

Watermark Market Neutral Fund Limited

ABN 45 163 980 498

Appendix 4D

Half-year report for the half-year ended 31 December 2017

Half-year report

This half-year ended report is for the reporting half-year from 1 July 2017 to 31 December 2017. The previous corresponding half-year was 1 July 2016 to 31 December 2016.

Results for announcement to the market

Revenue from ordinary activities	Down	85.08%	from	5,758,932	to	859,093
Profit/(loss) before tax for the period	Down	504.79%	from	798,605	to	(3,232,701)
Profit/(loss) from ordinary activities after tax attributable to members	Down	378.89%	from	800,110	to	(2,231,421)

Dividends

	Dividend Rate	Total Amount \$	Record Date	Date of Payment	Percentage Franked
		-			
2017 Final (paid 31/10/2017)	\$0.025	\$2,183,950	05/10/2017	31/10/2017	100%
2018 Interim (payable 24/04/2018)	\$0.01	\$873,346	10/04/2018	24/04/2018	100%
		-			

Net tangible assets

	31 December 2017	31 December 2016
Net tangible asset backing (per share) before tax	0.95	1.03
Net tangible asset backing (per share) after tax	0.96	1.03

Distribution Reinvestment Plan (DRP)

The Dividend Reinvestment Plan will not operate for the interim dividend.

Further information

This report is based on the Half Year Financial Report which has been subject to independent review by the Auditors, Pitcher Partners. All the documents comprise the information required by Listing Rule 4.2A. This information should be read in conjunction with the 30 June 2017 Annual Financial Report.

Watermark Market Neutral Fund Limited

ABN 45 163 980 498

Interim Report for the half-year ended 31 December 2017

Watermark Market Neutral Fund Limited ABN 45 163 980 498

Interim Report - for the half-year ended 31 December 2017

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by Watermark Market Neutral Fund Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Corporate Directory

Directors

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

Joint secretaries

Mark Licciardo
Belinda Cleminson

Registered office

Level 23 Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
Telephone: (02) 9252 0225
Facsimile: (02) 9252 1220
Email: info@wffunds.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) 8262 2800.

Share registrar

Boardroom Pty Limited
Level 12
225 George Street
Sydney NSW 2000
Telephone: (02) 9290 9600
Facsimile: (02) 9279 0664

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

Auditor

Pitcher Partners
Level 22 MLC Centre
19 Martin Place
Sydney NSW 2000
Telephone: (02) 9221 2099
Facsimile: (02) 9223 1762

Securities exchange

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

Directors' Report

The Directors present their report together with the condensed financial report of Watermark Market Neutral Fund Limited ("the Company") for the half-year ended 31 December 2017.

Directors

The following persons held office as Directors during the half-year or since the end of the half-year and up to the date of this report:

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

Principal activities

The principal activity of the Company is making investments in listed and unlisted companies. No change in this activity took place during the half-year period 31 December 2017 or is likely to take place in the future.

Review of operations

Investment operations over the half-year ended 31 December 2017 resulted in an operating loss before tax of \$3,232,701 (2016: profit \$798,605) and an operating loss after tax of \$2,231,421 (2016: profit \$800,110).

The NTA after tax for each share as at 31 December 2017 amounted to \$0.96 per share (2016: \$1.03). The NTA before tax was \$0.95 per share (2016: \$1.03).

Significant changes in the state of affairs

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.

On 15 September 2017, the Company announced the appointment of Belinda Cleminson, also of Mertons Corporate Services Pty Ltd, as Joint Company Secretary effective 15 September 2017. This appointment is in addition to Mark Licciardo who remains as Joint Company Secretary.

At the expiry of the buyback on 13 February 2018, the Company had bought back a total of 500,793 shares at an average price of \$0.85.

On 15 February 2018, an additional 12 month on-market share buy-back program was announced by the Company effective 15 February 2018. 20,142 shares have been bought back since its commencement.

There were no other significant changes in the state of affairs of the Company during the half-year ended 31 December 2017.

Rounding of Amounts to nearest dollars

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, the amounts in the Directors' Report and in the Financial Report have been rounded to the nearest dollar, unless otherwise specified.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* in relation to the review for the half-year is set out on page 4.

Watermark Market Neutral Fund Limited
Directors' Report
for the half-year ended 31 December 2017
(continued)

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

A handwritten signature in black ink, appearing to read 'MKd', with a long horizontal flourish extending to the right.

