to Annual General Meeting

INTRODUCTION

Hello Ladies and Gentlemen

Welcome to the 4th Annual General Meeting of the Watermark Market Neutral Fund Ltd (WMK). I would like to thank you all for coming today and to thank all of the shareholders who have supported the company over the last 12 months.

My name is Matthew Kidman, I am the chairman of the Board of Directors and I will be chairing the meeting today. I would like to start by introducing my fellow Board members, Justin Braitling, Stephen Van Eyk, Rob Ferguson and John Abernethy. I would also like to introduce our company secretary Belinda Cleminson from Mertons and our auditor, Scott Whiddett from Pitcher Partners. Scott will be available to answer any questions relating to the company's financial statements.

Before progressing with the formal part of the meeting I would like to make some general comments about the performance of WMK and the thoughts of the board, particularly in regards to capital management. Following this, Justin and his management team will conduct a presentation.

PERFORMANCE

For the year to June 30, 2017 the company's investment portfolio increased in value by 3.4 per cent before fees and costs. During the 12 month period the net tangible asset backing (NTA) per share of the company fell from \$1.05 to \$1.01, however, this was after the payment of 6c in dividends, largely franked. This was a pleasing result given the benchmark cash rate over the period averaged just 1.53 per cent. Since inception, in July 2013, WMK has averaged a net investment return after fees of approximately 7 per cent per annum, paying shareholders a total of 21.5c a share in dividends.

Unfortunately, the 2018 financial year has not started well for the company. In the first four months of the year the portfolio has lost approximately 4.5 per cent in value. This has been reflected in WMK's share price which is trading at 85c a share, about a 10 per cent discount to the pre-tax NTA. The board and management are working hard to narrow this discount.

CAPITAL MANAGEMENT

The WMK board has a clear approach to capital management. As detailed at last year's AGM, ideally, the board and management would like to increase the size of WMK to approximately \$150 million, from its current market capitalisation of approximately \$75 million. The extra size of the fund would not be an impediment to performance but it would serve two important functions. Firstly, costs of running the company could be amortised over a larger capital base, reducing the per share cost. Secondly, increased size should improve the liquidity of the share trading, making the vehicle more attractive to a greater range of potential investors.

Importantly, the board will not grow the company if it is detrimental to value for existing shareholders. Therefore, it is not the intention of the board to conduct a capital raising at a discount to NTA simply to achieve the goal of growing the size of the fund. As a result the ability to grow the size of WMK has been made more difficult by the recent decline in the share price that has resulted in a discount to NTA.

In the current circumstances the board needs to consider alternative capital management tools to enhance shareholder value including buying back shares. Every share the company buys back and cancels at a discount to NTA, the NTA improves in value for all remaining shareholders. We have a buy-back in place and have been buying shares at around the current discount. A share buy-back though shrinks the company and is not ideal in achieving the goal of making WMK larger. In the circumstances the board will continue to consider all possible options to grow the company without harming shareholder value.

DIVIDENDS

A key component of the capital management is the dividend policy. It is the intention of the WMK board to pay a consistent, and when possible, growing stream of dividends. In the 2017 financial year, WMK paid 6c a share in dividends, largely fully franked. Paying dividends, however, is dependent on the performance of the fund in a bid to generate retained earnings. The disappointing start to the new financial year sees the profit reserve currently sitting at 1.1c a share.

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About Watermark Market Neutral Fund Limited

Watermark Market Neutral Fund Limited (ASX:WMK) is a Listed Investment Company, managed by Watermark Funds Management Pty Limited. WMK was launched in 2013 as Australia's first listed market neutral strategy to provide investors with consistent, positive rates of return which are uncorrelated with shares and other asset classes. By constructing long and short portfolios of roughly equal size and composition, the Manager can capture value created through stock selection while hedging market risks. WMK invests in a mix of Australian and international shares. For more information, visit www.wfunds.com.au