WATERMARK
FUNDS MANAGEMENT

Investor Update

November 2019

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Agenda

Investment Manager Update

Market Outlook

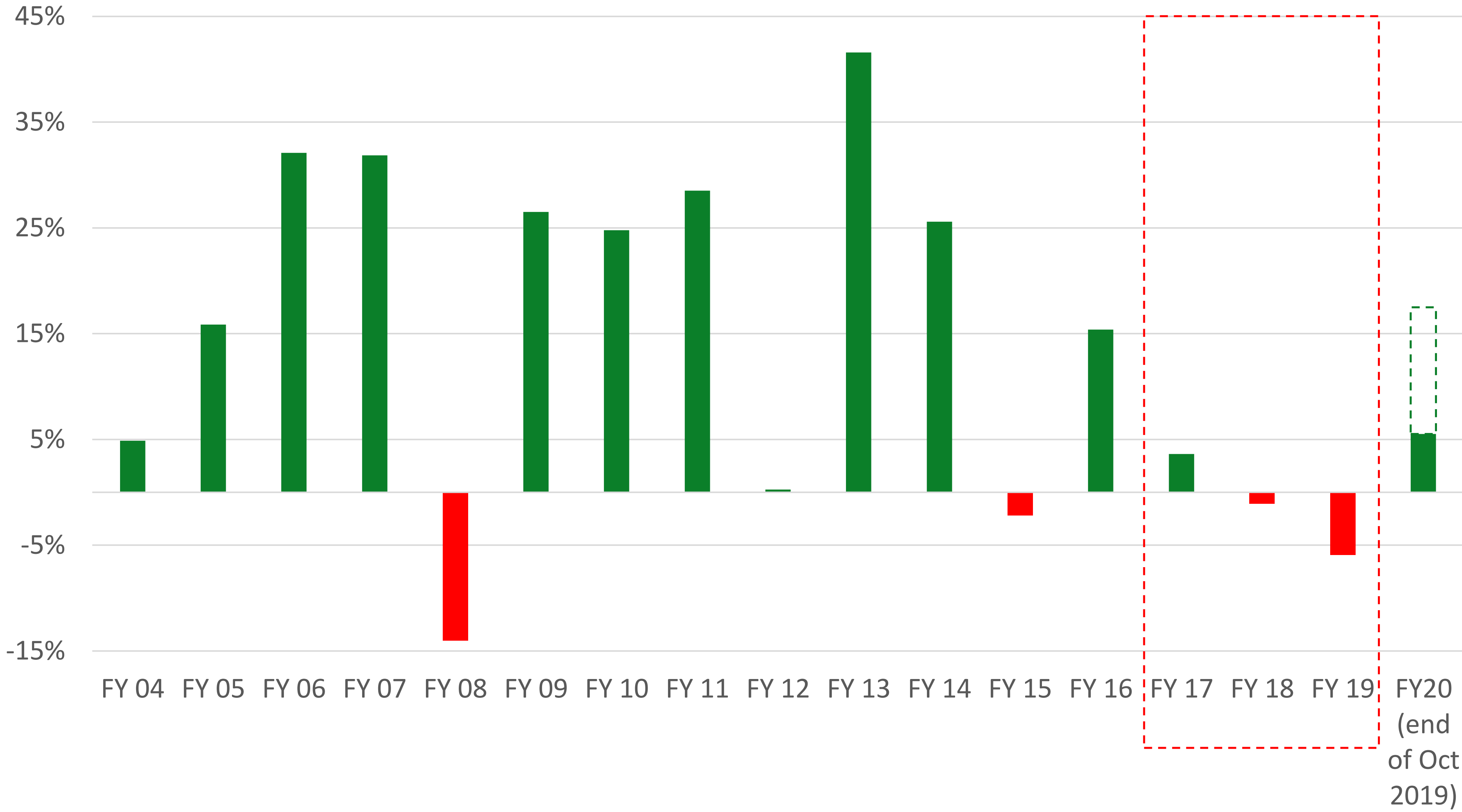
Portfolio Review

Questions

Investment Manager Update

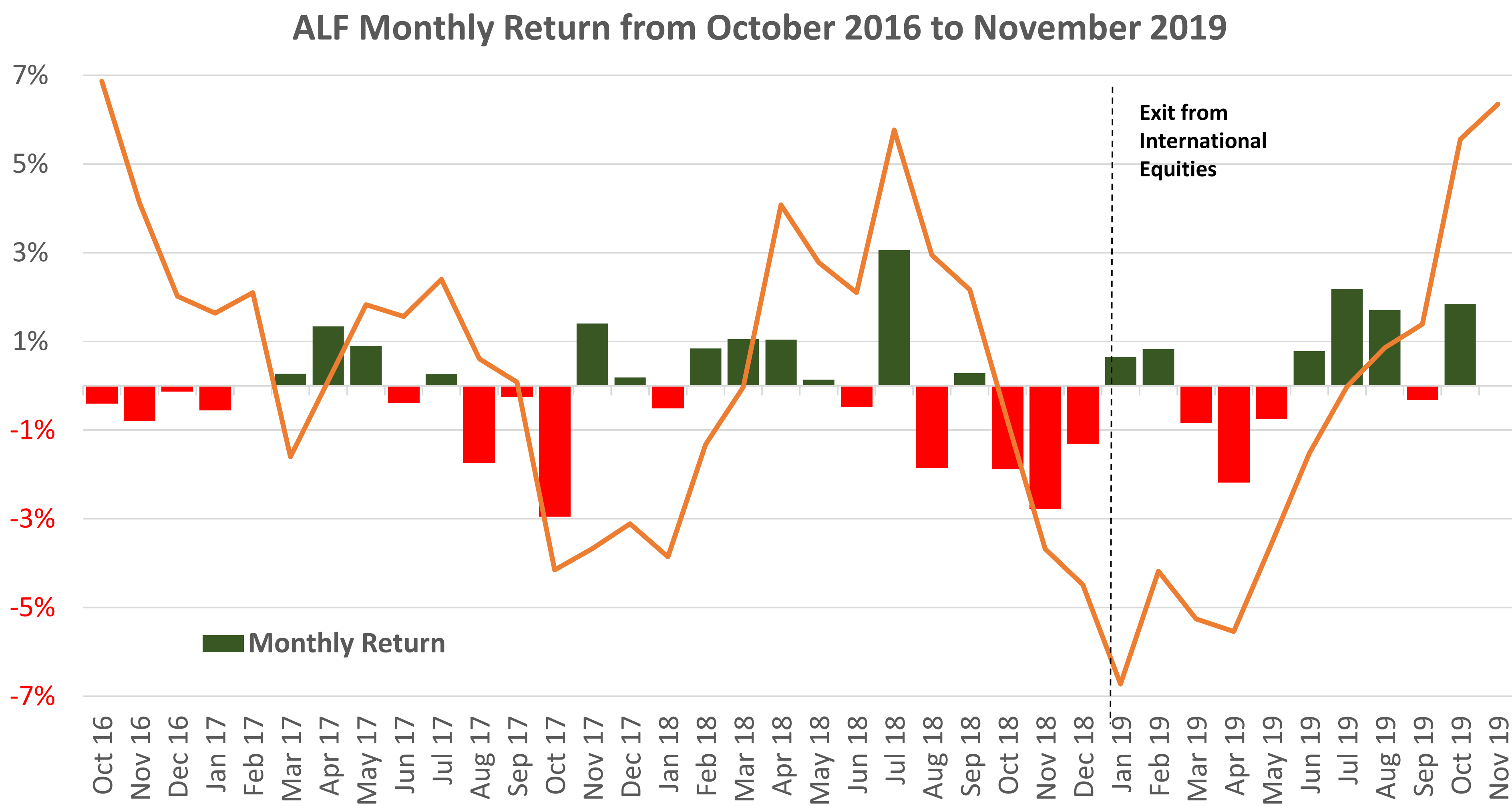
1. Transition complete – Watermark is back on track
   - Watermark has returned to focus on what we do well.
   - The investment team is stronger than ever.
   - Changes are bearing fruit - fund returns on track to exceed targets in FY20.
2. Enhancements to our investment process
   - Lessons learned in 2018 have resulted in better risk controls.
   - Our trading and execution capability has been greatly enhanced.
     - Dedicated dealer.
     - Development of quantitative tools.
3. ALF Board continues to actively manage the Company's capital
   - 10% of ALF shares bought back on-market in last 12 months (NTA accretion of 2 cents per share).
   - ALF Board has announced plans for an off-market buy back at NTA for up to 20% of ALF Shares.
   - Ongoing commitment to offer buy backs while significant discount persists.
   - Dividends declared for FY19 in line with stated policy: to match yield on the All Ordinaries Accumulation Index.

