

# Investment Update and NTA Report

30 November 2014



## Month in Review

Major shifts in currency and commodity markets saw Australian shares fall sharply in November, with the All Ordinaries Accumulation Index down 3.2%. Mining shares were the hardest hit with the price of iron ore and coal continuing to decline. A sharp drop in the price of oil late in the month caused a sell-off in the shares of energy companies and the contractors that service them. With weakness across the materials sector and the domestic economy broadly, the Australian share market underperformed all global peers in November.

Notwithstanding these challenges some sectors outperformed. In particular, those Australian companies with operations offshore, which on translation become more valuable as the Australian dollar falls. Defensive shares also continue to be in favour as investors chase yield and we are seeing a very large re-rating of low growth defensive names. Valuations for defensive shares and companies with offshore exposures are looking stretched.

The Company's portfolio fell by -1.4% in November in an increasingly difficult environment for fundamental investors as the market becomes more irrationally priced. Negative performance for the month can be attributed to falls in the Fund's long portfolio, with the biggest losses coming from positions in mining and energy shares. The Fund's short portfolio contributed positively to the total return, although not sufficiently to offset losses on the long side of the ledger.

## Net Tangible Asset (NTA) Backing

Month	October 2014	November 2014
NTA before tax on unrealised gains	\$0.97	\$0.96
NTA after tax	\$0.98	\$0.97

## Performance (Net of all Fees and Expenses)

Performance at 30 November 2014	1 Mth	6 Mths	Fin. YTD	1 Yr	3 Yrs %pa	5 Yrs %pa	Since Inception %pa
WMK (net return)	-1.4%	-5.7%	-6.5%	-0.8%	N/A	N/A	3.4%
RBA Cash Rate	0.2%	1.3%	1.1%	2.5%	N/A	N/A	2.5%
<b>Outperformance (net)</b>	<b>-1.6%</b>	<b>-7.0%</b>	<b>-7.5%</b>	<b>-3.3%</b>	<b>N/A</b>	<b>N/A</b>	<b>0.8%</b>

### Watermark Market Neutral Fund

ASX Code	WMK
Listed	Jul 2013
Capital	\$83.9m
Market capitalisation	\$79.6m
Share price	\$0.91
NTA before tax	\$0.96
Shares on issue	87.5m
Fully franked dividend (FY14)	5¢
Dividend yield (fully franked)	5.5%

### 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

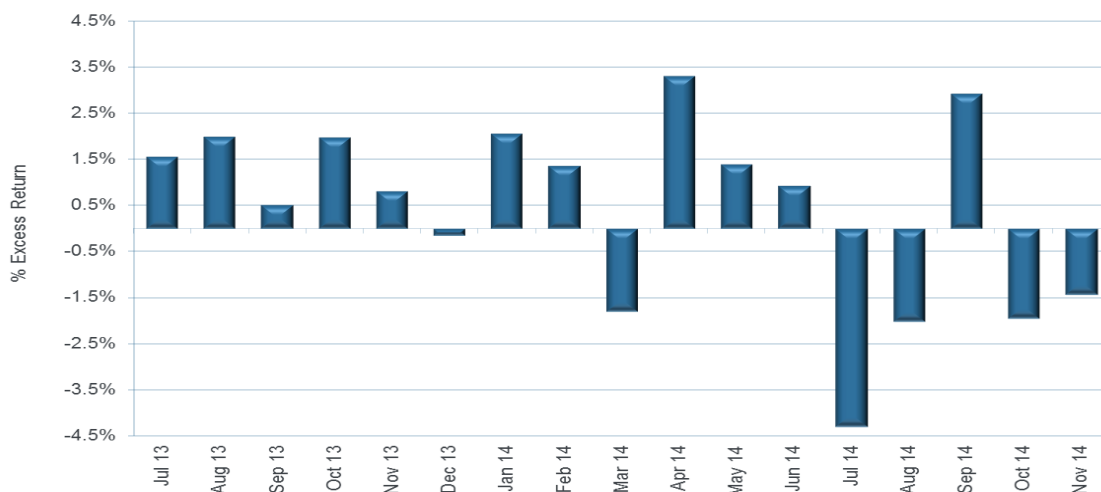
**Shannon Wells**  
Office Manager

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## Monthly Excess Returns (Gross Alpha)



## 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 November, the Long Portfolio decreased in value by 3.7%, underperforming the short portfolio which decreased by 2.4%. 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	-3.7%	-8.1%	-5.5%	-5.1%
Short Portfolio	-2.4%	-8.0%	-1.4%	0.0%
Cash	0.2%	0.4%	0.7%	0.5%
<b>Total</b>	<b>-1.3%</b>	<b>0.0%</b>	<b>-4.7%</b>	<b>-5.8%</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

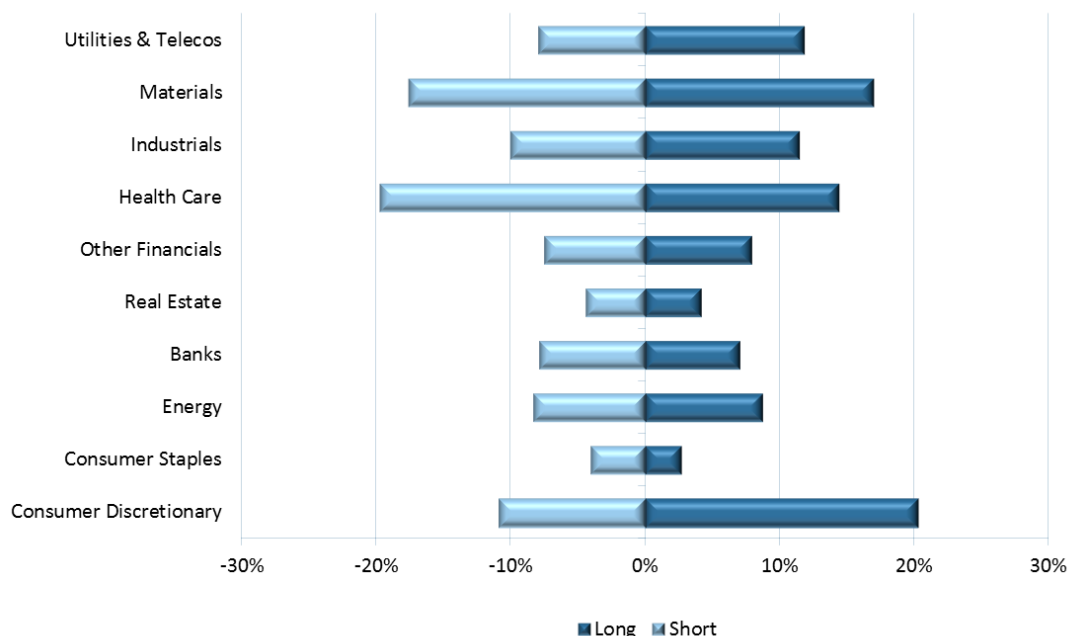
Investment Type	31 October 2014		30 November 2014	
	\$m	%	\$m	%
Listed Securities - Long	95	112%	88	105%
Listed Securities - Short	-95	-112%	-83	-99%
<b>Net Exposure</b>	<b>0</b>	<b>0%</b>	<b>5</b>	<b>6%</b>
Cash	85	100%	79	94%
<b>Capital</b>	<b>85</b>	<b>100%</b>	<b>84</b>	<b>100%</b>

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## Sector Exposures



## 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 November 2014, 6,803,781 options have been exercised and allotted for a total consideration of \$6,803,781. The remaining balance of outstanding options at 30 November 2014 is 63,714,844.

## 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.

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