Eurekahedge Asian Hedge Fund Awards 2014
NOMINEE
Best New Asian Hedge Fund
Watermark Market Neutral Fund

AUSTRALIAN FUND MANAGER FOUNDATION
Best Listed Investment Company, FINALIST: Australian Leaders Fund

AUSTRALIAN HEDGE FUND AWARDS 2013
BEST LONG SHORT FUND, NOMINEE: Australian Leaders Fund

WATERMARK
FUNDS MANAGEMENT

The Leading Edge

In this edition of The Leading Edge we consider what lies ahead for the Australian economy and our share market.

QUARTERLY REPORT | **June 2014**

AUSTRALIAN LEADERS FUND

WATERMARK ABSOLUTE RETURN FUND

WATERMARK MARKET NEUTRAL FUND

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Justin Braitling
Portfolio Manager

The 2014 Financial Year in Review

The 2014 financial year was a good year for investors in shares, particularly US investors with the S&P 500 hitting a new all time high almost on a monthly basis finishing the year up 22%. The US market advance has been uninterrupted now for almost three years without a proper correction. This resilience is a direct consequence of ultra-low interest rates and the low volatility associated with these policies.

The Australian share market also performed well, with the accumulation index increasing by 17.4% over the period. There was a clear divergence between developed markets generally with the MSCI DM Index up 21.4% and emerging markets which have been left behind, up by just 11.3%.

The Australian market was led higher by sector heavyweights – resources up 18% after struggling last year, and the trading banks advancing by a further 22%. Defensive sectors underperformed as investors shifted into companies more exposed to the economic cycle.

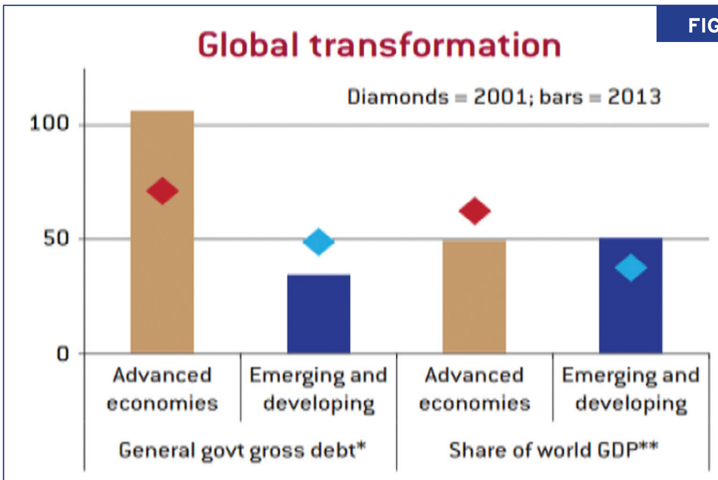
Ultra easy monetary conditions were an ongoing support for the share market, with the Reserve Bank of Australia keeping interest rates on hold for most of the year and the US Federal Reserve continuing with its zero interest rate policy (ZIRP).

The Australian economy grew marginally below trend as mining activity slowed. Business and consumer surveys reflect ongoing caution from the private sector. Weaker consumer sentiment following the federal budget saw softer activity levels generally as the financial year closed.

Advanced Economies Stuck in a Rut

Growth in advanced economies including Australia is well below trend, even though we are five years on from the depths of the financial crisis. Economists have a poor understanding of reasons behind this lethargy. Globalisation and debt imbalances are clearly factors to consider. Figure 1 shows how the shift of global production to emerging markets has been matched by an accumulation of debt in advanced economies.

FIG 1

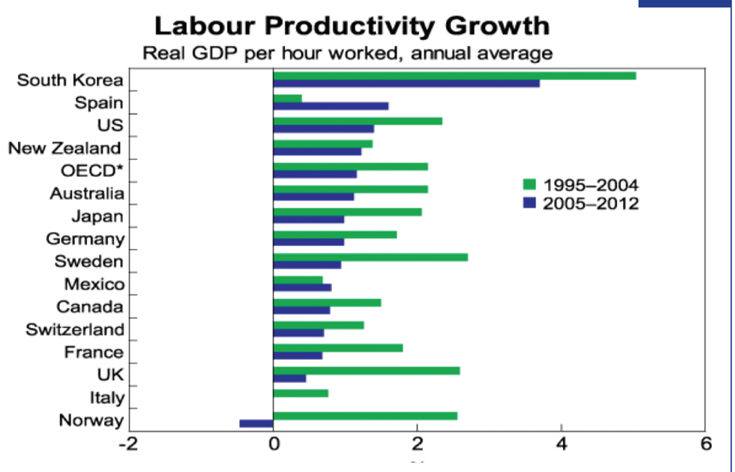


Source: Bruegel

Austerity and monetary policies, designed to address these debt imbalances have instead depressed capital formation and led to unproductive asset speculation. Despite all the talk of a new technological age, advanced economies are suffering a productivity crisis suppressing growth Fig2.

