

16 April 2019

A LETTER TO WMK SHAREHOLDERS FROM WATERMARK FUNDS MANAGEMENT

Dear Fellow WMK Shareholders,

Thank you again for your ongoing support of Watermark Funds Management (**WFM and the Investment Manager**). Notwithstanding a challenging few years, over the longer term we have largely achieved the objectives that were set out by the Board of Watermark Market Neutral Fund Limited (**WMK, the Company**). The Company's investment portfolio has outperformed its benchmark since inception in July 2013, allowing for the payment of 24 cents in dividends to WMK Shareholders. The benefits of this strategy were clearly displayed in 2015, when the investment portfolio rose by 22%, while the Australian share market fell marginally.

You would have received a Scheme Booklet outlining the proposal to convert WMK from a listed company to an unlisted trust. At a scheme meeting held on the 8th of April, Shareholders approved the Scheme proposal. The Federal Court of Australia has subsequently approved the Scheme, which is now legally effective.

It is expected that the Scheme will be implemented on 23 April 2019, at which time you will be issued with units in the Watermark Absolute Return Fund (the Fund) and your WMK shares will be cancelled. Through an ongoing investment in the Watermark Absolute Return Fund (**the Fund**), unit holders will have exposure to an investment strategy that has been deployed with great success since WFM was launched in 2003. WFM's best successes have been in the Australian share market, where we have many decades of combined experience amongst the investment team.

In 2019 WFM exited international equities, bringing our focus back to the local share market, where we are confident we can deliver the returns that investors have enjoyed in the past.

What are the Benefits of the Fund?

The Fund will employ an absolute return strategy, with similar risk and return characteristics to WMK, namely: returns that are intended to have a low correlation with the broader share market; and the ability to protect capital if the share market falls.

Furthermore, by relaxing the limit on the Fund's net equity exposure relative to WMK's market neutral settings, the Investment Manager will target a higher return than it has for WMK. This can be achieved by supplementing the value created through security selection (alpha) with exposure to the share market (beta), where the Investment Manager sees a compelling opportunity to do so.

As a unit holder in the Fund, you will have the option to redeem your units each month, at the NAV of the Fund, eliminating the challenge of shares trading at a discount to “Net Tangible Asset” backing.

The Fund will also have a lower management expense ratio (**MER**) than WMK, with Fund expenses borne by unit holders to be capped at 1.3%. The Manager will cover expenses above this level. This is in comparison to the MER for WMK in FY18, which was 1.6%.

We have been in a rising share market for 10 years. This business cycle (officially the longest in the modern era) will most likely end and asset values including shares are likely to fall. We had just a taste of this at the end of 2018. It is our firm belief that the value of our hedging strategies and the opportunity they provide to hedge against a falling share market, will become clear when this happens.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'Justin Braitling', with a stylized flourish at the end.

Justin Braitling

CIO – Watermark Funds Management

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About Watermark:

Watermark Funds Management Pty Ltd is a boutique hedge fund manager with assets under management in excess of AU\$500m. Established in 2004 by Justin Braitling, Watermark is a specialist long/short investor offering listed and unlisted investment products to institutional and retail investors.