



## NTA and Monthly Update – January 2018

### Company at a Glance

ASX Code	WMK
Fund Size	AU\$81.3m
Fund Strategy	Equity Market Neutral
Share Price	\$0.85
Shares on Issue	87.3m
Dividend (FY17 Annual)	2.5 cents
Dividend Yield (annualised)	6.5%

### Net Tangible Asset (NTA) Backing

	Dec 17	Jan 18
NTA Before Tax	\$0.95	\$0.94
NTA After Tax	\$0.96	\$0.96

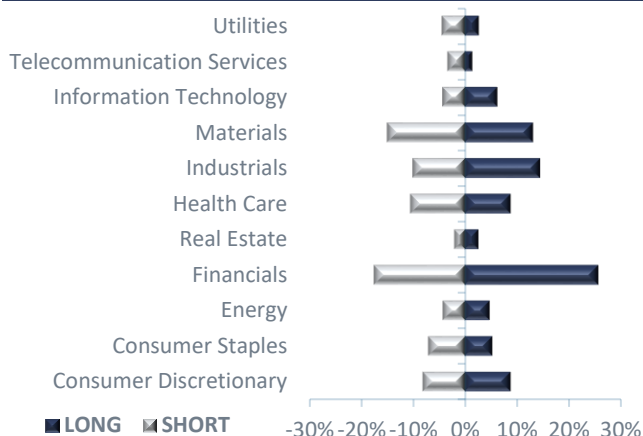
### Gross Portfolio Structure

Long Exposure	98.7%	94.3%
Short Exposure	-95.4%	-87.9%
Gross Exposure	194.1%	182.2%
Cash	96.7%	93.6%

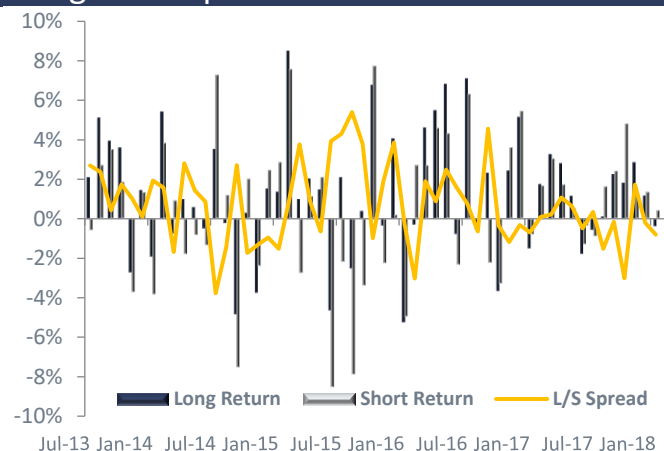
### WMK Performance

	1 Mth	3 Mths	1 Yr	2 Yrs (pa)	3 Yrs (pa)	S.I. (pa)
Portfolio Return (net)	-0.7%	0.3%	-3.5%	-0.5%	6.5%	4.8%
RBA Cash Rate	0.1%	0.4%	1.5%	1.6%	1.8%	2.0%
<b>Outperformance (net)</b>	<b>-0.8%</b>	<b>-0.1%</b>	<b>-5.0%</b>	<b>-2.1%</b>	<b>4.7%</b>	<b>2.8%</b>