There are essentially two ways of increasing living standards – producing more per hour worked (productivity) or getting higher prices for what is produced (the terms of trade). National income is simply per capita income as measured above, multiplied by the working population. Subdued growth across the Western world can be attributed to both weaker productivity and a fall in workforce participation as the population ages.

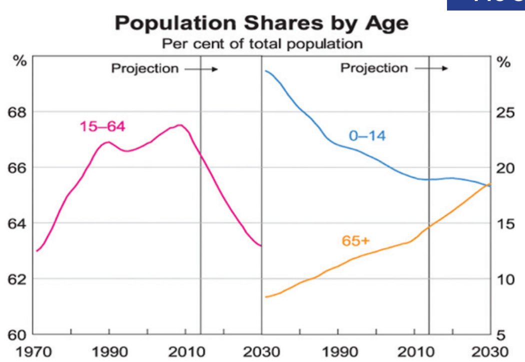
FIG 2



Source: OECD; RBA

In Australia, the working population between 15 and 64 years of age has been rising for the last 40 years. This demographic dividend is now reversing course however, and will be a drag on growth as workforce participation falls as seen in Fig 3.

FIG 3

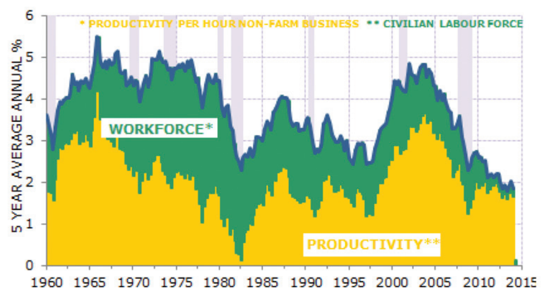


Source: ABS; RBA

Similarly in the US, Fig 4 shows how potential growth has halved over the past decade with both productivity and workforce participation falling.

FIG 4

US potential growth has declined by 50% in the last decade



Source: Minack Advisors

Thankfully, there is some good news on the demographic front. While per capita growth is likely to be soft and the participation rate will continue to fall, this will be partly offset in Australia at least by population growth which is amongst the highest in OECD.

The Australian population is set to increase by almost 20% this decade, three times faster than the OECD average. Japan's population in contrast will fall by 10% over the next 20 years and its working population will fall by 17% over the same time frame. Korea and China will also see a contraction in their respective workforces.

Growth in living standards is not only slowing, the income distribution is also shifting. Simply put, the income pie is growing at a slower rate than previously and the wealthy are taking a disproportionate share of the gains.

You may have heard of the controversy around Thomas Piketty's recent book Capital in the Twenty-First Century which focussed on income inequality in advanced economies. Globalisation is having a profound impact on middle and lower income earners as sections of the workforce are hollowed out as jobs shift offshore. The free movement of capital and technology clearly favours those who are better skilled and educated.

What is more, capital is following these jobs. Multinationals are investing in emerging markets instead of at home, where they are buying back their own shares instead with discretionary cash flows, allowing the capital stock to age and productivity to fall.

While globalisation has seen a narrowing of the gap in average incomes between developing and advanced economies, income and wealth inequality in rich countries has become worse. In 2011, the OECD completed a study showing how income inequality started to rise in the late 1970s in the US and Britain, now the two most unequal countries in the developed world. Forty-five years on, the typical American man makes less than he did all those years ago (after adjusting for inflation); life is far worse for high school graduates without degrees, who now make 40% less than they did four decades ago (after adjusting for inflation).

Nobel laureate Joseph E. Stiglitz who recently visited our shores observed that "mobile capital has demanded that workers make wage concessions and governments make tax concessions. The result is a race to the bottom".

Unfortunately, many of the policies designed to stimulate growth have only made matters worse in driving a wedge through this inequality divide. Accommodative monetary policies have led to asset inflation, which disproportionately benefits asset owners, and the wealth divide sadly is even greater than the income divide.

While the top 1% of Americans take home 22% of the nation's income, this privileged group have captured upwards of 95% of the income gains since 2009 in this recovery cycle. While Australia does not have quite the same level of inequality, and the "lucky country" has been sheltered by the mining boom, directionally the trends have been the same. Now with the mining boom ending, the full impact of the "income shock" from lower commodity prices will fall disproportionately on middle and lower income households – just look at the public outcry to the fiscal consolidation measures in the budget.