ALF Performance – can we get back to prior form?



Gross data used

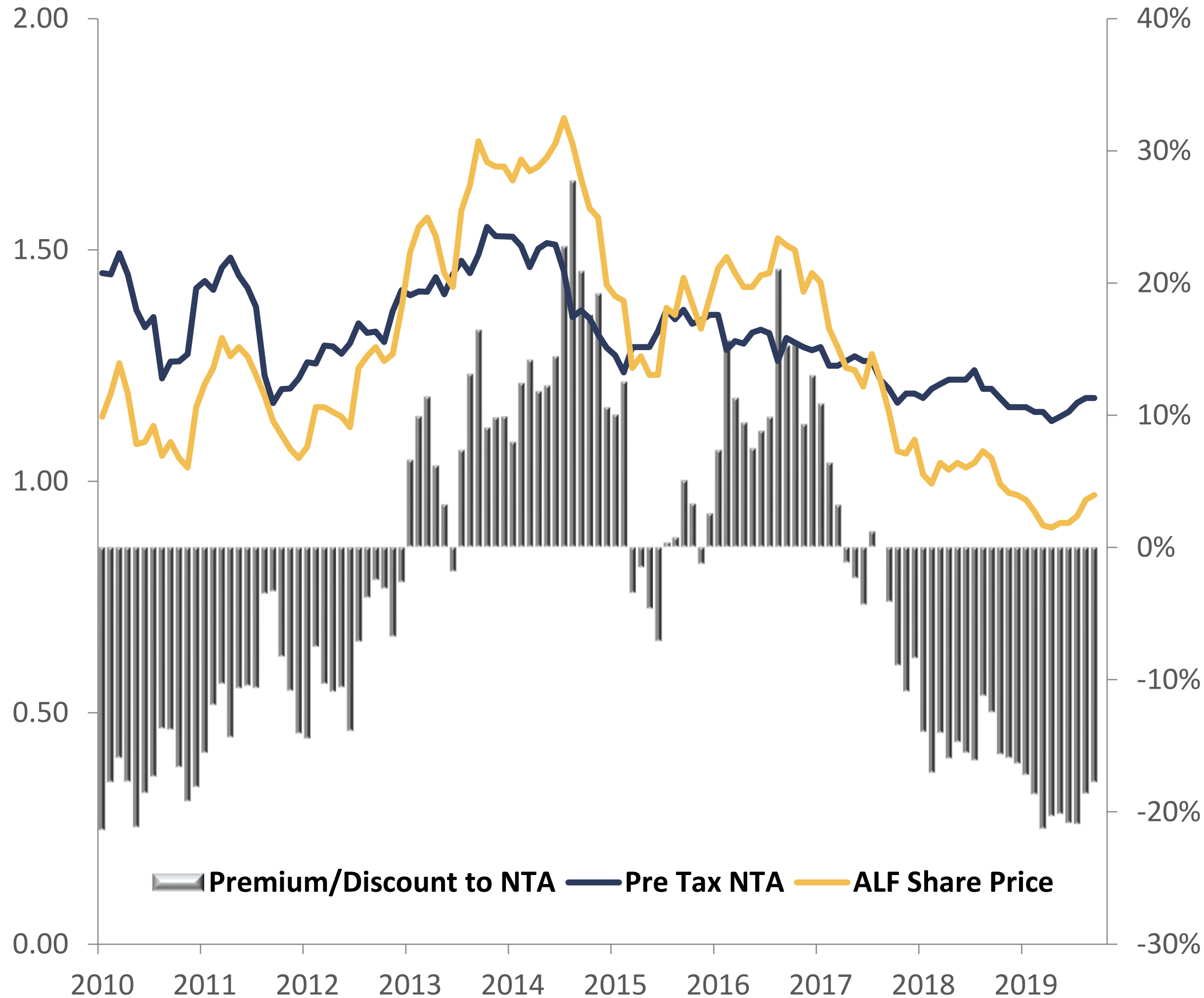
ALF Performance – On track for successful FY20



Gross data used

Dilemma of Discounts and Premiums

- Discounts and premiums are a fact of life for LIC's.
- ALF has traded at both premiums and discounts.
- The ALF Board has been active in taking advantage of discounts.
    - 8 on-market buy backs completed.
    - 61 million shares bought back.
- **Fund performance and yield** are the two most powerful factors in closing discounts.



ALF Performance Breakdown

As at 31 October 2019

ALF	1 Month	6 Months	FYTD	1 Year	5 Years	7 Years	Since Inception (pa)
Long Portfolio	0.9%	11.8%	9.0%	20.7%	14.6%	14.9%	-
Short Portfolio	-1.2%	5.9%	2.9%	22.7%	9.1%	6.7%	-
Gross Fund Return	1.8%	5.5%	5.5%	-0.3%	3.9%	9.6%	13.7%
Benchmark Return	-0.4%	7.7%	2.4%	19.4%	8.8%	10.5%	9.2%

Watermark's Team

Justin Braitling – CIO
Justin has over 26 years' experience investing in Australian and international securities. Prior to establishing Watermark in 2003, Justin spent 10 years as an investment analyst and portfolio manager with the successful equities team at Bankers Trust. Justin is the Chairman of ALF.

Daniel Broeren
Daniel is responsible for coverage of Consumer, Retail and Gaming sectors. Daniel has over 14 years' experience in financial markets, in roles including Head of Consumer Research at RBS (CIMB) and Portfolio Manager of Invesco's ASX Small Companies Fund. Daniel has a Masters Degree in Accounting and Applied Finance and a Bachelor's Degree in Engineering from RMIT University.

Harry Dudley
Harry is responsible for coverage of the Financials sector. He comes to Watermark from Macquarie Equities, where he had responsibility for coverage of the Australian banks. Having commenced his investing career in 2013, Harry has also held Investment Analyst roles with IFM Investors and Evans & Partners. Harry holds a Bachelor of Commerce, is a CFA Charterholder and is a Member of the Institute of Chartered Accountants Australia.

Gaston Amoros
Gaston is responsible for coverage of TMT and Healthcare. He has spent the last 4 years as a Senior Investment Manager with the Abu Dhabi Investment Authority and has over 13 years' experience working across public and private capital markets. He has held investment roles with Benros Capital, TPG and Morgan Stanley. Gaston holds a Bachelor's Degree in Economics from the Universidad Catolica (Argentina) and a Masters in Finance.

Tim Bolger - COO
Tim joined Watermark in May 2014. He is responsible for all non-investment functions including sales/marketing, operations, and compliance. Tim has over 16 years' experience in financial services working across a range of asset classes, in product development, marketing and distribution. He holds a Bachelor of Arts and a Diploma in Law.

Tim Hoff
Tim is responsible for coverage of Basic Industries.. Prior to this, he was the lead analyst for gold, base and battery material stocks at Deutsche Bank. Tim transitioned into the investment industry in 2016 after working as a geologist at Rio Tinto for 7 years. He holds a Bachelor of Science and a Bachelor of Commerce and is a Member of the Australian Institute of Metals and Mining.

