

## A MESSAGE FROM WATERMARK FUNDS MANAGEMENT CIO

Dear Fellow Shareholders,

On 5 February 2019, the Board of Watermark Funds Management Ltd (WMK, the Company) announced that it had executed a Scheme Implementation Deed with Equity Trustees and Watermark Funds Management. Subject to a range of conditions precedent, the Company will be restructured, by way of a Scheme of Arrangement (the Scheme), to become an unlisted trust (Trust). Should the Scheme meet the requisite conditions, Shareholders will receive units in the Trust in exchange for their WMK shares. They may then choose to keep these units or redeem them at the NAV of the Trust, pursuant to the terms in the relevant Product Disclosure Statement (PDS). Shareholders can expect to receive all relevant details including a Scheme Booklet and PDS in the coming weeks.

We have converted WMK's portfolio to cash in advance of the Scheme's implementation, with the final value of the portfolio (starting NAV of the Trust) to be calculated and disclosed in advance of a Scheme meeting. In preparing to determine the terminal value of the Company, the Board resolved to write down the value of any assets (such as prior years' tax losses and receivable withholding taxes) that could not be transferred to the new Trust, or which are deemed to be unrecoverable. These write-downs were disclosed in the recent monthly NTA update.

The Trust will provide Shareholders exposure to an investment strategy which retains the best elements of WMK, in its ability to hedge share market risks, by short-selling securities that the Manager believes are over-valued or of poor quality. Like WMK, the new fund will aim to deliver returns that have a low correlation with the performance of share market, with a strong focus on capital preservation.

The Trust will differ from WMK however, in that it will provide the Manager with flexibility to increase the net equity exposure of the portfolio, up to 100% (at which point the fund's capital would be fully invested long). While it is expected that the net equity exposure of the fund will typically be less than 50%, this additional flexibility will allow the Manager to target a higher return through an investment cycle than it does for WMK.

In my view, shares will deliver low returns at best in the medium terms as investors contemplate a confluence of slowing growth, rising inflation and restrictive monetary policy. I believe that the Australian economy will also lose momentum this year, making it difficult to see the share market making new highs any time soon.

Should the Scheme be approved, I believe the Trust will provide WMK shareholders with access to an investment vehicle with lower operating costs and better liquidity terms, and an investment strategy that is well suited for the volatile period ahead.

Yours Sincerely



Justin Braitling