Australia is Facing the Same Challenges

The higher terms of trade was a boom for the economy through the last decade with nominal income growing on average at 8% between 2004 and 2008. The downside to this boom however was a collapse in productivity to just 1% through this period, the worst on record. As the terms of trade benefit now becomes a headwind, multi-factor productivity must improve if we are to avoid stagnation in living standards.

Treasury Secretary Dr Martin Parkinson presented an excellent paper "Challenges and opportunities for Australia over the next decade" earlier this month. You can see in Fig 5 below how Australia has managed to sustain strong growth in living standards through the last decade despite poor productivity performance due to sharply higher commodity prices. Higher commodity prices have in effect boosted the purchasing power of Australian households. Growth is set to halve in the period ahead unless we significantly lift productivity.

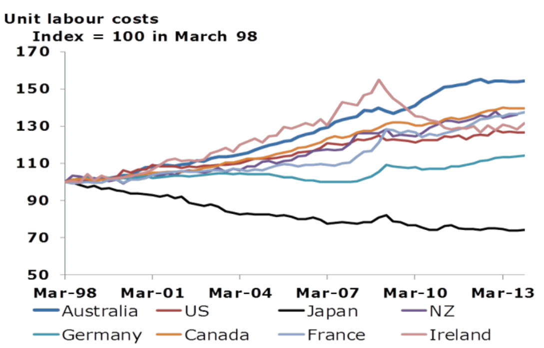
According to treasury estimates, a reversal in the terms of trade and a drop in workforce participation will see income growth fall to just 1% in the decade ahead if productivity performance stays at its long term average. To sustain growth in the living standards we are accustomed to, productivity will have to double from the average of the last one hundred years. This is a formidable challenge.

While we are seeing some rebound in productivity as capital deepening in the mining sector bears fruit, compositional changes in industry structure will offset these gains in the medium term as less productive industries like aged care and health services become bigger parts of the economy.

A high Australian dollar and poor labour productivity has seen Australia's global trade competitiveness slip considerably as measured by the World Economic Forum (WEF) data. To give you a sense of where we currently stand, we have the world's second highest minimum wage behind Luxembourg, while the average wage is 70% above the OECD average as shown in Fig 6. Following re-regulation of labour markets under the previous Labor government, Australia now ranks poorly on labour market flexibility as well, ranking a lowly 130 of 148 countries on rigidity of hiring and firing practices.

Australia is an expensive place to do business

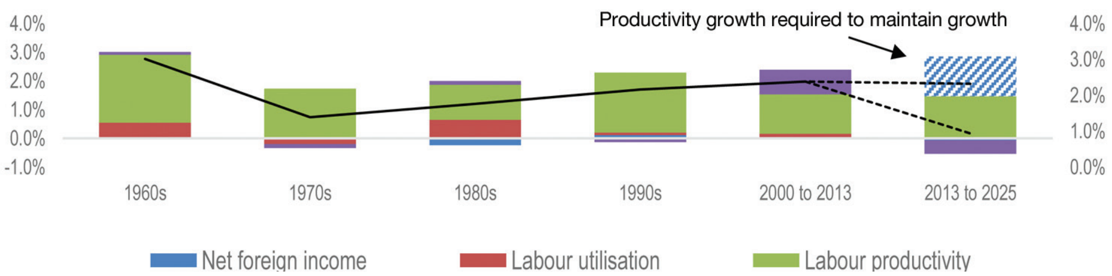
FIG 6



Source: OECD

Contribution to annual per capita income growth

FIG 5



Source: ABS and Australian Treasury Estimates

The Reserve Bank has estimated that two-thirds of this deterioration has come from the appreciation in the Australian dollar over the period, with higher unit labour costs accounting for the balance. This deterioration in competitiveness has left our traded goods sectors – manufacturing and retail in particular, very exposed to global competition.

Competitiveness can be restored in one of two ways, a devaluation of the currency or a fall in real unit labour costs. The currency has remained stubbornly high because Australia is an attractive destination for offshore investment. Following the financial crisis, Australia is now one of only a handful of countries with a coveted AAA credit rating from all three rating agencies. With the highest interest rates amongst this select group, capital in search of yield has come to our shores driving the Australian dollar higher. We are also a victim of the unconventional monetary policies pursued by major central banks as they debase the value of their currencies through money printing.

The alternative means of restoring competitiveness is through internal devaluation of unit labour costs and a reversal of the trend in Fig 7 above. In the aftermath of previous trade booms when the currency was fixed, this was the only means of adjustment and in most cases lead to rising unemployment and recession.

