



WATERMARK

MARKET NEUTRAL FUND

NTA and Monthly Update – April 2018

Company at a Glance

ASX Code	WMK
Fund Size	AU\$80.7m
Fund Strategy	Equity Market Neutral
Share Price	\$0.84
Shares on Issue	85.5m
Dividend (HY18 Interim)	1 cent

Net Tangible Asset (NTA) Backing

	Mar 18	Apr 18
NTA Before Tax	\$0.97	\$0.96
NTA After Tax	\$0.97	\$0.96
Dividend Declared (1.0¢)	(\$0.01)	-
NTA After Tax \$ Dividend (1.0¢)	\$0.96	\$0.96

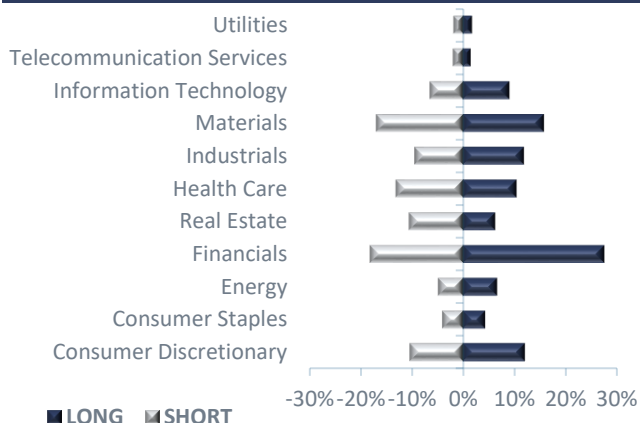
Gross Portfolio Structure

Long Exposure	99.2%	107.5%
Short Exposure	-92.3%	-99.3%
Gross Exposure	191.5%	206.8%
Cash	93.1%	91.8%

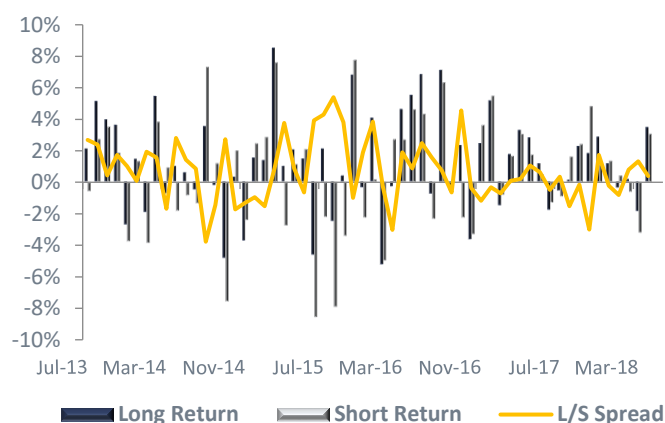
WMK Performance

	1 Mth	3 Mths	1 Yr	2 Yrs (pa)	3 Yrs (pa)	S.I. (pa)
Portfolio Return (net)	0.5%	2.0%	-2.3%	0.9%	5.6%	4.9%
RBA Cash Rate	0.1%	0.4%	1.5%	1.5%	1.7%	2.0%
Outperformance (net)	0.4%	1.6%	-3.8%	-0.6%	3.9%	2.9%

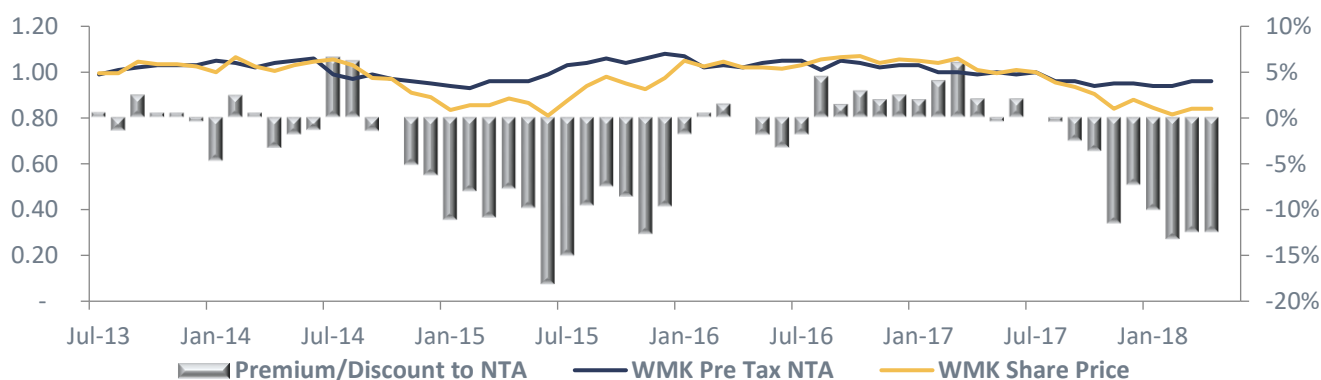
Sector Exposures



Long Short Spread



Premium/Discount to NTA History



Month in Review

April was a strong month for the Australian share market which bucked the recent trend to finish the month up almost 4%. A benign outlook for inflation, modest growth in employment and consumer spending and a slowing residential housing market provided little to excite investors in shares. The beleaguered banking and financial services sector was an additional weight on the domestic share market, which was strong nevertheless, lead higher by buoyant prices in mining and energy shares. Global markets also posted solid gains, particularly in Europe where investors looked through political instability and the lingering threat of protectionist policies, pushing major indices higher.