Matthew Kidman
Chairman

Sydney
27 February 2018

Auditor's Independence Declaration
To the Directors of Watermark Market Neutral Fund Limited
ABN: 45 163 980 498

In relation to the independent auditor's review for the half-year ended 31 December 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 in relation to the review.

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



S M WHIDDETT
Partner

PITCHER PARTNERS
Sydney

27 February 2018

Watermark Market Neutral Fund Limited
Statement of Comprehensive Income
For the half-year ended 31 December 2017

	Half-year ended	
	31 December	31 December
	2017	2016
Notes	\$	\$
Investment income from ordinary activities		
Net realised (losses)/gains on investments	(3,410,876)	8,651,315
Net unrealised gains/(losses) on investments	2,103,027	(5,465,848)
Dividends	1,022,342	1,051,114
Interest	1,224,502	1,282,356
Trust distributions	117,420	132,768
Other income	603	-
Net foreign exchange (losses)/gains	(197,925)	107,227
	<u>859,093</u>	<u>5,758,932</u>
Expenses		
Management fees	(429,669)	(469,599)
Performance fees	-	(244,680)
Brokerage expense	(487,182)	(681,911)
Short dividend expense	(1,804,091)	(1,855,661)
Accounting fees	(53,510)	(66,297)
Share registry fees	(35,978)	(56,926)
Stock loan fees	(229,060)	(402,738)
Interest expense	(848,745)	(934,607)
Directors' fees	(65,000)	(65,000)
Legal fees	-	(5,495)
ASX fees	(29,520)	(29,167)
Audit and tax fees	(40,491)	(25,860)
Other expenses	(68,548)	(122,386)
	<u>(4,091,794)</u>	<u>(4,960,327)</u>
(Loss)/profit before income tax	(3,232,701)	798,605
Income tax benefit	1,001,280	1,505
(Loss)/profit for the period	<u>(2,231,421)</u>	<u>800,110</u>
Other comprehensive income for the period, net of tax	<u>-</u>	<u>-</u>
Total comprehensive (loss)/income for the period	<u>(2,231,421)</u>	<u>800,110</u>
	Cents	Cents
Earnings per share for (loss)/profit attributable to the ordinary equity holders of the Company:		
Basic earnings per share	(2.55)	0.92
Diluted earnings per share	(2.55)	0.92

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 31 December 2017

	At 31 December 2017	30 June 2017
Notes	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	77,524,729	80,021,172
Trade and other receivables	947,180	11,169,327
Financial assets at fair value through profit or loss	2(a) 79,616,384	115,206,353
Current tax assets	1,225,871	-
Other current assets	128,282	24,393
Total current assets	159,442,446	206,421,245
Non-current assets		
Deferred tax assets	2,403,464	1,425,362
Total non-current assets	2,403,464	1,425,362
Total assets	161,845,910	207,846,607
LIABILITIES		
Current liabilities		
Trade and other payables	602,418	5,915,874
Financial liabilities at fair value through profit or loss	2(a) 76,945,369	113,180,962
Current tax liabilities	-	567
Total current liabilities	77,547,787	119,097,403
Non-current liabilities		
Deferred tax liabilities	17,250	41,207
Total non-current liabilities	17,250	41,207
Total liabilities	77,565,037	119,138,610
Net assets	84,280,873	88,707,997
EQUITY		
Issued capital	6 86,770,397	86,782,148
Profits reserve	920,879	2,954,036
Accumulated losses	(3,410,403)	(1,028,187)
Total equity	84,280,873	88,707,997

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 half-year ended 31 December 2017

	Notes	Issued capital \$	Profits reserve \$	Accumulated losses \$	Total \$
Balance at 1 July 2016		86,552,644	6,364,468	(765,900)	92,151,212
Profit for the period		-	-	800,110	800,110
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	7	-	(2,613,601)	-	(2,613,601)
Transfer to profits reserve		-	1,816,770	(1,816,770)	-
		-	(796,831)	(1,816,770)	(2,613,601)
Balance at 31 December 2016		86,552,644	5,567,637	(1,782,560)	90,337,721
Balance at 1 July 2017		86,782,148	2,954,036	(1,028,187)	88,707,997
Loss for the period		-	-	(2,231,421)	(2,231,421)
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	7	200,691	(2,183,952)	-	(1,983,261)
Costs of issued capital		(1,822)	-	-	(1,822)
On market buy back	6	(210,620)	-	-	(210,620)
Transfer to profits reserve		-	150,795	(150,795)	-
		(11,751)	(2,033,157)	(150,795)	(2,195,703)
Balance at 31 December 2017		86,770,397	920,879	(3,410,403)	84,280,873