Alex Gurman
Alex is our dedicated dealer, with trading and execution functions previously split amongst the analysts. Alex joined Watermark from Goldman Sachs where he worked for 3 years with the Institutional Equities Team as an Associate in the Sales & Trading team. He holds a Bachelor of Commerce (Finance) / Science (Statistics) from the University of New South Wales.

Capital Management

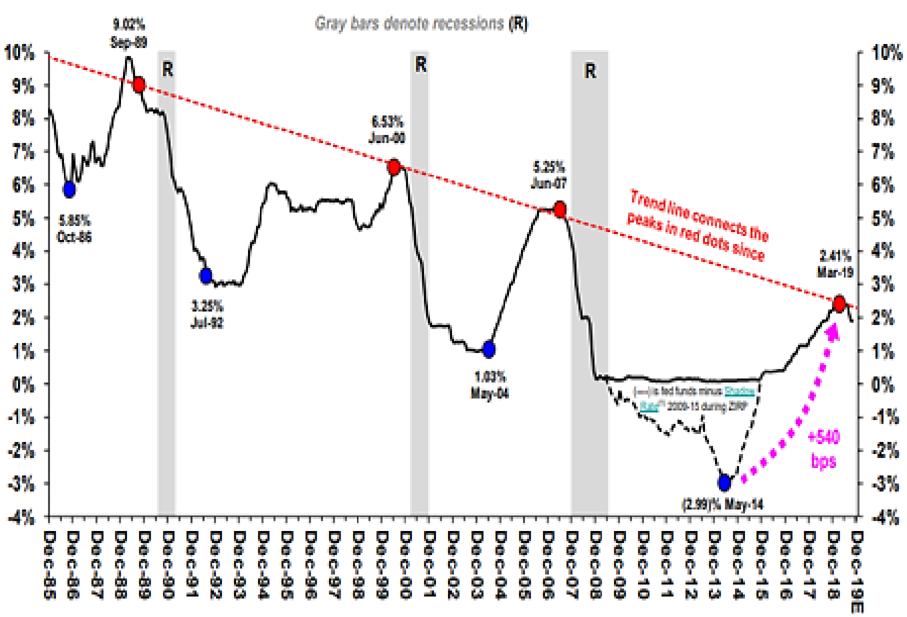
- The ALF Board have been among the most active capital managers in the LIC sector
  - 8 on-market buy backs for 62 million ALF shares at a discount to NTA.
  - Over 24 million shares bought back on market in the last 12 months.
  - ALF Board has bought back one third of all shares issued.
    - Accretive to NTA (2 cents per share in 12 months to Nov 4, 2019).
    - Provides additional liquidity for sellers.
- Strong results early in FY20 support dividend paying capacity
- New capital management initiative announced in September 2017
  - Proposal for up to a further 48m shares to be bought back off-market at NTA (net of DTA & expenses).
  - Commitment to further buy backs if NTA discount persists.

MARKET OUTLOOK

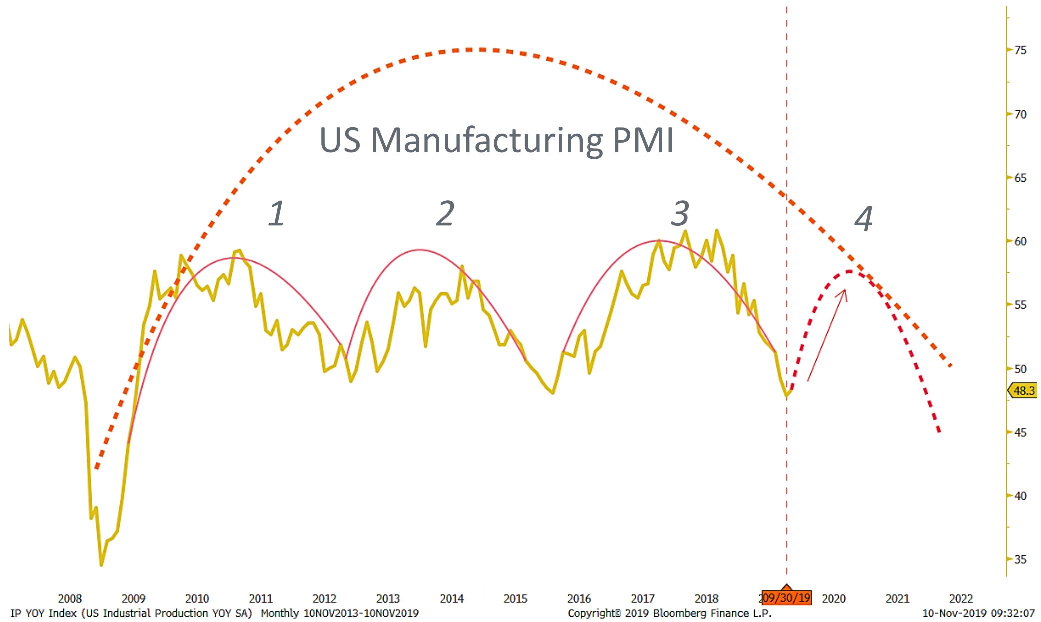
The global economy has been slowing rapidly…

- 4 Years of policy tightening (Less QE and higher interest rates).
- Driving the USD higher and tightening liquidity in EM.
- Tariff Hikes and Trade uncertainty further undermined trade flows.
- Growth is now set to re-accelerate again, shares are moving higher in anticipation.

Policy tightening started 4 years ago at point of max QE



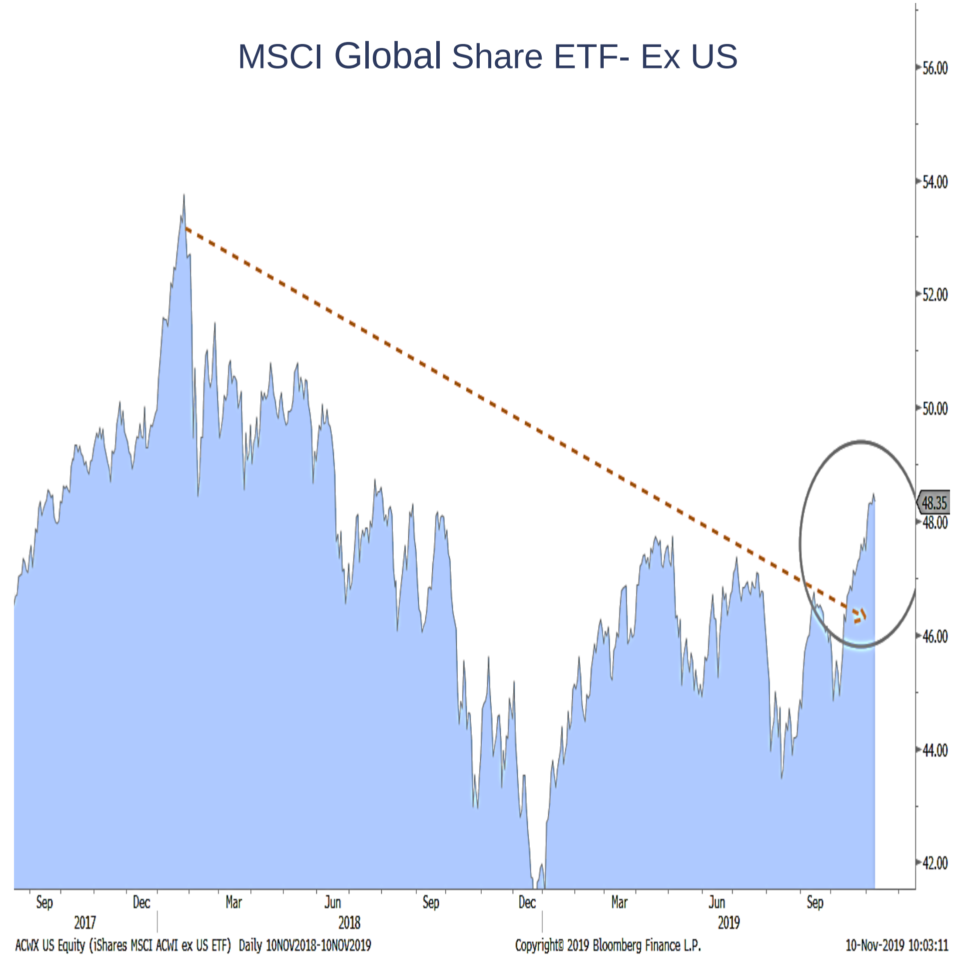
We are moving into final growth phase of this business cycle