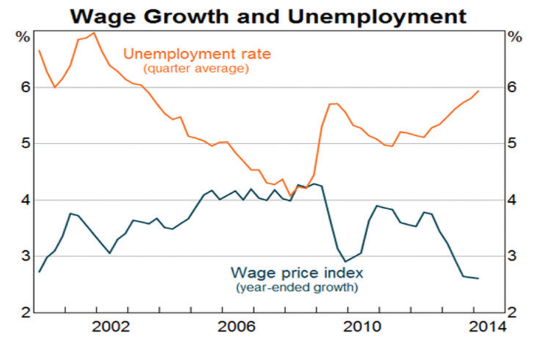
With a stubbornly high Australian dollar and a floor under wages, the adjustment has to come through improvements in productivity. If this is not led through industrial relations reform and collaboration with the labour movement, job losses and rising unemployment are inevitable.

We are already seeing restructuring across many segments of Australian industry. Ongoing pressure on labour markets will weigh on compensation growth (70% of household income) and unemployment will edge higher as seen in Fig 7, and this is clearly not supportive of economic growth in the short term.

As the Productivity Commission states, productivity begins and ends at the workplace through innovation and the forces of "creative destruction"– competition, risk-taking and capital renewal.

Reserve Bank Deputy Governor Philip Lowe in a recent paper on demographics and productivity questioned whether our society has become more risk averse and less willing to foster innovation, and wondered whether this may be tied to our aging population. We are certainly seeing aspects of this in our capital markets given the pervasiveness of indexing, high payout ratios and low levels of risk-taking and reinvestment.

FIG 7



Source: OECD

According to the Productivity Commission, government can influence the productivity of firms through three main channels – creating incentives, enhancing capabilities and providing workplace flexibility.

Incentives are largely tied to competition policy, and while the opening up of Australian industry to global competition in the 1980s and 1990s drove meaningful restructuring, two decades on and we have reverted to unhealthy concentration in many sectors.

The government has commissioned a review not only of competition policy, but also of the Fair Work laws and the Financial System through the Murray inquiry. The government has also taken important steps to incentivise capital investment outside of mining, particularly in infrastructure, but the appetite for industrial relations reform is sadly found wanting.

While the Abbott government has been reluctant to move on industrial relations reform ahead of the Productivity Commission inquiry into Fair Work laws, it has taken a strong stand against protected heartland industries such as Holden, Toyota and Qantas. The big three car makers have been propped up by $30bn of consumer and tax funded subsidies since 1997. The last government's focus on fairness rather than productivity and a shift back to collectivism made it illegal for business to strike contracts with individual employees. This was the last straw for the automotive industry in particular.

Last year, the then AWU national secretary Paul Howes admitted that the industrial relations system was dragging down economic competitiveness. Former Labor resources minister and prior ACTU president Martin Ferguson went further and urged the government to wind back Labor's Fair Work Act, describing the government's proposals to date as timid.

The Treasury Secretary summed up our current predicament – "we once again find ourselves at a critical juncture where it is through ambitious structural reform, pursued in the national interest that Australians will continue to enjoy high standards of living".

While the task ahead looks clear, the mandate for reform is anything but clear. Long time political correspondent for The Australian, Paul Kelly recently questioned whether the bipartisan reforms of the 1980s and 1990s would be possible today given the challenges in "constructing and holding together a majority for reform. Agreement over the national direction is being torn apart" he says.

With a dysfunctional senate controlled by populist crossbenchers replacing a minority government, difficult and unpopular supply side reform looks a distant prospect. If we are to avoid stagnation in living standards, microeconomic reform must happen. Unfortunately, there seems little appetite for reform in the community.

The Treasury Secretary had this to say about the political process –"if there can be no losers from any individual element of a reform proposal, even if the aggregate package advances the nations interest, this makes it virtually impossible to have a sensible debate about policy choices".

The political malaise and gridlock common in most Western democracies I believe is a manifestation of inequalities and associated community discontent playing out in the political arena. There can be no clearer evidence of this than the class warfare on display in our own parliament.

The question is whether Australia can implement the necessary reforms to unwind the excesses that have built up over twenty-two years of uninterrupted growth given the decisive shift in the political culture against reform.

Share market Outlook

With this backdrop for the economy, it should come as no surprise that we are cautious on the outlook for business conditions and the share market. Economic growth is likely to be below trend in the medium term, and for this reason profit growth will also be subdued.

