

Investment Update and NTA Report



31 August 2014

Month in Review

August was a busy month for investors in Australian shares with a majority of listed companies reporting their profit result for the 2014 financial year. Across the market, companies delivered earnings growth in FY2014 that was largely as forecast. With improved cash flow generation and stronger balance sheets, many companies were able to deliver dividend growth ahead of expectations, further nourishing investors' voracious appetite for yield. After a poor start, the S&P300 Accumulation Index followed the US market higher to finish the month in positive territory.

The US market achieved another all-time high in August as corporates continued to report profits ahead of market forecasts. In Europe, weakness in most major economic indicators suggests that the recovery has stalled. Share markets across Europe proved resilient however, with gains recorded across the major indices.

The Company's experienced another difficult month in respect of its investment portfolio, which delivered a return of -2.1% net of all fees. The short portfolio contributed the majority of the negative performance, with exposures in the Healthcare, Precious Metals and Financial sectors weighing most heavily.

Net Tangible Asset (NTA) Backing

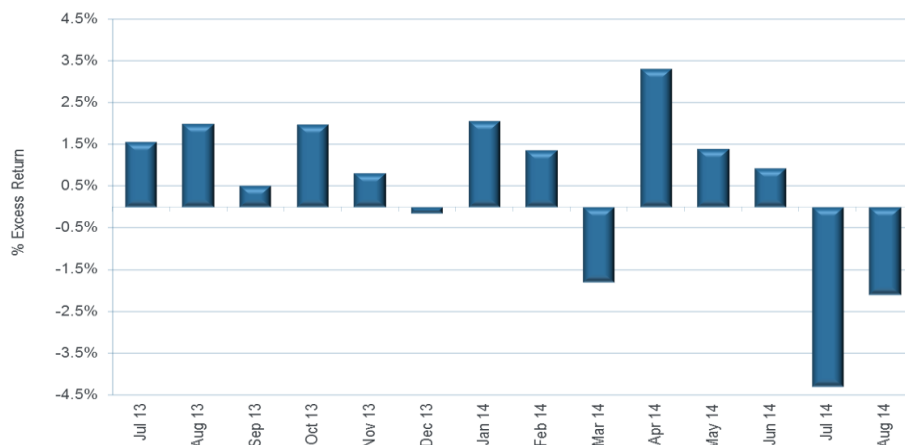
Month	July 2014	August 2014
NTA before tax on unrealised gains	\$1.01	\$0.99
NTA after tax	\$1.01	\$0.99
Dividend Declared*	(\$0.00)	(\$0.025)
NTA after tax and after dividend (2.5¢)	\$1.01	\$0.97

*The ex-date for the dividend is 3 October 2014, payable on 20 October 2014

Performance (Net of all Fees and Expenses)

Performance at 31 August 2014	1 Mth	6 Mths	Fin. YTD	1 Yr	3 Yrs %pa	5 Yrs %pa	Since Inception %pa
WMK (net return)	-2.1%	-3.4%	-6.4%	1.7%	N/A	N/A	4.1%
RBA Cash Rate	0.2%	1.3%	0.4%	2.5%	N/A	N/A	2.5%
Outperformance (net)	-2.3%	-4.7%	-6.8%	-0.8%	N/A	N/A	1.5%

Monthly Excess Returns (Gross Alpha)



Watermark Market Neutral Fund

ASX Code	WMK
Listed	Jul 2013
Capital	\$86.1m
Market capitalisation	\$89.6m
Share price	\$1.03
NTA before tax	\$0.99
Shares on issue	86.9m
Fully franked dividend (FY14)	5¢
Dividend yield (fully franked)	4.9%

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

Justin Braitting
Chief Investment Officer/
Portfolio Manager

Tom Richardson, CFA
Senior Investment Analyst

Joshua Ross
Investment Analyst

Omkar Joshi, CFA
Investment Analyst

Delian Entchev
Investment Analyst

Tim Bolger
COO & Head of Distribution

Shannon Wells
Office Manager

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Fund Attribution

In this strategy, shareholders benefit to the extent that shares in the long portfolio which the manager prefers outperform the shares in the short portfolio. In August, the Long Portfolio decreased in value by 0.2%, underperforming the short portfolio which increased by 1.2%. Since inception the long portfolio has outperformed the short portfolio, resulting in a positive return for shareholders despite volatile markets.