Source: Stifel & Bloomberg

WATERMARK FUNDS MANAGEMENT

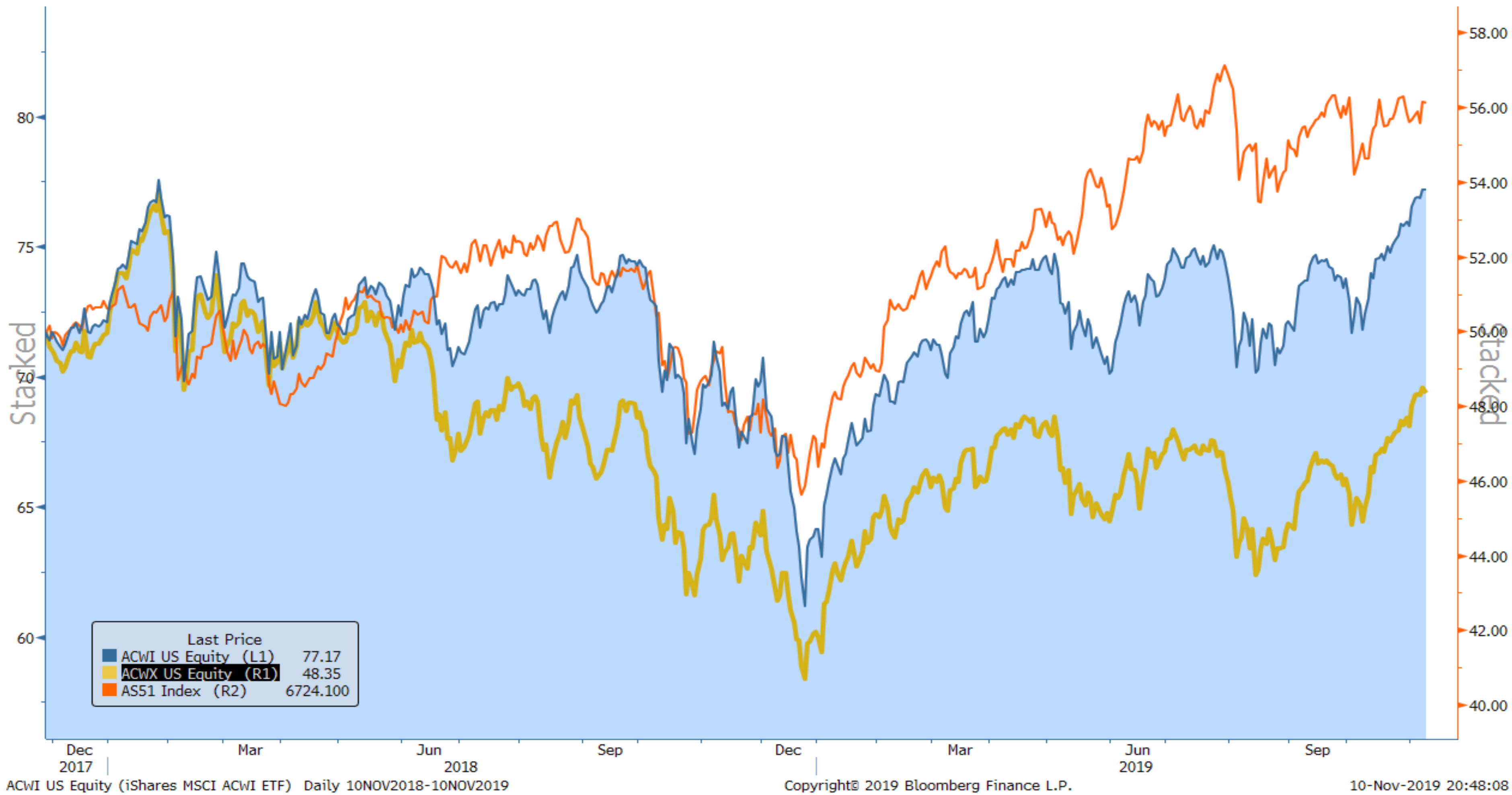
With growth slowing, shares have been falling for 2 years…. they have now broken this downtrend & are advancing again



Source: Bloomberg

WATERMARK FUNDS MANAGEMENT

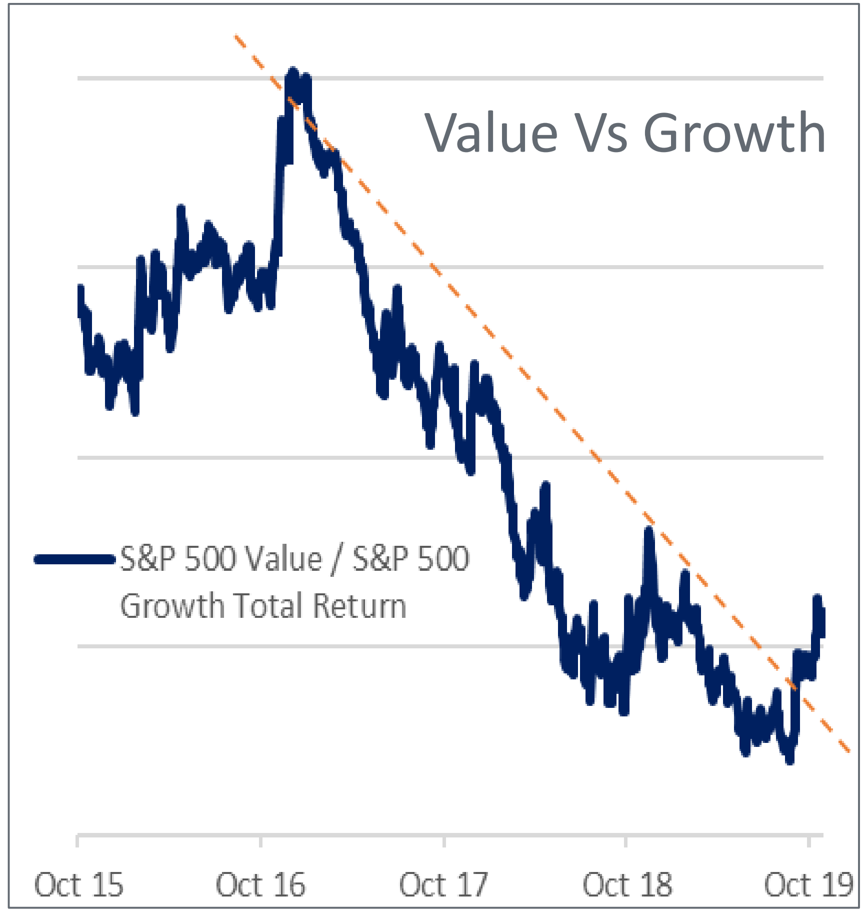
Australian shares outperformed in the last 2 years but will underperform in the final leg of this cycle



Source: Bloomberg

The Great Rotation – Value and Cyclicals are back…for now

- With growth set to recover in the months ahead, bond prices and the USD have both peaked.
- Signalling a reversal out of defensive and growth assets into cyclical exposures and value.
- Cyclicals, small caps, banks and emerging market equities have all broken out in recent weeks.
- Share markets will rally 5-10% in the year ahead before recession risks return from H2’2020.