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 half-year ended 31 December 2017

	Half-year ended	
	31 December	31 December
	2017	2016
Notes	\$	\$
Cash flows from operating activities		
Proceeds from sale of financial assets	173,469,193	206,279,481
Purchase of financial assets	(131,580,351)	(192,034,729)
Proceeds from short sale of financial liabilities	136,343,863	170,157,729
Re-purchase of financial liabilities	(175,177,090)	(182,524,923)
Dividends and trust distributions received	1,271,842	1,715,351
Interest received	1,195,028	1,333,021
Interest paid	(856,722)	(903,070)
Income taxes paid	(1,226,436)	-
Other income received	603	-
Investment management fees paid	(431,816)	(470,432)
Performance fees paid	(163,954)	(2,750,119)
Dividends paid on short stocks	(1,835,752)	(2,076,058)
Brokerage expense	(479,323)	(672,119)
Stock loan fees	(235,245)	(428,350)
Payments for other expenses	(395,874)	(410,739)
Net cash (outflow) from operating activities	(102,034)	(2,784,957)
Net cash inflow from investing activities	-	-
Cash flows from financing activities		
Payments for shares bought back	6 (210,620)	-
Dividends paid to company's shareholders	(2,183,952)	(2,613,601)
Shares issued	200,691	-
Share issue transaction costs	(2,603)	-
Net cash (outflow) from financing activities	(2,196,484)	(2,613,601)
Net (decrease) in cash and cash equivalents	(2,298,518)	(5,398,558)
Cash and cash equivalents at the beginning of the half-year	80,021,172	93,247,732
Effects of exchange rate changes on cash and cash equivalents	(197,925)	107,227
Cash and cash equivalents at end of half-year	77,524,729	87,956,401

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

1 Summary of significant accounting policies

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

(a) Basis of preparation of half-year report

These interim financial statements for the half-year reporting period ended 31 December 2017 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Compliance with AASB 134 by a for-profit entity ensures compliance with International Financial Reporting Standards IAS 34 *Interim Financial Reporting*.

The Company is a for-profit entity for financial reporting purposes under Australian Accounting Standard.

These interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by Watermark Market Neutral Fund Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The interim financial statements have been prepared on an accrual basis, and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

The interim financial statements were authorised for issue by the Board of Directors on 27 February 2018.

(i) New and amended standards adopted by the Company

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

In accordance with ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016-191, the amounts in the Directors' Report and in the Financial Report have been rounded to the nearest dollar, unless otherwise specified.

2 Fair value measurements

This note provides an update on the judgements and estimates made by the Company in determining the fair values of the financial instruments since the last annual financial report.

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)

(a) Fair value hierarchy

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy (consistent with the hierarchy applied to financial assets and financial liabilities):

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

2 Fair value measurements (continued)

(a) Fair value hierarchy (continued)

(i) Recognised fair value measurements

The following table presents the Company's financial assets and liabilities measured and recognised at fair value at 31 December 2017 and 30 June 2017 on a recurring basis.

At 31 December 2017	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets				
Financial assets at FVTPL				
Equity securities	56,524,914	-	-	56,524,914
Equity securities international	23,091,470	-	-	23,091,470
Total financial assets	79,616,384	-	-	79,616,384
Financial liabilities				
Financial liabilities at FVTPL				
Equity securities sold short	54,406,756	-	-	54,406,756
Equity securities international	22,538,613	-	-	22,538,613
Total financial liabilities	76,945,369	-	-	76,945,369
At 30 June 2017	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets				
Financial assets at FVTPL				
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				
Financial liabilities at FVTPL				
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

There were no transfers between levels for recurring fair value measurements during the half-year.

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 approximate their fair values due to their short-term nature.

3 Segment information

The Company has only one reportable segment. The Company is engaged primarily in investment activities conducted in Australia, deriving revenue from dividend income, interest income and from the sale of its investments. The Company invests in both Australian and International equities.