To recap on what drives share market values. The price of a share moves up and down with earnings (E) and the multiple (P/E) investors are willing to pay for those earnings. There is a clear relationship also between the earnings multiple (P/E) and the growth rate of earnings. For companies that are growing more quickly, investors will pay a higher multiple (P/E) for today's earnings because the company will be bigger and more valuable in the future.

The same analysis holds for the share market overall. In Fig 8 you can see that while the earnings multiple may move up and down with investor sentiment, the appreciation of the US share market has more or less matched earnings over time. So first and foremost, if earnings growth in Australia is going to be softer for public companies as suspected, any appreciation in the fundamental value of shares will be modest.

The second key driver of the share market is the multiple investors are willing to pay for a dollar of earnings. In times of exuberance investors get carried with the outlook for profits or underestimate risks and push multiples higher beyond the historic norm.

As a reminder, risk in holding shares sits both with the underlying business we invest in and the price of the shares we hold. Investing in the soundest of businesses carries risk if the shares are overvalued. This is why there is a lot more risk in holding shares today than in

The share market follows corporate earnings higher

FIG 8

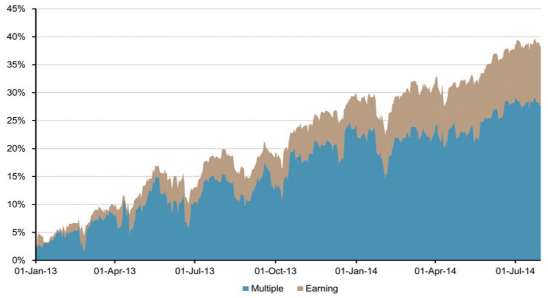
Source: Gavkal Research

the darkest hours of the financial crisis, given we are now paying twice as much for the same industrial shares here in Australia and three times as much for US shares.

It is interesting to observe that 80% of the increase in the US share market over the last 18 months has come from multiple expansion, Fig 9 with only a modest amount coming from earnings. From fig 9 below, we know that in the long run price appreciation is only sustainable in so far at is supported by higher earnings. Investors need to be mindful, confidence can shift quickly and markets can de-rate just as quickly as they have re-rated.

Contribution to growth in US share index

FIG 9



Source: UBS

In Fig 10 you can see how the Australian share market has also been fully re-rated over this period and industrial shares now sit at the upper boundary of their historic valuation range. In assessing value, we assume the market is rationally priced so long as it trades within the historic range. Once it moves outside of this range, pricing has becomes irrational and bubbles form as occurred in 2000. So we can conclude, while shares are fully valued they are not necessarily overvalued or in a bubble.

With little scope for further re-rating however, any price appreciation from here has to come from earnings growth alone. Because of this, and given our cautious view for earnings we think the available returns from investing in the share market in the medium term will be quite low.

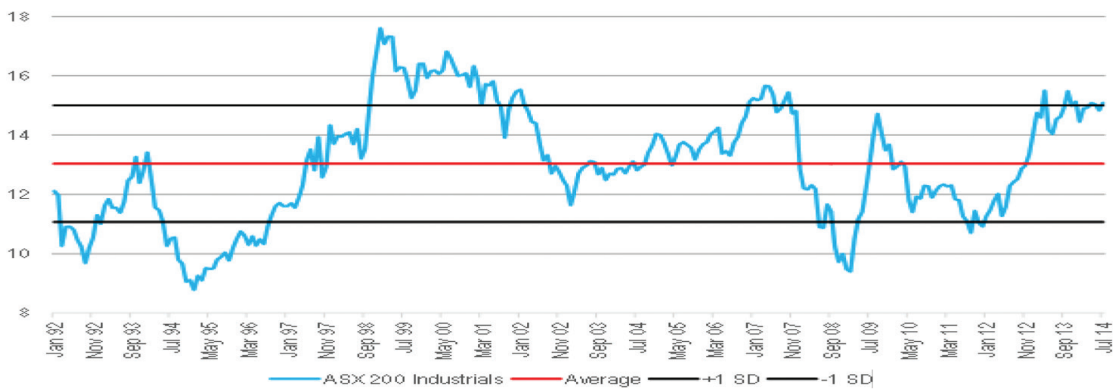
In the short term however, prices may well move higher and potentially sharply higher in a "melt up" scenario as investors often overreach in the completion phase of a reflation cycle. Ultra-low interest rates are not only bringing leveraged speculators into the market, corporate activity is clearly picking up also. As with previous cycle peaks, they tend to coincide with a frenzy of corporate deals and this will only support higher prices.