Source: Bloomberg

How will the Australian Market Fare?

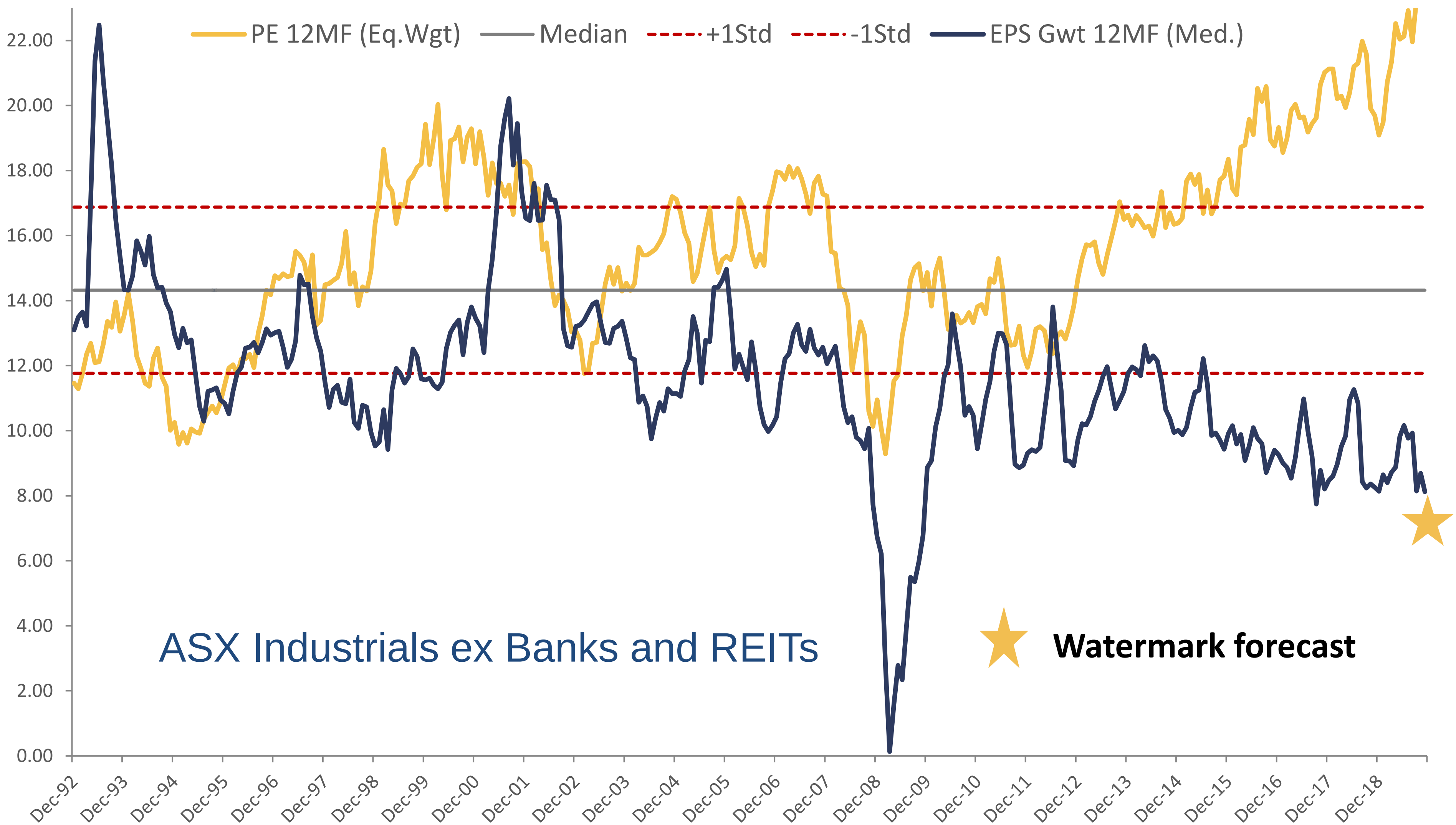
Australian shares have outperformed global peers in 2019

- Investors were looking for defensive assets, the Australian share market is full of them.
- Australia, a safe haven in the Asian basket, has benefited as capital has flowed out of EM.
- The surprise return of the conservative government supported shares in H2'2019.

Australian shares to make new highs, but will underperform offshore markets as:

- Money moves out of defensive assets.
- Capital flows back into EM from safe harbours like Australia.
- The Australian economy remains lacklustre.
- The banks as early cyclicals are leading the charge offshore, upside in the Australian banks is limited- recent results have been poor.

Australian shares are very expensive vs history

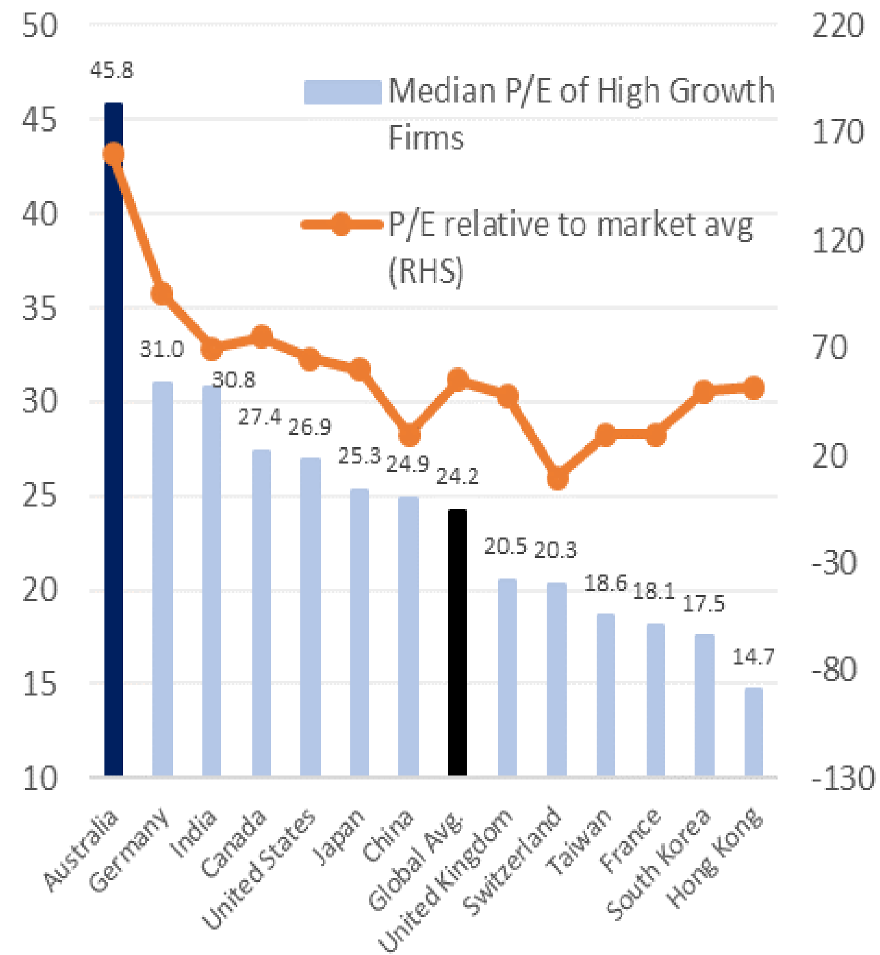


Source: Bloomberg & Credit Suisse

WATERMARK FUNDS MANAGEMENT

Australian growth shares are the most expensive anywhere

- The Australian market is dominated by mature, defensive companies such as banks and utilities.
- With a scarcity of growth opportunities investors have pushed prices to extremes.
- Investors have adopted a barbell strategy in recent years as bond yields have fallen
  - Defensive shares that offer protection in a slowing economy
  - High growth shares that are leveraged to falling bond yields
- This strategy is now unwinding.
- This has left Australia’s high growth shares amongst the most expensive in the world.