4 Income tax expense

Income tax expense is recognised based on management's estimate of the effective income tax rate expected for the financial period. The effective tax rate used for the period to 31 December 2017 is (31%) (2016: 0%). The movement in the effective tax rate is due to the reduction in fully franked dividends received.

5 Contingencies

The Company had no contingent liabilities at 31 December 2017 (June 2017: nil).

6 Issued capital

(a) Share capital

	31 December 2017 Shares	30 June 2017 Shares	31 December 2017 \$	30 June 2017 \$
Ordinary shares	87,334,558	87,357,985	86,770,397	86,782,148

(b) Movements in ordinary share capital

Details	Notes	Number of shares	\$
Opening balance 1 July 2016		87,120,041	86,552,644
DRP shares issued for dividend payment	6(d)	238,044	239,767
On market buy back	6(e)	(100)	(107)
Cost of issued capital		-	(10,156)
Closing balance 30 June 2017		<u>87,357,985</u>	<u>86,782,148</u>

Details		Number of shares	\$
Opening balance 1 July 2017		87,357,985	86,782,148
DRP shares issued for dividend payment	6(d)	224,422	200,691
On market buy back	6(e)	(247,849)	(210,620)
Cost of issued capital		-	(1,822)
Closing balance 31 December 2017		<u>87,334,558</u>	<u>86,770,397</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.

(d) Dividend reinvestment plan

The Company has established a dividend reinvestment plan 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 were issued under the plan at a discount to the market price. The discount is determined from time to time and is capped at 3%.

6 Issued capital (continued)

(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 back zero shares.

The Company renewed the share buy-back program for 12 months from 14 February 2017 and has bought back 500,793 shares at an average price of \$0.85.

An additional 12 month on-market share buy-back program was announced by the Company effective 15 February 2018. 20,142 shares have been bought back since its commencement.

7 Dividends

(a) Ordinary shares

	Half-year ended	
	31 December	31 December
	2017	2016
	\$	\$
Final dividend franked based on tax paid @ 30.0%	2,183,950	2,613,601

(b) Dividend rate

Dividends paid franked based on tax paid at 30% tax rate

	Dividend	Total Amount	Date of	% Franked
	Rate		Payment	
Ordinary shares - final 2017	\$0.025	\$2,183,950	31/10/2017	100
Ordinary shares - final 2016	\$0.030	\$2,613,601	20/10/2016	75

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

	Half-year ended	
	31 December	31 December
	2017	2016
	\$	\$

Since half-year end the Directors have recommended the payment of:

- an interim dividend of 1 cent per fully paid ordinary share (2016 - 3 cents), 100% franked (2016: 100% franked) based on tax paid at 30%.

The aggregate amount of the proposed dividend expected to be paid on 24 April 2018 out of the profits reserve at 31 December 2017, but not recognised as a liability at half-year end, is

873,346	2,613,601
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8 Events occurring after the reporting period

Other than the dividend declared after period end (as discussed in Note 7(c)), no other matter or circumstance has occurred subsequent to the end of the period 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 or economic entity in subsequent financial periods.

Watermark Market Neutral Fund Limited
Directors' Declaration
For the half-year ended 31 December 2017

In the Directors' opinion:

- (a) the interim financial statements and notes set out on pages 5 to 12 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standard AASB 134: *Interim Financial Reporting*, 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 31 December 2017 and of its performance for the half-year ended on that date.
- (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.

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



Matthew Kidman
Chairman

Sydney
27 February 2018

**Independent Auditor's Review Report
to the Members of Watermark Market Neutral Fund Limited
ABN: 45 163 980 498**

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Watermark Market Neutral Fund Limited ("the company"), which comprises the statement of financial position as at 31 December 2017, statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a statement of significant accounting policies, other selected explanatory notes and the directors' declaration of the company.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: *"Review of a Financial Report Performed by the Independent Auditor of the Entity"*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporation Act 2001* including: giving a true and fair view of the Company's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: *"Interim Financial Reporting"* and the *Corporations Regulations 2001*. As the auditor of Watermark Market Neutral Fund Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of the half-year financial report consists of making enquiries, primarily of persons responsible for the financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Watermark Market Neutral Fund Limited is not in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Company's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- (ii) complying with Accounting Standard AASB 134: *Interim Financial Reporting* and *Corporations Regulations 2001*.



S M WHIDDETT
Partner

27 February 2018



PITCHER PARTNERS
Sydney