If shares do move sharply higher, the risks will build along with rising prices before the trend inevitably reverses and we move into the next bear market. This may still be some time away however. If you look at the history of bear markets you find they are not always in response to extended valuations. The last two bear markets in 2007 and 2010 occurred when valuations were around current levels in response to capital misallocation in US housing and sovereign debt markets. The current episode may play out similarly as the Bank for International Settlement warned in its recent financial stability review. The manipulation of market interest rates is creating a false sense of security amongst investors and is leading again to capital misallocation. Corporate and emerging debt markets are just two of the current beneficiary of the carry trade, as capital chases yield into ever riskier securities.

As the share market now looks fully valued to us and the outlook for earnings is clouded, we see modest upside in shares while risks will build further as financial conditions are still to normalise. Given this balance of risk and return, we feel it is prudent to hedge the fund's exposure to market losses and retain little net exposure to the share market. While we still aim to deliver attractive returns to shareholders through security selection, with these settings, we may underperform the share market in the short term.

Australian Industrial Shares – P/E Multiple

FIG 10



Source: Bloomberg

Fund Snapshot

30 June 2014

AUSTRALIAN LEADERS FUND

Net Tangible Asset (NTA) Backing

Month	May 2014	June 2014
NTA before tax on unrealised gains	**$1.51**	**$1.52**
NTA after tax	$1.46	$1.46

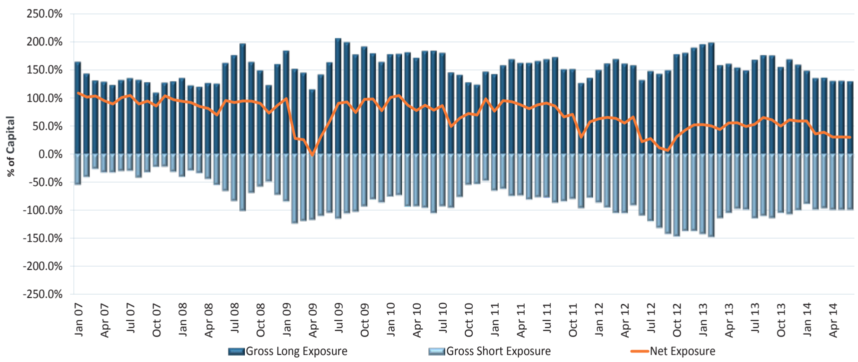
Performance (Net of all Fees and Expenses)

Period	S&P/ASX All Ordinaries Accum. Index	Net Equity Exposure	Contribution Market[1]	Contribution Security Selection[2]	ALF (net returns)
1 Mth	-1.4%	30%	-0.4%	0.8%	**+0.3%**
6 Mths	2.7%	40%	1.0%	5.7%	**+6.7%**
Fin. YTD	17.6%	49%	9.1%	12.5%	**+21.6%**
1 Yr	17.6%	49%	9.1%	12.5%	**+21.6%**
3 Yrs p.a.	9.7%	50%	3.3%	13.5%	**+16.7%**
5 Yrs p.a.	11.0%	63%	5.6%	13.0%	**+18.6%**
Since Inception p.a.	9.4%	n/a	n/a	n/a	**+16.0%**

[1] The "Market" column displays the contribution to return achieved in the period from the Fund's exposure to the share market weighted on a monthly basis. Due to timing differences, the contribution is not necessarily the same as the average equity exposure for the period multiplied by the market return.

[2] All fees and expenses are netted off against stock selection

Net Equity Exposure



Monthly Net Returns

Cal. Yr.	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2004		0.40	1.40	0.21	-0.05	2.25	1.08	-0.32	4.59	2.83	4.43	2.39
2005	0.25	1.27	-0.95	-6.11	-0.36	4.84	2.02	2.69	4.79	-3.02	3.85	3.74
2006	1.52	1.96	6.39	2.94	-2.11	1.35	-3.19	4.35	1.68	7.25	2.83	2.52
2007	3.09	-1.61	3.55	1.15	2.67	2.03	-1.03	3.43	3.33	1.05	-0.30	-1.90
2008	-11.5	-8.37	1.36	4.40	1.48	-7.16	-1.31	5.14	-5.43	-16.3	-6.62	2.97
2009	2.23	2.88	16.03	6.65	7.89	7.00	9.18	12.36	6.54	-0.65	0.81	0.12
2010	-3.45	2.23	4.21	-2.06	-7.07	-2.29	2.82	-3.86	2.33	0.00	2.67	12.01
2011	1.95	1.93	3.61	1.67	-1.76	-1.75	-4.11	-6.84	-8.40	6.45	-1.49	0.86
2012	4.88	4.74	3.26	1.20	-2.36	0.73	3.72	3.62	0.26	-1.30	6.54	3.43
2013	3.41	1.64	2.96	2.74	0.51	2.23	3.81	3.46	2.79	3.96	-0.63	-0.03
2014	-0.22	4.04	-1.37	2.64	1.18	0.33						