Source: Goldman Sachs Global Investment Research

WATERMARK FUNDS MANAGEMENT

Portfolio Review

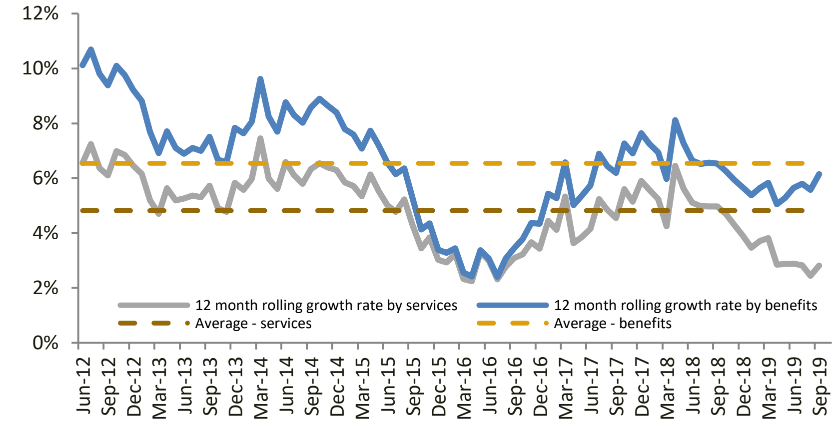
Healthcare	TMT	Consumer	Financials	Basics

The leading independent provider of diagnostic imaging in Australia benefiting from long-term trends and accretive roll-up opportunities

Investment Case: Long

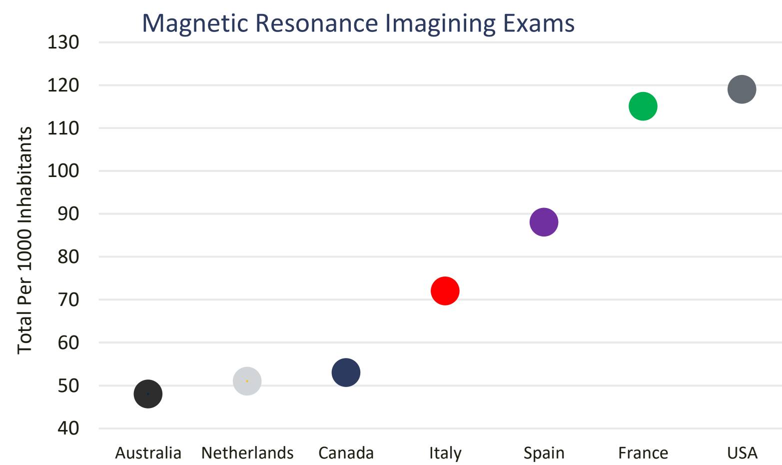
- **Long-term market growth.** Ageing demographics continue to drive higher utilisation of complex more expensive imaging modalities (MRI, PET, CT).
- **Australian MRI utilisation lags OECD peers.** Australia currently does 48 MRIs per 1,000 inhabitants compared to c.120 in the USA and c.80 in Europe, highlighting the under-utilisation and room for catch up.
- **Profit margins to be supported by indexation from FY21.** Fees for most diagnostic imaging services have not been indexed since 1998. Around 90% of Medicare imaging items are going to be indexed from July 2020 contributing to support profit margins going forward.
- **Attractive growth / valuation equation.** Integral currently trades at 20x NTM PE for 12% EPS growth or 1.7x PEG for a well-managed, defensive business with potential for upside from accretive M&A opportunities (compared to the ASX200 PEG ratio of >3x).

Sustained industry growth



Source: Integral Diagnostic, Medicare data

Australia has very low MRI utilisation vs peers



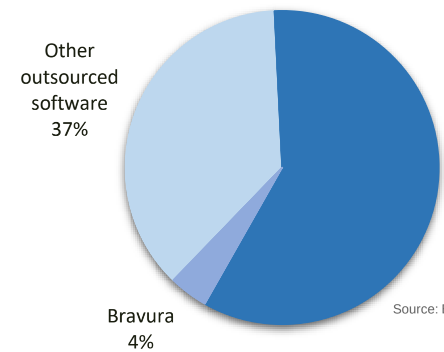
Source: Integral Diagnostics, Macquarie Research

Leading provider of software solutions to the wealth management and fund administration sectors in APAC and Europe

Investment Case: Long

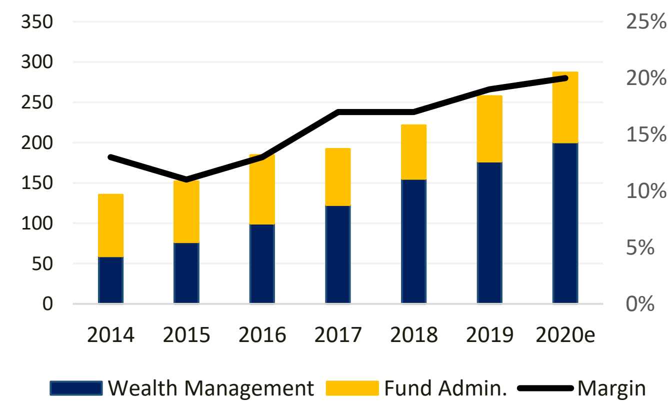
- **Sustainable end-market growth.** Most wealth management software solutions in place today are in-house, legacy technology overdue for replacement. As a result, the sector is experiencing a strong appetite for software that adds value in dealing with increasing regulatory complexity, lowers costs via process automation and facilitates speed to market.
- **High quality business model.** Bravura operates in a sector with high barriers to entry, its products are mission critical, deeply embedded in customer workflows. Client retention is high, revenue is recurring and cash generation is strong.
- **Catalysts.** Bravura is heavily exposed to UK customers, though not directly impacted by Brexit. However, the company is discounting adverse outcomes (hard Brexit, Corbyn). Recent M&A activity highlights the strategic value in Bravura (FNZ acquisitions of GBST and JHC, SS&C acquisitions of Intralinks, EZE Software and DST among others).
- **Good valuation support** at 25x P/E or 1.6x PEG vs ASX200 over 3x PEG.

UK wealth management software predominantly in-house solutions



Source: Bravura prospectus

Revenue and EBITDA margins



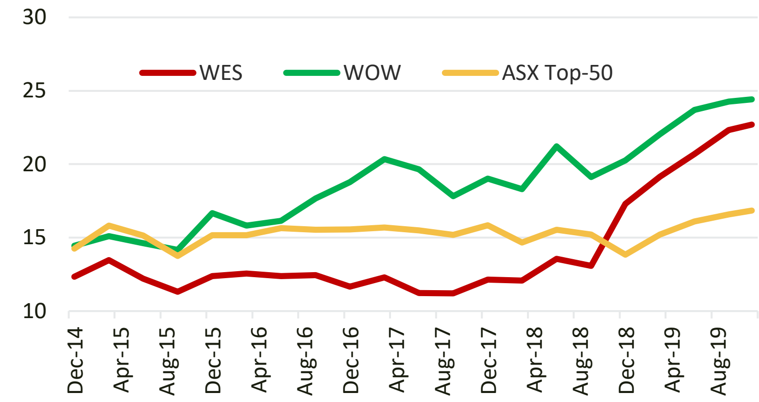
Source: Bravura & Consensus estimates

The hunt for yield has driven investors to defensive interest rate proxies. However, with the US Fed signalling a pause in its easing cycle in late September, these shares now look expensive

