

Watermark Market Neutral Fund delivers a strong maiden result: \$6.7m net profit, 2.5c fully franked dividend and buy-back.

Highlights

- Full year net profit of \$6.7m after tax
- Investment portfolio up 11.8% after all fees
- Positive portfolio returns in all but two months of the year
- Final dividend declared of 2.5c fully franked
- On market buy-back established

Company update

Watermark Market Neutral Fund Limited (ASX: WMK) ('WMK' or the 'Company') is a listed investment company managed by Watermark Funds Management (the Manager). The Company today announces a \$6.7 million after tax profit in its first full year result.

WMK Chairman, Matthew Kidman, said: "We are pleased with the fund's performance in its first year as a public company. The fund reported a positive net return of 11.8 per cent for the year after all fees. In recognition of these strong results, the company's shares have traded at or close to the after tax NTA since listing."

The Company announced a fully franked dividend of 2.5 cents per share. This brings the full year fully franked dividend to 5 cents per share, consistent with the 5% fully franked dividend yield targeted by the board upon listing. It remains the board's objective to deliver an increasing stream of fully franked dividends over time.

As a market neutral fund, the Company's capital is retained in cash held at a bank. The Company has raised additional funds from selling short a portfolio of shares the Manager dislikes. These funds were reinvested into a long portfolio of shares the Manager prefers. The Company profits to the extent the 'long' portfolio outperforms the 'short' portfolio. As a fully hedged structure, the share market performance is unrelated.

A market neutral strategy gives investors access to a highly successful Manager in Watermark without the 'market risks' that accompany an investment in shares. WMK aims to deliver steady, attractive returns for shareholders on a consistent basis irrespective of market movements.

Investment performance

The fund reported a net return of 11.8% for the year as the long portfolio increased 18.3% well ahead of the 1.7% gain from the short portfolio. This return easily surpassed the benchmark RBA Cash return of 2.5%. As of 30 June 2014, 96% of the Company's capital was retained in cash protecting investors from loss if the share market was to fall.

Chief Investment Officer, Justin Braitling, said it was pleasing to see both the long and short portfolios contributing to performance.

"The 'Short' portfolio, a liability on the company's balance sheet actually fell slightly over the period (it increased marginally after adding back dividends). That was no easy feat in a year when the market shot up by 16.4%. The cash proceeds raised from selling these shares were used to fund our long portfolio, an asset on the balance sheet which increased by 18.3% over the same period."

Dividend and DRP

The Board has declared a fully franked final dividend of 2.5 cents per share taking the full year dividend to 5 cents fully franked as targeted by the board at listing. The final dividend will be paid on 20th October 2014 and trade ex on 6th October 2014.

A dividend reinvestment plan will operate with a 3% discount. Please contact Boardroom on 1300 737 760 for more information.

Buy-back

WMK is different to other share funds; as a fully hedged structure, it is largely immunised from adverse market movements. While the board is confident the Company's capital is largely protected from external events, this does not ensure WMK shares will not suffer if the share market was to fall sharply.

As such, the board has today announced the approval of an on market buy-back of up to 10% of the Company's capital. Chairman Matthew Kidman commented:

"If WMK shares were to move materially below NTA at any point in time, as may occur if the share market were to fall, the manager could buy back the Company's shares at a discount to NTA, adding value for all shareholders who remain on the register. The directors consider that a purchase of the Company's own shares represents a particularly good investment opportunity where the Company's shares are trading at a discount to NTA and the market is falling."

Company outlook

Shareholders will receive a copy of the latest edition of *The Leading Edge* in the coming week, a quarterly journal outlining Watermark's current views on economic and investment themes. This publication considers the low growth environment we are in, and the outlook for the share market. As market risk builds, a market neutral fund should safeguard investors from any market correction.

Yours sincerely,



Matthew Kidman
Chairman

30 June 2014

Company Overview

The Watermark Market Neutral Fund (WMK) is a listed investment company that invests predominantly in Australian shares. The fund will maintain a market neutral structure with no greater than 10% of the company's assets exposed to the share market on a net basis at any one time. It is the Board's intention to try and deliver to shareholders a consistent and growing stream of fully franked dividends over time.

