



Watermark Market Neutral Fund Limited (WMK)

ASX ANNOUNCEMENT/MEDIA RELEASE

29th November 2018

Chairman's Address to Annual General Meeting

INTRODUCTION

Hello Ladies and Gentlemen

Welcome to the 5th 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.

For the year to June 30, 2018 the company's gross investment portfolio decreased by 2.2 per cent before fees and costs, falling below the benchmark of the Reserve Bank cash rate. During the 12-month period the net tangible asset backing (NTA) per share of the company fell from \$1.01 to \$0.96, this was after the payment of 3.5c dividends for the year. This has been a disappointing result.

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, we will progress to the formal part of the meeting. Upon concluding the formal business of the meeting we will open up for further questions from the floor, including questions for Justin and his management team.

The board is acutely aware of three key issues that need to be addressed. The first is the persistent discount the shares of WMK have traded on the Australian Securities Exchange to the company's net tangible assets (NTA). The discount has ranged between 10 and 20 per cent over the last year. In an effort to address this issue and as good capital management, the board has put in place an active share buyback. In the last 12 months we have bought back 5,187,425 shares at an average discount to NTA of 14%. While this has worked to improve the NTA for the remaining shareholders it has not been able to significantly narrow the gap between the share price and the NTA.

Secondly, when the company was listed in 2013 with a market capitalisation of approximately \$80 million, it was the intention to grow initially to \$100 million and then ideally to \$150 million. However, we made it clear that we would only grow the business if it was beneficial to all shareholders and not raise funds at a discount to NTA. To date, we have been unable to achieve this. A larger fund was important to improve liquidity for shareholders who wanted to buy and sell shares. It would also improve the chances of the stock price trading closer to NTA, with sellers having greater ability to sell without disrupting the share price.

The issue of size also goes to our third point of costs. There are a range of fixed costs in running a listed company including director fees, accounting audits and taxation advice among others. The cost of running a larger fund is therefore cheaper as a percentage of funds.

The board continues to monitor these three key issues very closely and believes they are critical to shareholders. It is our intention to address these issues, rather than let them persist.

DIVIDENDS

Since listing on the ASX in 2013 it has been the stated objective of the WMK to pay a consistent, and when possible, growing stream of dividends. In 2018 WMK paid an interim and final dividend totalling 3.5c a share, partially franked. This was unfortunately down on the 6c a share paid in 2017.

Paying dividends is dependent on the performance of the fund in a bid to generate retained earnings. The fall in dividends paid in 2018 is a reflection of the performance of the fund and a lack of retained earnings.

The 2019 financial year has not started strongly for WMK with the fund down approximately 1 per cent for the four months to October 31. While the board intends to continue to pay a stream of dividends the ability to do so will depend on an improved performance in the coming months.

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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