

# Investment Update and NTA Report

30 September 2014



## Month in Review

September was a month of two halves, with the All Ordinaries Accumulation Index finding post-GFC highs mid-month, before falling over 5% by month's end. The US Federal Reserve increased forward guidance on interest rates in September leading to a surge in the US dollar against other major currencies and commodity prices remained soft, resulting in the sharpest fall in the Australian Dollar for 2½ years.

Globally share markets struggled, with the domestic share market amongst the worst performers. In contrast to the global trends in banks, Australian banks fell 7.7%, plagued by ongoing regulatory uncertainty in respect of capital requirements and building margin pressures. Weaker China data and growing volatility in emerging markets saw Resources fall by a similar amount.

The Fund performed well in September, with broad based falls across all sectors leading to strong contribution from the short portfolio. Healthcare and Industrial sectors contributed most strongly in absolute terms while positions in Telecommunications and Energy detracted from returns. Pleasingly, a number of the core short positions that have detracted from performance in recent months continued to unwind in September in the Fund's favour.

## Net Tangible Asset (NTA) Backing

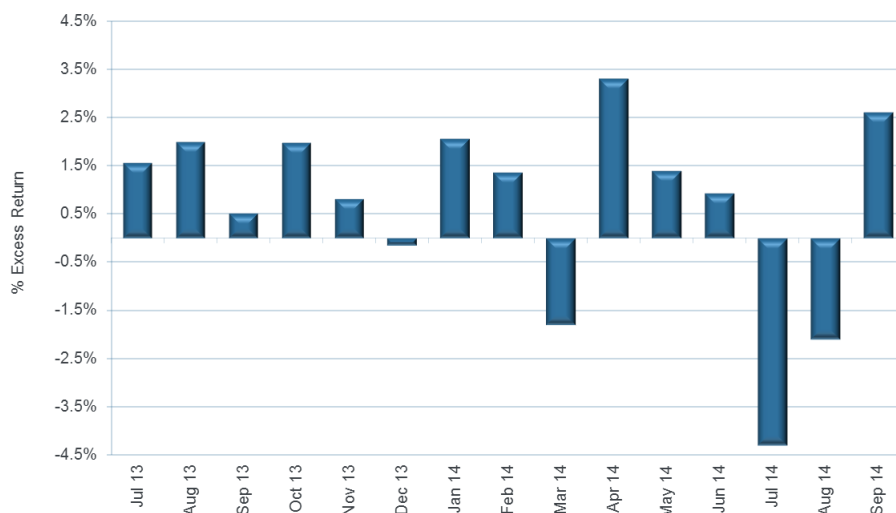
Month	August 2014	September 2014
NTA before tax on unrealised gains	\$0.99	\$1.02
NTA after tax	\$0.99	\$1.02
Dividend Declared*	(\$0.025)	(\$0.025)
NTA after tax and after dividend (2.5¢)	\$0.97	\$0.99

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

## Performance (Net of all Fees and Expenses)

Performance at 30 September 2014	1 Mth	6 Mths	Fin. YTD	1 Yr	3 Yrs %pa	5 Yrs %pa	Since Inception %pa
WMK (net return)	2.8%	0.7%	-3.7%	4.2%	N/A	N/A	6.1%
RBA Cash Rate	0.2%	1.3%	0.6%	2.5%	N/A	N/A	2.5%
<b>Outperformance (net)</b>	<b>2.6%</b>	<b>-0.6%</b>	<b>-4.4%</b>	<b>1.7%</b>	<b>N/A</b>	<b>N/A</b>	<b>3.6%</b>

## Monthly Excess Returns (Gross Alpha)



### Watermark Market Neutral Fund

ASX Code	WMK
Listed	Jul 2013
Capital	\$88.9m
Market capitalisation	\$85.1m
Share price	\$0.98
NTA before tax	\$1.02
Shares on issue	87.3m
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 September, the Long Portfolio decreased in value by 4.8%, outperforming the short portfolio which decreased by 7.6%. Since inception the long portfolio has outperformed the short portfolio, resulting in a positive return for shareholders despite volatile markets.