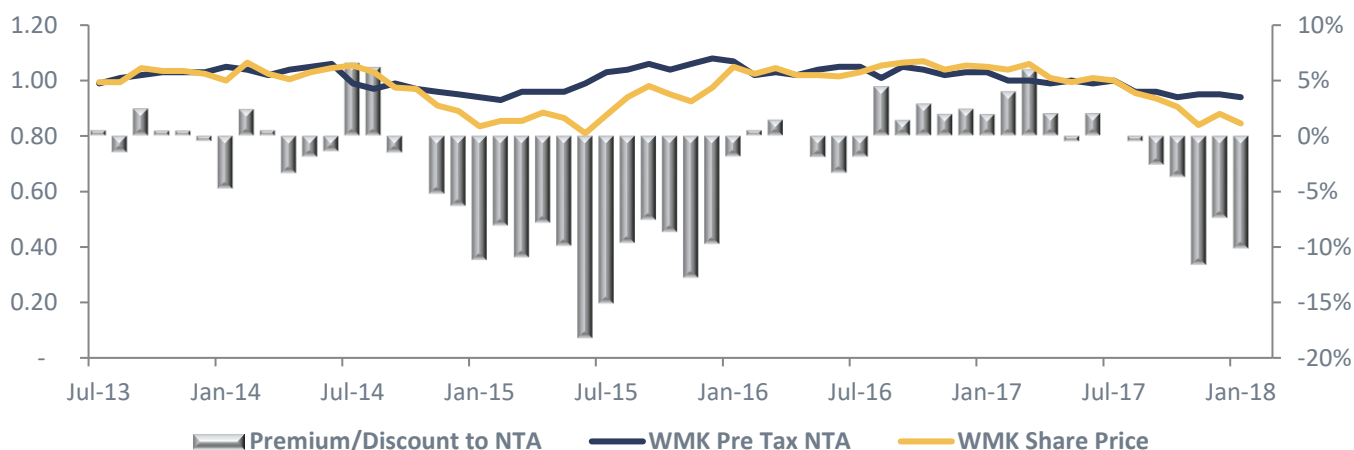
### Sector Exposures



### Long Short Spread



### Premium/Discount to NTA History





## Month in Review

January saw a marked divergence in performance between the Australian share market and international peers. Buoyed by synchronized global growth, ongoing preparedness of the ECB to leave stimulatory settings unchanged and strong economic data across developed Asia, global share markets posted another strong month of returns, lifting the MSCI AC World Index by 2% in AU\$ terms. The domestic share market on the other hand suffered a modest fall of -0.3%, weighed down by weakness in rate sensitive sectors such as banking, real estate, and utilities. Volatility picked up across most markets towards the end of the month, as looming inflation raised the spectre in the minds of investors of tightening measures from central banks.

The Fund posted a fall in the month of 0.7% after all fees. International long positions fared well in a rising market, while in aggregate, the international short portfolio underperformed the index, creating a positive spread. The domestic portfolio detracted from returns, with modest long biases in cyclically exposed sectors such as banking and industrials weighing on performance.

Mining companies consolidated after rallying in December. Our domestic positions in *BHP Billiton* and *Independence Group* performed well after announcing quarterly production numbers. Overseas, shares in *Teck Resources* continued to rise along with the coal price.

Performance was mixed in the energy sector where commodity prices were softer. We increased our position in *Senex Energy*, which continues to hit milestones with its Surat Basin gas projects, supplying into an increasingly tight East Coast gas market.

*APA Group* and *Ausnet Services* both had large sell-offs in the month as prices of global bonds fell. We have been balanced in electricity generation and retail shares, with *AGL* and *Origin* both facing headwinds from increasing retail competition, while benefitting from tight wholesale markets.

Australian consumer shares were up strongly in January with discretionary companies significantly outperforming the more defensive staples names. We established a position in *Treasury Wine Estates* which has significant scope for price rises in Asia and an improved distribution model that makes acquisitions of premium wine brands a particularly attractive option.

Global consumer shares were also comfortably up over the month, a continuation of the momentum seen in response to US tax reform. The funds established a position in European luxury brand house *LVMH* when presented with the opportunity to buy the stock at a compelling discount to luxury peers.

Financials shares performed in line with global share market indices although in aggregate, the financials portfolio weighed on returns with an investment in UK consumer lending company *Provident Financial* being the key detractor. Despite publishing a quarterly trading update in December that was generally in line with market expectations, the shares fell almost 25% in the two subsequent trading sessions on speculation that an adverse finding from the FCA might require the company to raise equity. This issue has been known for some time and we believe the stock offers tremendous value even in the scenario where new equity is issued. We added to our long position in *Unicredit* during the period following a fall in the share price in November.

The Healthcare portfolio delivered solid returns in January, driven by strong performance of global long positions and domestic shorts. Australian healthcare shares were broadly weaker with the exception of *ResMed*, which reported solid December quarter results and *Sirtex*, which was bid for by US radiation oncology equipment leader *Varian Medical Systems Inc.*

Outlook commentary for 2018 from companies presenting at the annual JP Morgan Healthcare conference in early January was broadly positive, which buoyed global healthcare shares. Tax reform also drove significant upward revisions to earnings forecasts (lower tax rates) for companies with significant US earnings (e.g. US managed care providers, hospitals, and service providers) while companies with large offshore cash balances (medical device companies, pharma/biotech) rallied on the potential for capital management initiatives



