



## NTA and Monthly Update – October 2016

Company at a Glance		Net Tangible Asset (NTA) Backing		
ASX Code	WMK		Sep 16	Oct 16
Fund Size	AU\$90.1m	NTA Before Tax	\$1.08	\$1.04
Fund Strategy	Equity Market Neutral	NTA After Tax	\$1.07	\$1.04
Share Price	\$1.07	Dividend Declared	(\$0.03)	\$0.00
NTA Before Tax	\$1.04	NTA After Tax & Dividend (3¢)	\$1.04	\$1.04
Shares on Issue	87.1m	Gross Portfolio Structure		
Dividend (HY17 Interim)	3 cents	Long Exposure	121.5%	119.7%
Dividend Yield (annualised)	5.6%	Short Exposure	-120.5%	-116.1%
		Gross Exposure	242.1%	235.9%
		Cash	99.0%	96.4%

## Month in Review

It was another difficult month for shares in October, with developed markets falling as bond yields edged higher. We have discussed at length, the implications for risk assets such as shares, of Central Banks' efforts to normalise rates and bring to an end, the various quantitative easing programs that have supported bond prices for so long. This is clearly manifesting in a rotation of capital away from 'bond proxies' into resource shares and financials. This explains much of the performance of the Australian share market at a sector level, with healthcare and REITs leading the market lower while resources and financials posted modest gains for the month.

The Company's portfolio fell by 0.6% after all fees, underperforming its benchmark by 0.7%. It is worth highlighting that since the Company was listed in 2013, its investment portfolio has demonstrated a negative correlation with the Australian share market. It is a unique feature of this fund that the value of the portfolio tends to go up when markets fall, providing important diversification benefits for shareholders. Short positions were understandably the strongest contributors to performance in the month, with Healthcare, Consumer staples and Utilities proving the strongest sectors.

Defensive shares have borne the brunt of market falls in recent weeks as investors rotate out of high yielding shares. This headwind was exacerbated by earnings downgrades and weakening profit growth from key players in the healthcare sector, which was the worst performing part of the Australian share market in October. The Fund has been net short the Australian healthcare sector for some time. Retail and consumer staples were also a good source of short positions, both domestically and abroad. Despite a modest net long exposure to Utilities, key shorts in this weakened sector also performed well. In gaming, an investment in *Tatts Group* performed particularly well as the market digested news of a potential merger of the two dominant gaming franchises.

Cyclical exposures weighed moderately on performance in the month, with core investments in the media and technology sectors suffering falls. A number of new positions in the capital goods sector were initiated during the month. This sector has not historically been well-represented in the portfolio, with coverage having recently commenced with the addition of Simon Felton to the investment team. With clear dispersion between valuations of companies in the automotive and engineering industries, we identified several compelling opportunities.

Stock specific issues amongst financial exposures led to weaker performance in this part of the portfolio. The Fund has been net short in financials, given our circumspect view on banks and asset markets generally. Investments in *Wells Fargo* and *ING Groep* made positive contributions while the Fund's modest net long exposure in Insurance shares also worked well. Losses were focused around an investment in *Smartgroup* which gave some ground after being one of the strongest performers in the portfolio over the last 18 months.

Returns from the Resources portfolio were also mixed, with modest gains from positions in the energy and industrial metals sectors offset by losses in iron ore and gold shares. The prices of iron ore and coal continue to show strength, notwithstanding efforts from the Chinese government to slow growth in the housing sector and by extension, demand for steel. A position in global oil exploration and production company *Hess Corp* was a strong performer from within the international portfolio.