The Fund posted a 0.5% net return after all fees in the month. Unfortunately, two of the Fund's shorts received take-over offers, which weighed on returns. In both cases, the commercial and strategic benefits for the bidders are difficult to discern, exemplifying an inherent risk of short selling, to which the funds are exposed.

A small position in Australian wealth manager AMP was a detractor from returns in April, with shares falling almost 20% in the month. The company suffered considerable negative publicity as a result of the Royal Commission into misconduct in the Banking, Superannuation and Financial Services industry. We added to our position towards the end of the month, on the view that current prices represent considerable value and that the new Chairman David Murray is an excellent candidate to rebuild the company's reputation with customers, the regulator, and the stock market.

The strongest contributors to returns in the Consumer portfolio came from fast-growing companies: Aristocrat Leisure and Treasury Wine Estates. Aristocrat shares rallied in response to the release of a survey of US slot managers revealing that the current product portfolio remains the top performer in the industry. Treasury Wine Estate's shares were buoyed by the news that the 2018 vintage would be strong for the third year in a row, with yield and quality comparable to that seen in 2016.

The Fund's TMT portfolio performed strongly, despite increasing volatility in the technology sector. Domestically the top contributor to performance was our core investment in MYOB Group, which rallied along with the global software sector. Investments in Fairfax and APN Outdoor were beneficiaries from a shift in media spending, out of online and into traditional media. Internationally, gains were posted from both the long and short portfolios.

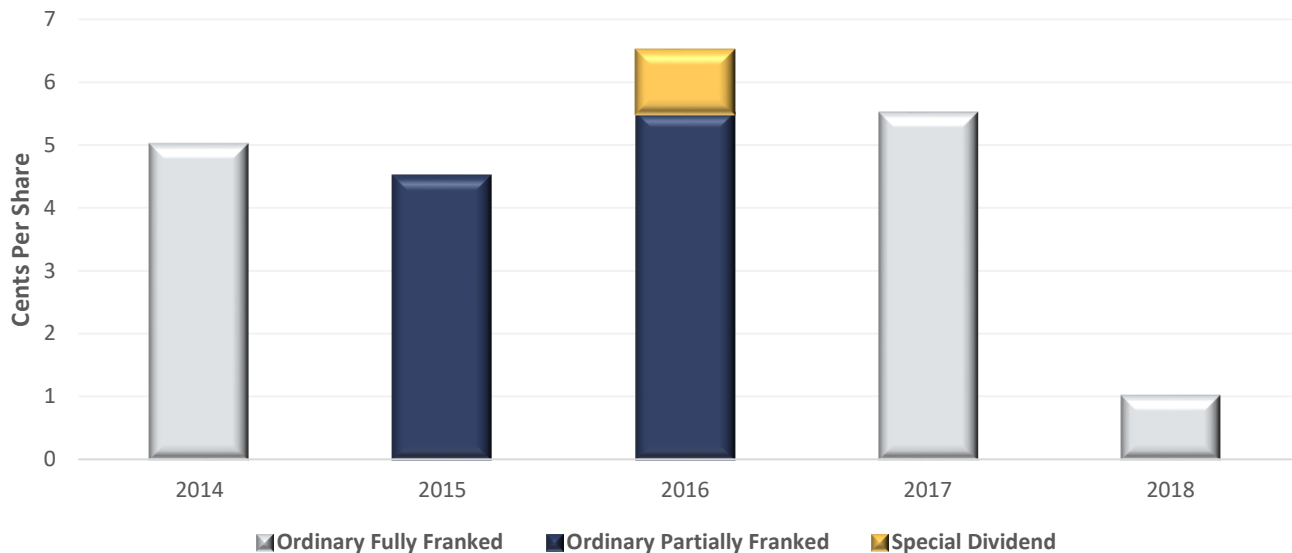
Domestic healthcare shares materially outperformed global peers, with European companies catching a long-awaited bid on a weaker Euro, while US biopharma shares slid ahead of US President Trump's key drug pricing speech due early May. March quarter financial reporting was a dominant feature offshore and results were generally above expectations. M&A activity continues to accelerate, boosting small-mid-sized company valuations. The Healthcare portfolio remains balanced; however, we hold a net short bias to larger biopharmaceutical companies. Medical device and life sciences company valuations may appear full however we see a longer cycle ahead for these businesses as consumer and industrial end markets remain strong. Healthcare shares delivered the strongest contribution to returns to the Fund in April with investments in CSL Ltd, Ramsay Healthcare and Merck & Co.

In Basic Industries, positive economic data out of China provided a shot in the arm for mining shares. Countering this was the rally in the US dollar, which could weigh on emerging market economies and prices of commodities. As such, we took profits and are neutral in the mining sector. Oil prices continued to rise in the month in anticipation of President Trump's decision to withdraw from the Iran nuclear deal. We retained our net long exposure to energy companies as they have lagged the advance in the oil price. Aluminium markets soared on supply outages in Brazil, as well as unexpected sanctions on Russian producer Rusal. This benefitted our holding in South32. An investment in Woodside Petroleum performed well as merits of its recent acquisition become clearer. Oil Search shares also jumped on increases in the company's Alaskan oil resource.



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



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