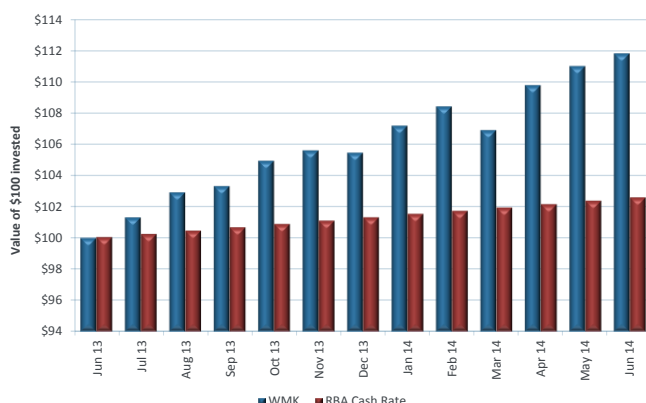
Investment Strategy

The primary goal of the investment process is the identification of mispriced securities. In a market neutral strategy the manager constructs two portfolios: a "long" portfolio of preferred shares and a "short" portfolio of less preferred shares. As the portfolios are roughly of equal size, this is a fully hedged structure aiming to minimise exposure to market movements. The fund profits to the extent the long portfolio outperforms the short portfolio plus the interest received on the fund's capital which is retained in cash.

Board of Directors

Matthew Kidman (Chairman), Justin Braitling, Stephen Van Eyk, Rob Ferguson and John Abernethy

Gross Cumulative Returns



Fund Performance (Net of all Fees)

Period (Feb 2014)	WMK (net of fees)	RBA Cash Rate	Implied alpha
1 month	0.7%	0.2%	0.5%
3 months	4.6%	0.6%	4.0%
6 months	6.0%	1.2%	4.8%
FYTD	11.8%	2.5%	9.3%
1 year	11.8%	2.5%	9.3%

Fund Information

Manager:	Watermark Funds Management
Portfolio Manager:	Justin Braitling
Launch Date:	July 2013
Management Fee:	1% p.a.
Performance Fee:	20% p.a.
Prime Broker:	UBS
Benchmark:	RBA Cash Rate
Net returns since inception:	11.8% p.a.

Capital Structure

Shares Outstanding:	84m
Options Outstanding:	65m
Market capitalisation:	\$88m
Pre-tax NTA per share:	\$1.06
WMK Share Price:	\$1.05
WMKO Option Price:	\$0.04
Annualised Dividend (fully franked)	5¢
Dividend Yield at \$1.05	4.9%

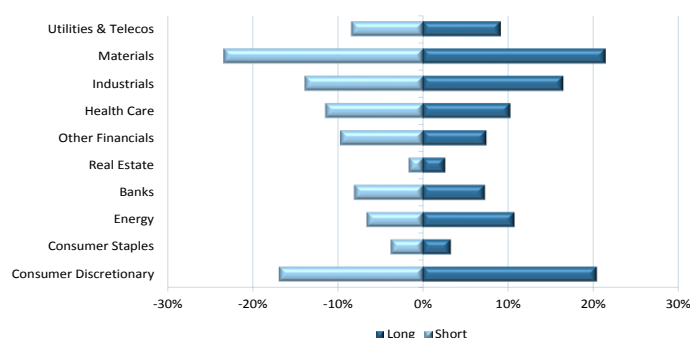
Exposures as % of Fund Capital

Long Exposure:	109%
Short Exposure:	105%
Gross Exposure:	214%
Net Exposure:	4%

Investment Team

Justin Braitling, Tom Richardson, CFA, Joshua Ross and Omkar Joshi, CFA

Sector Exposures



Top 5 Holdings

Ticker	Company	% of fund capital
ANZ	ANZ Banking Group	3.9%
CBA	Commonwealth Bank of Australia	3.4%
RIO	Rio Tinto	2.9%
ORG	Origin Energy	2.6%
WOR	WorleyParsons	2.4%