Investment Case: Review

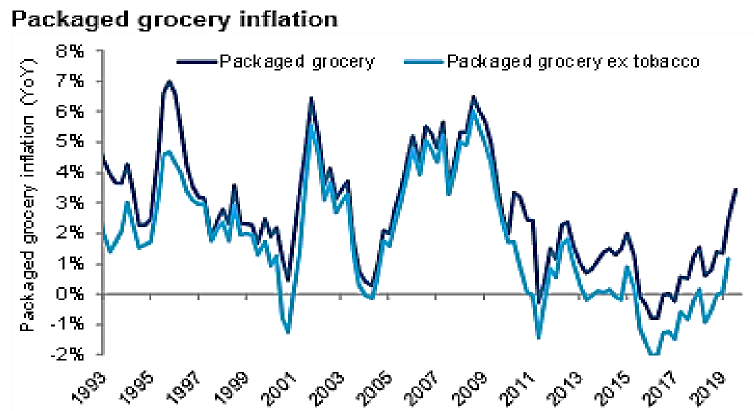
- **'Pause' to US Fed easing cycle, a catalyst.** The outperformance of the major retailers has not been driven by improved operating results, but rather market 'positioning', when the Fed first mutes an easing cycle in December 2018. As such, the end of this cycle should signal the unwind.
- **Food inflation is picking up.** From an operational perspective, food inflation is picking up. Food inflation helps to offset rises in fixed operating costs, contributing to modest margin expansion.
- **Consumer still stretched, but cycle nearing bottom.** We are yet to see evidence of a sustained consumer recovery past tax cuts and interest rate cuts, but downside risk now reduced.
- **Valuations well outside historic bands.** WOW and WES are currently trading at a 50% and 35% premium to the market PE respectively. These relative valuations are toward the extremities of where these businesses have traded historically.

WOW and WES valuations well outside trend



Source: Bloomberg

Food inflation at an inflection



Source: Citi Research

POINTSBET

Pointsbet is quickly assembling a web of operating licences that will be very hard to replicate

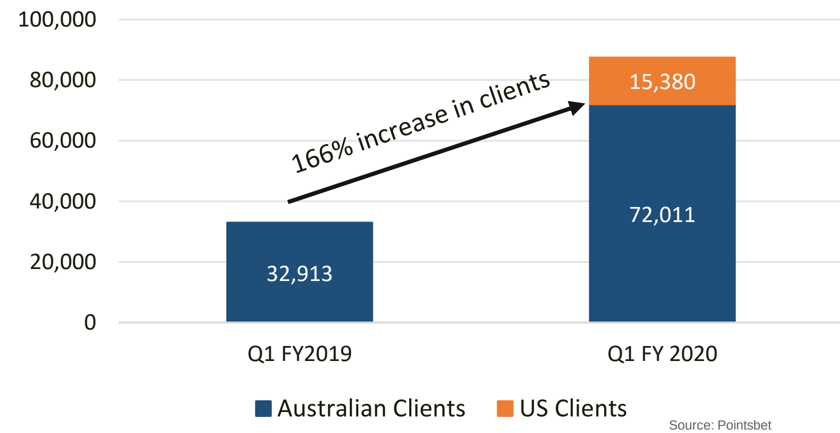
Investment Case: Long

- **Strong start for US Wagering market.** Early signs suggest the consumer appetite in the burgeoning US wagering market is very strong. US sport is played most days of the week and is stat-heavy, a conducive backdrop for sports betting. There is no reason per-capita consumption can't approach international leading rates with time.
- **Guerrilla operators.** The management team has demonstrated an ability to deliver more with less, beating much larger rivals to key licence partnerships, sponsor deals and early market share wins. PBH's decentralised structure and decisive culture is key.
- **High value licence 'web'.** Operators in the US need to apply for licences and sign operator deals on a state-by-state basis. This complexity increases the cost of market access and the value of licences.
- **Takeover target.** We do not expect the business to be listed as a standalone business on the ASX in the medium-term.

High value licence network

Source: Pointsbet

Active clients are increasing



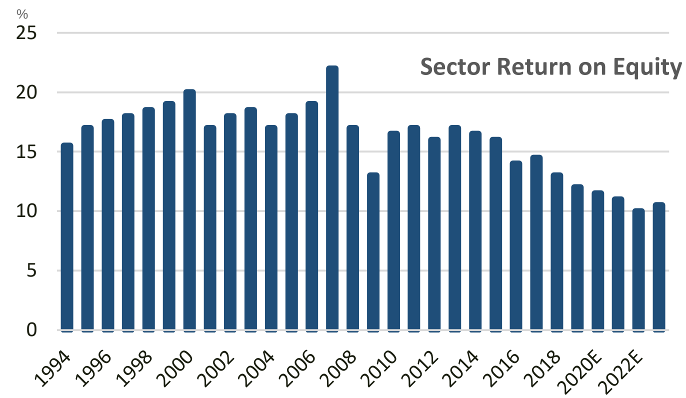
Source: Pointsbet

Headline price earnings multiples and chunky dividend yields may make the banks look cheap. Earnings and dividends are set to come under pressure. Banks remain under pressure on multiple fronts

Investment Case: Underweight major banks

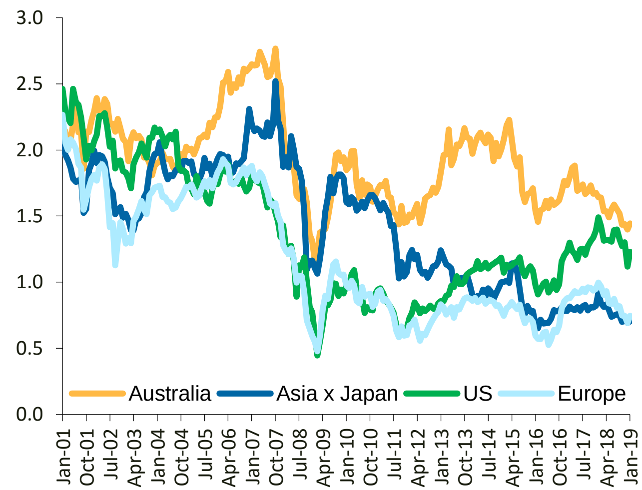
- **Interest rate cuts.** Lower rates impact banks in 3 key areas: reducing the ability to reprice deposits, lower returns on treasury/funds and lower asset pricing for home loans.
- **Remediation programs.** Still remain unresolved. Latest results have left the door open with reviews on product lines still underway.
- **Lack of cost control.** In a low growth environment, banks need to deliver flat or reduced costs bases to appease the market.
- **Capital uncertainty.** Capital requirements are back on the agenda, a slew of remediation charges have eaten away surplus and uncertainty remains around the final form of RBNZ changes.
- **Dividend pressures**. Capital imposts alongside earnings pressures have led to BOQ and WBC cutting dividends with analysts forecasting cuts for NAB and ANZ.

Australian major banks return on equity



Source: UBS

Price to Book ratios



Source: Factset

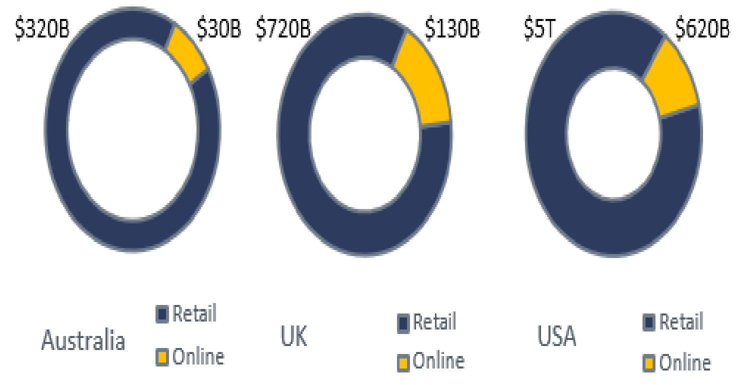
afterpay

The market has underestimated the growth trajectory and proliferation of Afterpay amongst millennials globally as an everyday way to pay