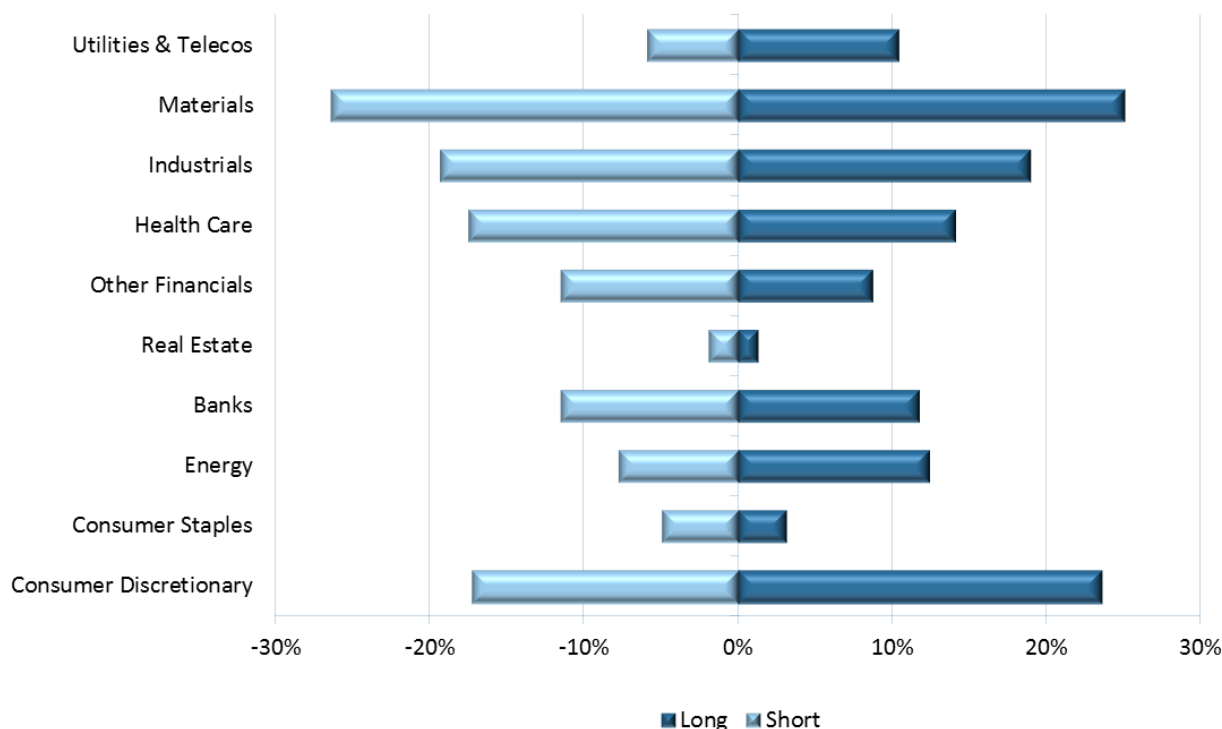
	1 Month Return (%)	3 Month Return (%)	6 Month Return (%)	Financial YTD Return (%)
	Portfolio ¹	Portfolio ¹	Portfolio ¹	Portfolio ¹
Long Portfolio	-0.2%	2.8%	3.6%	3.3%
Short Portfolio	1.2%	7.1%	5.3%	8.6%
Cash	0.0%	0.2%	1.1%	0.1%
Total	-1.8%	-4.8%	-1.4%	-5.8%

¹ The "Portfolio" column displays the return achieved in the period from the Investment Portfolio (long) and from the Borrowed Securities portfolio (short) separately. A negative return for the short portfolio is a good outcome and adds to performance. The Total Portfolio performance, representing the underlying return achieved on Shareholder's Funds is a weighted return of the long and short portfolios as well as cash.

Gross Portfolio Structure

Investment Type	31 July 2014		31 August 2014	
	\$m	%	\$m	%
Listed Securities - Long	114	127%	111	129%
Listed Securities - Short	-112	-125%	-107	-124%
Net Exposure	2	2%	4	5%
Cash	87	98%	82	95%
Capital	89	100%	86	100%

Sector Exposures



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Option Issue

As part of IPO the Company issued options to acquire ordinary shares in the Company at an exercise price of \$1.00.

The options can be exercised at any time on or before 31 December 2014. The options give the shareholders the right but not the obligation to subscribe for shares in WMK at \$1.00 per share. The options can be exercised in full or in part. The options are currently trading on the ASX under the code WMKO.

As at 31 August 2014, 6,421,651 options have been exercised and allotted for a total consideration of \$6,421,651. The remaining balance of outstanding options at 31 August 2014 is 64,096,974.

Dividend History

The Board is committed to paying an increasing stream of fully franked dividends to shareholders, provided the Company has sufficient profit reserves and franking credits. Dividends are paid on a six-monthly basis and the dividend reinvestment plan is available to shareholders for both the interim and final dividend. In August 2014 the Board declared a 2.5c fully franked dividend, taking the full year dividend to 5c and in line with the 5% full year dividend targeted by the Board.