

NTA and Monthly Update – December 2016

Company at a Glance

ASX Code	WMK
Fund Size	AU\$89.1m
Fund Strategy	Equity Market Neutral
Share Price	\$1.06
Shares on Issue	87.1m
Dividend (HY17 Interim)	3 cents
Dividend Yield (annualised)	4.8%

Net Tangible Asset (NTA) Backing

	Nov 16	Dec 16
NTA Before Tax	\$1.02	\$1.03
NTA After Tax	\$1.03	\$1.03

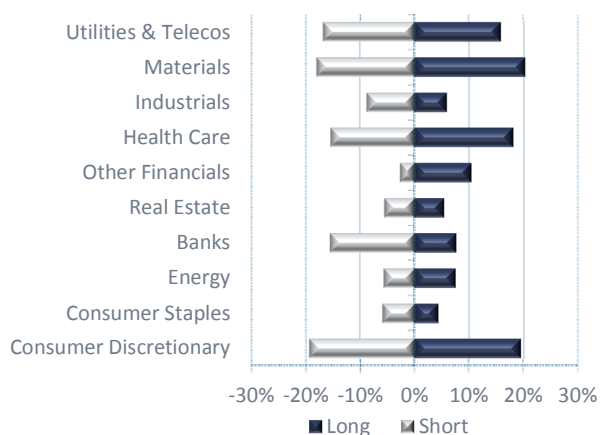
Gross Portfolio Structure

Long Exposure	112.7%	114.3%
Short Exposure	-117.2%	-113.8%
Gross Exposure	229.8%	228.1%
Cash	104.5%	99.5%

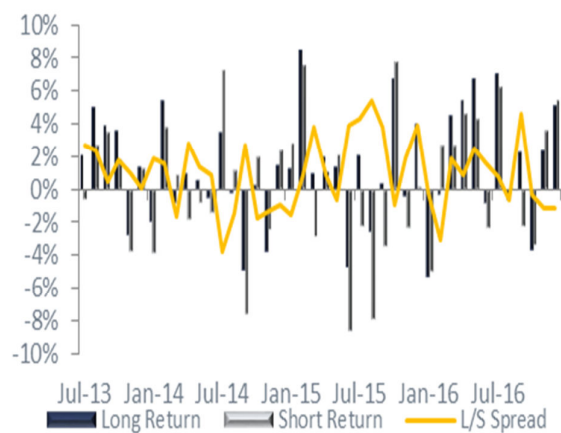
WMK Performance

	1 Mth	6 Mths	FYTD	1 Yr	S.I. (pa)
Portfolio Return (net)	-0.2%	0.9%	0.9%	3.1%	7.5%
RBA Cash Rate	0.1%	0.8%	0.8%	1.8%	2.2%
Outperformance (net)	-0.3%	0.1%	0.1%	1.4%	5.4%

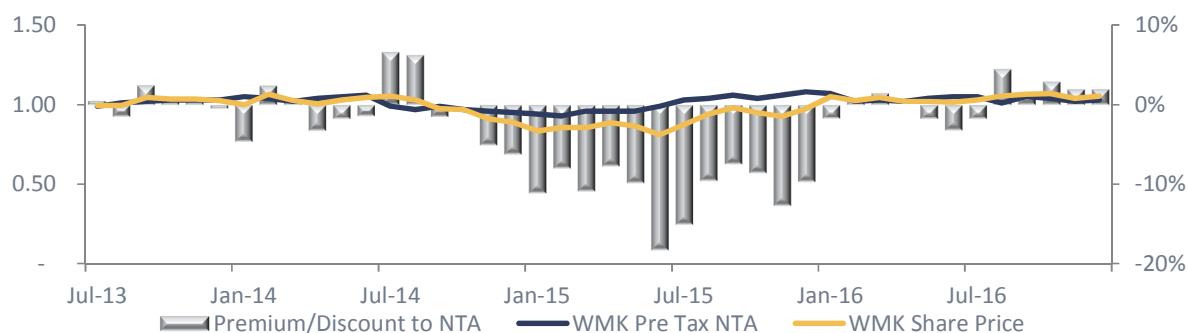
Sector Exposures



Long Short Spread*



Premium/Discount to NTA History



Month in Review

A Christmas rally occurred in December with the All Ordinaries posting a 4.2% gain for the month. Excluding China, global share markets rose as investors weighed the potential for fiscal stimulus and lower taxes, offset by higher rates. The Fed Reserve raised by 0.25% in December and signalled for a further three hikes in 2017. In this environment, financial shares advanced helping the Australian share market.

The portfolio had no exposure to the share market in December and hence lagged the rally. Stock selection was generally good in the month, however two short positions were subject to takeover offers which detracted from performance.

Defensive shares generally underperformed as investors rotated into financial and cyclical sectors. However, a takeover offer for utility DUET Group supported this sector. A key healthcare short position for the fund collapsed after a negative sales update. Unfortunately, we had lowered our position shortly prior to the announcement which reduced our profit.

Cyclical industrials performed well over the month as investors chased reflation stories. Our position in Bayerische Motoren Werke (BMW) was a key contributor following positive US auto sales numbers. An announced merger between APN Outdoor and OOH! Media sent the share prices higher for both companies. We have subsequently lightened our position in APO but believe the merger will be approved by ACCC. A new position in Ubisoft Entertainment contributed to the fund following an announcement that key shareholder Vivendi had increased its stake.

A small short position in global banks weighed on performance in December as the sector rallied. However, our holdings in QBE and Suncorp performed well and offset some of these losses. Unfortunately, a small short position in the insurance sector received a takeover offer which impacted the fund's performance.

Commodities continued their strength in December with the focus on oil after OPEC announced an agreement to cut production by 1.2million barrels per day. The fund has been long energy, with key positions in Hess Corp and Eni up significantly for the month. The fund had increased its holding in Iluka Resources having lagged the sector this year. The share price rallied in December following the closure of their merger with Sierra Rutile.

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.

Disclaimer: This document is issued by Watermark Funds Management Pty Ltd (ABN 98 106 302 505, AFSL 250897) in relation to the Watermark Market Neutral Fund Ltd. The information provided is general information only. It does not constitute financial, tax or legal advice or an offer or solicitation to subscribe for units or shares in any fund of which the Manager is the contracted Investment Manager. The information in this document has been prepared without taking account of your objectives, financial situation or needs. Watermark Funds Management receives management and performance fees from the Watermark Funds.