Investment Case: Long

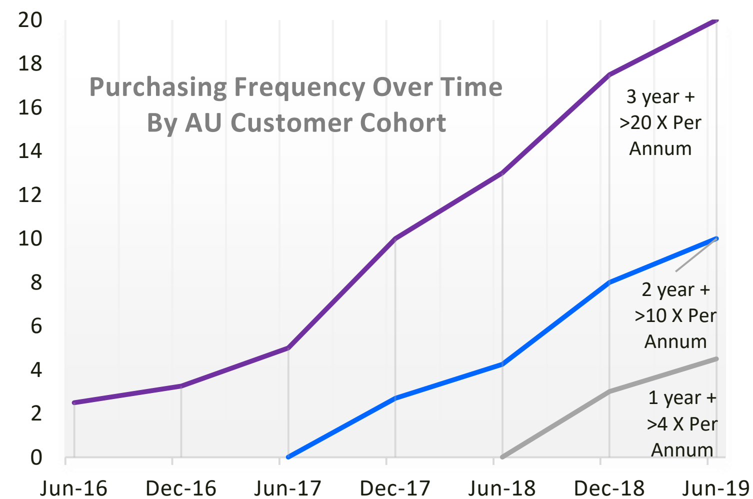
- **Highly trusted and valued product amongst customers.** Afterpay has grown from 0 to 3 million customers in ANZ or 10% of the population in 3 years. Net promoter score (willingness of customers to recommend a company's product) is currently in the 80s and growing.
- **Usage frequency keeps climbing.** Existing clients that have been with the business for more than 3 years are increasing the usage year on year to 20x. We see growth 70% above Afterpay's guidance in FY22.
- **Merchant value proposition goes beyond layby financing.** For merchants, Afterpay directly increases the number of transactions customers make and the basket size at checkout. This increases retailer margins.
- **Early stage roll out for the proven product.** If similar penetration were achieved in the US and UK, this would amount to $75bn of volume. However, this is before accounting for its instore product with is now 20% of ANZ.

Current addressable markets



Source: Afterpay

Afterpay usage frequency



Source: Afterpay

NICKEL MINES LIMITED

Nickel mines is an emerging nickel producer with long mine life and low-cost production for the stainless-steel market

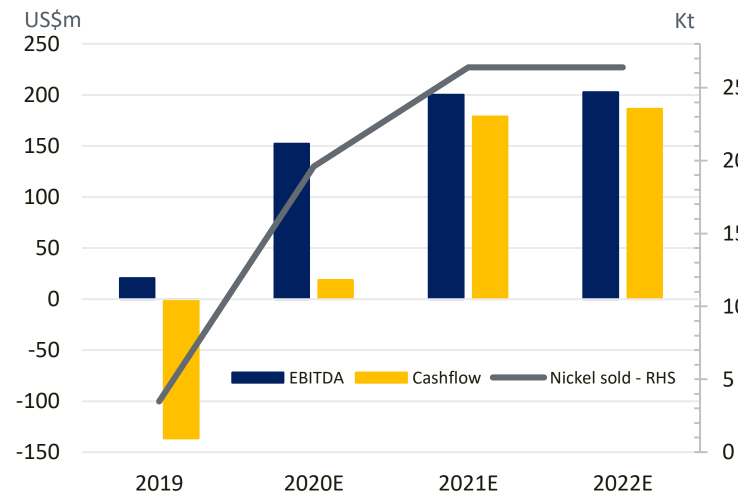
Investment Case: Long

- **Nickel Mines owns a 60% stake in the Hengjaya and Ranger plants**. This has the ability to expand to 80%, which we expect to occur next year.
- **The plants operate at the bottom end of the global cost curve.** The plants are located at the worlds largest vertically integrated stainless-steel facility on the island of Sulawesi, Indonesia.
- **The company is paid for the nickel content it produces from nickel pig iron.** It is paid for roughly 100% of the nickel content, unlike its Australian peers who are paid for 70-80% of nickel produced.
- **At the current run rate, it is Australia's largest pure play payable nickel producer.** It is annualising at 25ktpa of nickel. At a steady state, it will generate an annual EBITDA of US$190m and FCF yield >25%.

Indonesia Morowali Industrial Park

Source: Nickel Mines Ltd

Nickel Mines at EBITDA Cashflow Projections



Source: Watermark Funds Management

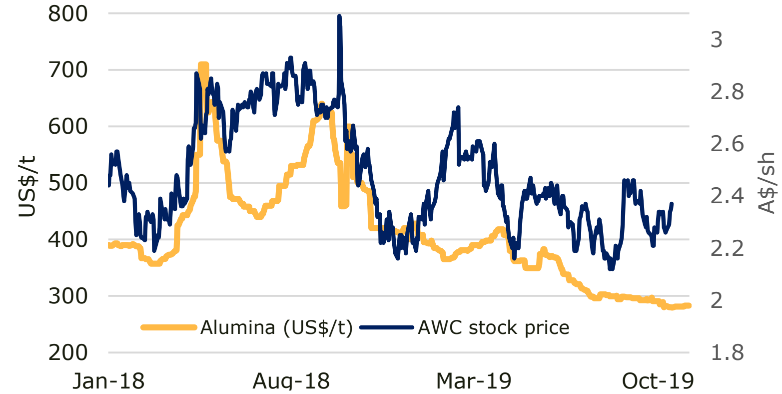
ALUMINA
LIMITED

Alumina is an owner of alumina and bauxite assets located globally however flagship facilities are located in WA. Market expectations and valuations remain elevated despite weak market conditions

Investment Case: Review

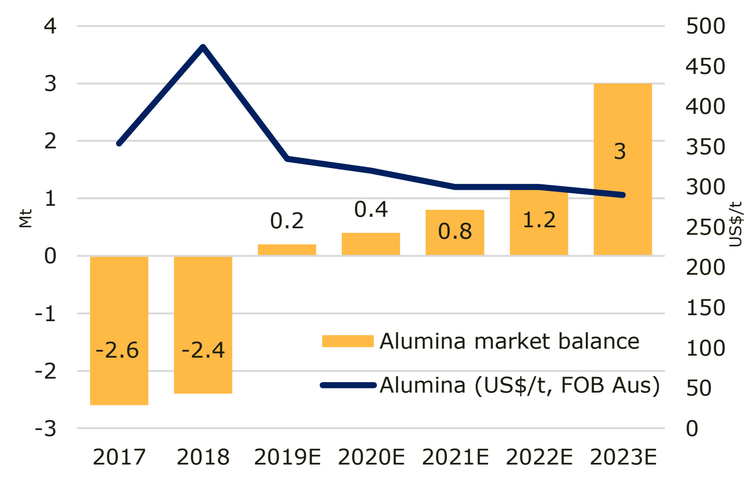
- **Alumina plans to increase capacity at its WA operations.** The expansion will take place while Western Australia is going through a cyclical upturn (higher cost risk) and during a period of weak commodity pricing.
- **The alumina market will remain in surplus over the coming years.** With additional capacity coming online in Indonesia and Guinea limiting prices.
- **Review of its lower quality assets.** This may result in additional closure costs and asset write downs, further weighing on cash flow.
- **Reputation as a yield stock at risk, as cash is constrained.** Dividend yield will compress shifting investors focus. We expect NPAT to fall 50% YoY this year and free cash flow yields below 5% for several years.

Deterioration in AWC's underlying commodity



Source: Bloomberg

Alumina market well supplied in the near term



Source: Woodmac, Watermark, Goldman Sachs

Summary

- All Watermark funds off to a strong start in FY20.
- Renewed focus on Australian shares has been a success.
- Watermark is better resourced than ever in covering the local share market.
- Enhanced trading and execution capability delivering more consistency.
- ALF Board has been amongst the most active in the LIC sector.
- Capital management initiatives expected to tighten NTA discount.
- We expect to keep pace with the market in the final phase of this cycle.
- Watermark funds well positioned to benefit when the cycle turns.

Thank You
QUESTIONS?

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