Australian Leaders Fund

ASX Code	**ALF**
Listed	**Feb 2004**
Capital	**$355.4m**
Market capitalisation	**$403.0m**
Share price	**$1.73**
NTA before tax	**$1.52**
Shares on issue	**232.9m**
Fully franked dividend (1H14)	**6.0¢**
Dividend yield (fully franked)	**6.9%**

Company Overview

The Australian Leaders Fund (ALF) is a listed investment company, comprising a portfolio of publicly traded Australian shares. As a Long/Short Equity fund the manager looks to take advantage of mispricing opportunities across the full breadth of the share market. As a 'variable beta' fund at any point in the investment cycle the fund may be fully invested, market neutral or short the market depending on the market outlook. Watermark aims to add value through both security selection and the hedging of share market risks. 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. The manager looks to buy the shares of good companies on occasions when they are undervalued by the share market. ALF is different to other funds however, in also selling short the shares of businesses that are fundamentally challenged, where these shares can be sold for more than they are worth. Proceeds raised from selling these shares are an additional source of funds for the company's balance sheet. These funds can either be retained in cash as a hedge for the fund's assets, or re-invested in the shares that the manager prefers. By adjusting the relative size of the 'long' and 'short' portfolios and the degree of hedging in place, the manager can set the amount of market risk (beta) retained in the fund.

Investment & Management Team

Justin Braitling
Chief Investment Officer/
Portfolio Manager

Tom Richardson, CFA
Senior Investment Analyst

Joshua Ross
Investment Analyst

Omkar Joshi, CFA
Investment Analyst

Tim Bolger
COO & Head of Distribution

Shannon Wells
Office Manager

Fund Snapshot

30 June 2014

WATERMARK
MARKET NEUTRAL FUND LIMITED

Net Tangible Asset (NTA) Backing

Month	May 2014	June 2014
NTA before tax on unrealised gains	**$1.05**	**$1.06**
NTA after tax	$1.03	$1.04

Performance (Net of all Fees and Expenses)

Performance at 30 June 2014	1 Mth	6 Mths	Fin. YTD	1 Yr	3 Yrs %pa	5 Yrs %pa	Since Inception %pa
WMK (net return)	0.7%	6.0	11.8%	11.8%	N/A	N/A	N/A
RBA Cash Rate	0.2%	1.2%	2.5%	2.5%	N/A	N/A	N/A
Outperformance (net)	**0.5%**	**4.8%**	**9.3%**	**9.3%**	**N/A**	**N/A**	**N/A**

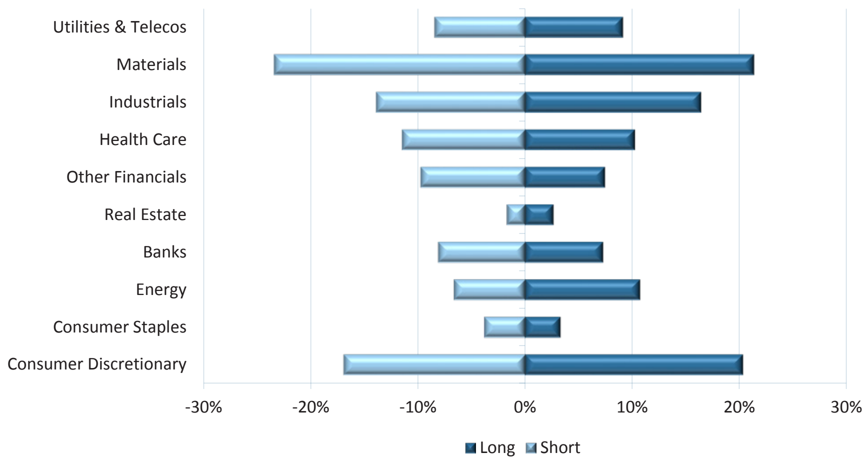
Monthly Net Returns

Cal. Yr.	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2013							1.32	1.59	0.38	1.58	0.63	-0.14
2014	1.64	1.14	-1.39	2.70	1.11	0.73						

Gross Portfolio Structure

	31 May 2014		30 June 2014	
Investment Type	**$m**	**%**	**$m**	**%**
Listed Securities - Long	90	99%	100	109%
Listed Securities - Short	-87	-96%	-96	-105%
Net Exposure	**3**	**-3%**	**4**	**4%**
Cash	88	97%	88	96%
Capital	**91**	**100%**	**92**	**100%**

Sector Exposures



Watermark Market Neutral Fund

ASX Code	**WMK**
Listed	**Jul 2013**
Capital	**$91.6m**
Market capitalisation	**$88.2m**
Share price	**$1.05**
NTA before tax	**$1.06**
Shares on issue	**84.4m**
Fully franked dividend (1H14)	**2.5¢**
Dividend yield (fully franked)	**4.8%**

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.