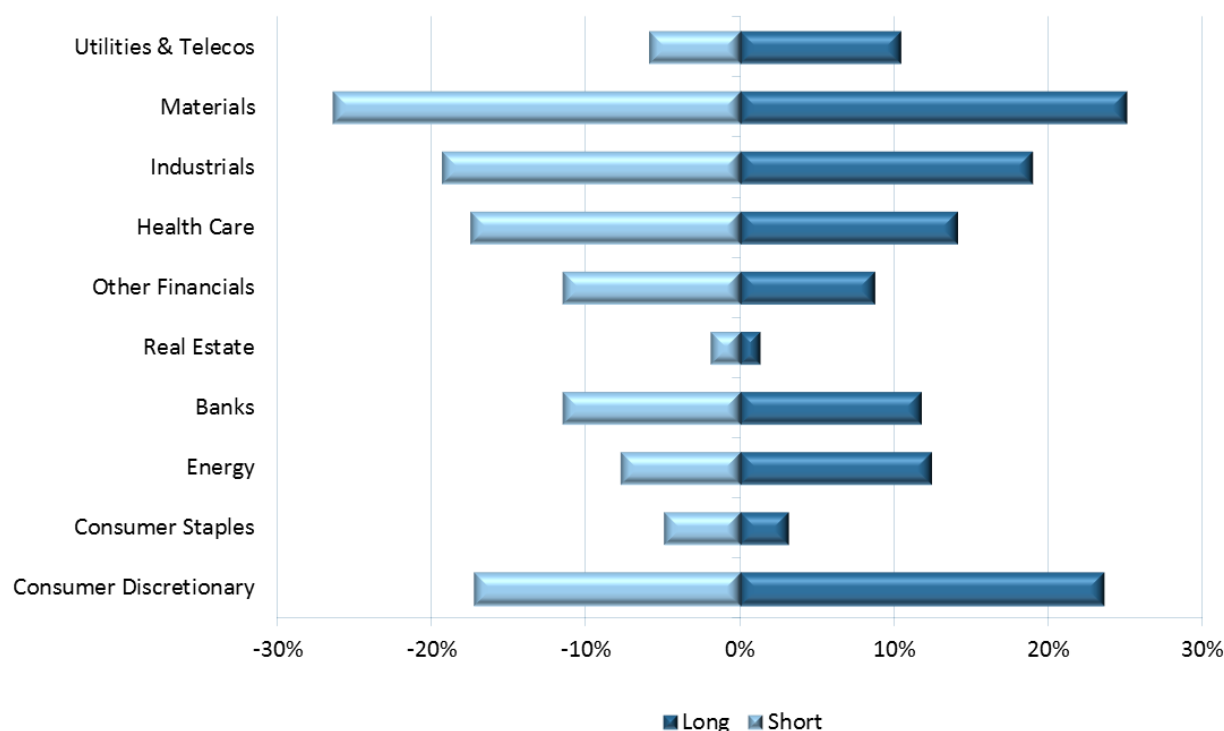
	1 Month Return (%)	3 Month Return (%)	6 Month Return (%)	Financial YTD Return (%)
	Portfolio <sup>1</sup>	Portfolio <sup>1</sup>	Portfolio <sup>1</sup>	Portfolio <sup>1</sup>
Long Portfolio	-4.8%	-1.7%	-0.6%	-1.7%
Short Portfolio	-7.6%	0.4%	-3.6%	0.4%
Cash	0.2%	0.3%	1.3%	0.3%
<b>Total</b>	<b>3.1%</b>	<b>-2.9%</b>	<b>3.3%</b>	<b>-2.9%</b>

<sup>1</sup> 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 August 2014		30 September 2014	
	\$m	%	\$m	%
Listed Securities - Long	111	129%	98	110%
Listed Securities - Short	-107	-124%	-91	-102%
<b>Net Exposure</b>	<b>4</b>	<b>5%</b>	<b>7</b>	<b>8%</b>
Cash	82	95%	82	92%
<b>Capital</b>	<b>86</b>	<b>100%</b>	<b>89</b>	<b>100%</b>

## 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 30 September 2014, 6,799,781 options have been exercised and allotted for a total consideration of \$6,799,781. The remaining balance of outstanding options at 30 September 2014 is 63,718,844.

## 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.