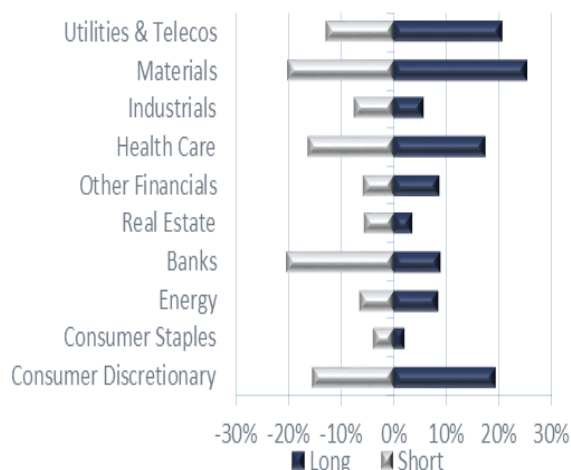
# WATERMARK

MARKET NEUTRAL FUND

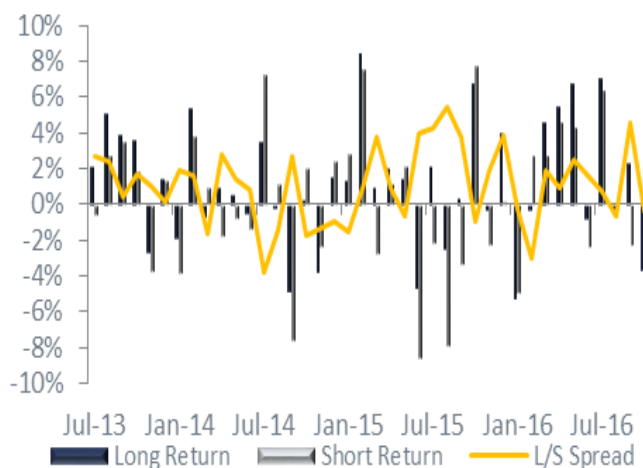
## WMK Performance

	1 Mth	6 Mths	FYTD	1 Yr	S.I. (pa)
Portfolio Return (net)	-0.6%	5.2%	2.0%	8.9%	8.3%
RBA Cash Rate	0.1%	0.8%	0.5%	1.8%	2.2%
<b>Outperformance (net)</b>	<b>-0.7%</b>	<b>4.4%</b>	<b>1.5%</b>	<b>7.1%</b>	<b>6.1%</b>

## Sector Exposures

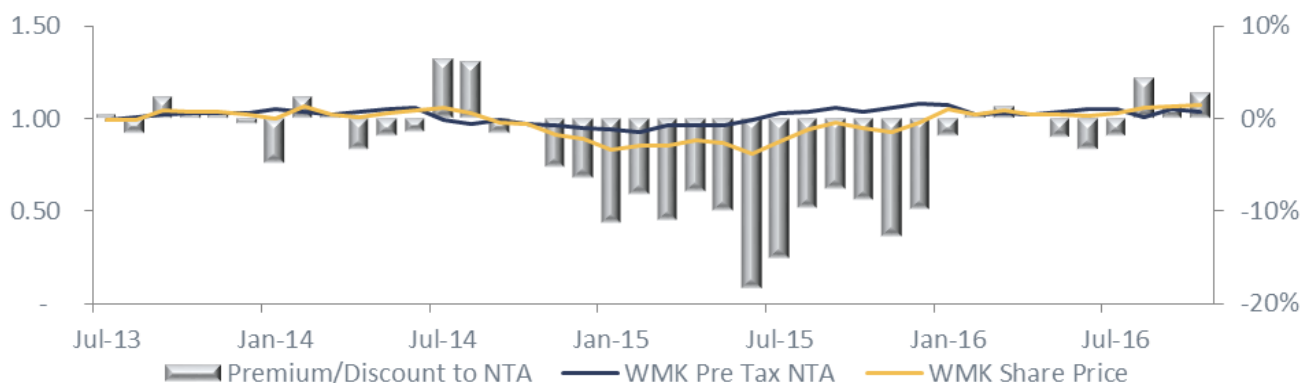


## Long Short Spread\*



\* Long Short spread shows the gross monthly performance of the Company's long and short portfolios. The difference between the two represents the gross performance of the portfolio as a whole. The company will make a profit where the long portfolio outperforms the short portfolio, after the payment of fees and expenses

## Premium/Discount to NTA History



## Dividend History

The Board is committed to paying an 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. From time to time the board will offer a dividend reinvestment plan.

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