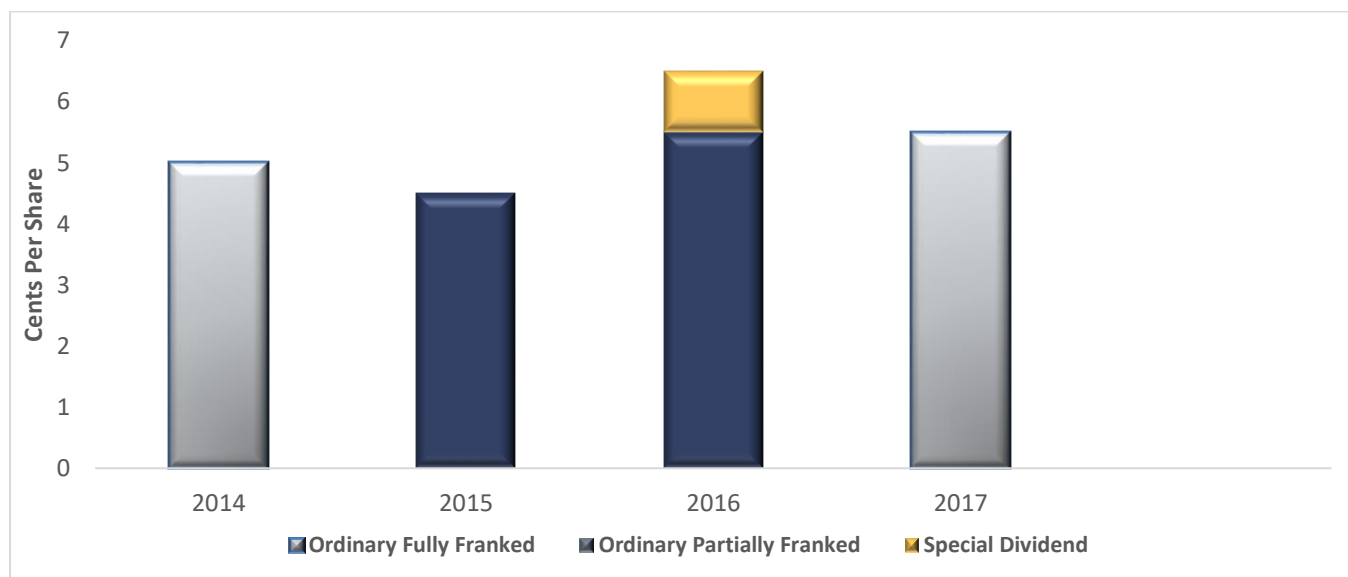
following repatriation of offshore cash hoards. Biotechnology shares rose sharply as M&A activity picked up (*Sanofi's* bid for haemophilia company *Bioverativ*) with further transactions expected given cash balances that should arrive in the near term. Takeover speculation benefitted out recent investment in *Spark Therapeutics*.

January was a quiet month for Australian TMT shares, while global names moved on quarterly results and continued response to US tax reform. In Australia we took advantage of the market's overreaction to news of the CEO's departure, to establish a position in *Domain*, with the company's shares moving to a discount to peer *REA Group* despite faster earnings growth forecasted. Detracting from performance were longs in *MYOB* and *TradeMe*, which fell despite no fundamental developments and a short in *Intel*. Key contributors included *Activision* and *Vivendi*.

Given the strength across much of the Industrial sector, January provided an opportunity to reduce the net long exposure in this part of the portfolio. This ensured that some protection was in place as market volatility increased towards the end of the month. Strongest contributions at a security level came from two investments in aerospace & defence: *Hexcel* and *Safran*. Detractors were shorts in lower quality business which were dragged up by the overall market rally, as well as a long position in *Maersk*, which sold-off as investors de-risked their positions ahead of the company's announcement of its profit results. The shares have rebounded some 4% since the numbers were reported.

## Dividend History

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



Disclaimer: This document is issued by Watermark Funds Management Pty Ltd (ABN 98 106 302 505, AFSL 250897) in relation to the Watermark Market Neutral Fund Ltd. The information provided is general information only. It does not constitute financial, tax or legal advice or an offer or solicitation to subscribe for units or shares in any fund of which the Manager is the contracted Investment Manager. The information in this document has been prepared without taking account of your objectives, financial situation or needs. Watermark Funds Management receives management and performance fees from the Watermark Funds.