Investment & Management Team

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Chief Investment Officer/
Portfolio Manager

Tom Richardson, CFA
Senior Investment Analyst

Joshua Ross
Investment Analyst

Omkar Joshi, CFA
Investment Analyst

Tim Bolger
COO & Head of Distribution

Shannon Wells
Office Manager

Fund Snapshot

30 June 2014

Net Asset Value (NAV)

Month	May 2014	June 2014
NAV per unit	**$1.381**	**$1.393**
Increase/Decrease	+1.21%	+0.84%

Performance (Net of all Fees and Expenses)

Performance at 30 June 2014	1 Mth	6 Mths	Fin. YTD	1 Yr	3 Yrs %pa	5 Yrs %pa	Since Inception %pa
WARF (net return)	0.8%	7.0%	15.0%	15.0%	17.7%	14.2%	16.3%
RBA Cash Rate	0.2%	1.2%	2.6%	2.6%	3.4%	3.7%	4.5%
Outperformance (net)	**0.6%**	**5.7%**	**12.4%**	**12.4%**	**14.3%**	**10.5%**	**11.8%**

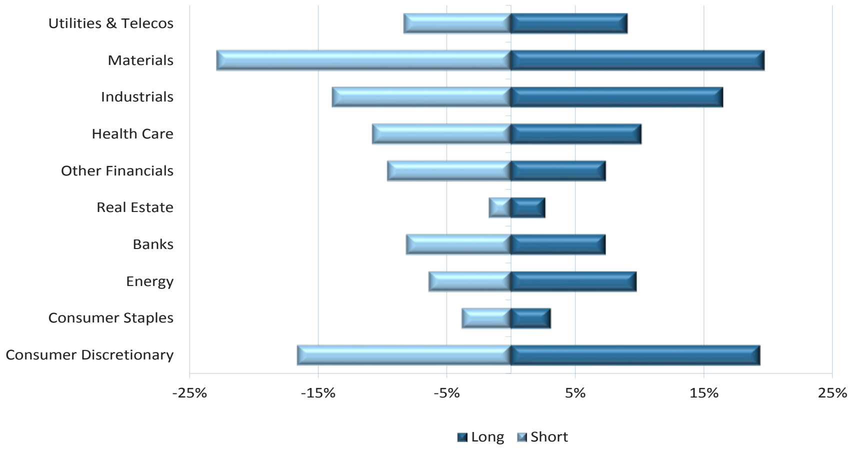
Monthly Net Returns

Cal. Yr.	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2012	-	-	-	-	-	-	-	1.36	0.97	0.00	6.51	2.88
2013	-0.71	0.21	4.60	1.55	5.83	5.31	1.11	2.57	1.43	1.86	0.35	-0.06
2014	1.71	1.45	-1.17	2.80	1.21	0.84						

Gross Portfolio Structure

	31 May 2014		30 June 2014	
Investment Type	**$m**	**%**	**$m**	**%**
Listed Securities - Long	17.3	90%	17.3	90%
Listed Securities - Short	-17.0	-89%	-17.0	-89%
Net Exposure	**0.3**	**1%**	**0.3**	**1%**
Cash	18.8	99%	18.8	99%
Capital	**19.1**	**100%**	**19.1**	**100%**

Sector Exposures



Watermark Absolute Return Fund

Firm Assets	**$467.1m**
Fund Assets	**$19.8m**
Inception Date	**Aug 2012**
Strategy	**Equity Market Neutral**
Fund Domicile	**Australia**
NAV per unit	**$1.393**
Redemptions	**Monthly**
Management fee	**1.5%**
Performance fee	**20%**
Benchmark	**RBA Cash Rate**

Fund Overview

The Watermark Absolute Return Fund (WARF) invests predominantly in Australian shares. The fund will maintain a market neutral structure with no greater than 10% of the company's capital exposed to the share market on a net basis at any one time. The Fund's objective is to increase the value of your investment over the long term via capital growth and income while minimising your exposure to market volatility.

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.

Investment & Management Team

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Chief Investment Officer/
Portfolio Manager

Tom Richardson, CFA
Senior Investment Analyst

Joshua Ross
Investment Analyst

Omkar Joshi, CFA
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COO & Head of Distribution

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