

Investment Update and NTA Report



31 March 2015

Month in Review

Following two months of strong gains, the Australian share market took a break in March, with the All Ordinaries Accumulation Index falling slightly by 0.1% for the month. As has been the case in previous months, share markets around the world moved in reaction to geopolitical factors and posturing from central banks and the domestic market was no exception. Continued tensions in the Middle East and concerns over Greek sovereign debt saw the domestic share market fall early in the month before dovish comments from the US Fed sparked a late month recovery.

Losses were felt most heavily in the Materials and Energy sectors, which led the market rally earlier in the quarter, while banks, healthcare companies and shares exposed to the residential property boom posted solid gains.

The portfolio delivered a 3.2% return for the month with contributions coming from both the long and short portfolios. Ongoing challenges across the resource sector saw short positions in mining and energy shares deliver the biggest contributions to performance, while long positions in PanAust and iiNet benefitted from take-over bids at significant premiums.

Corporate activity continues to play an important factor impacting the share prices of several listed Australian companies. In addition to bids mentioned above, rumours (as yet unfounded) surrounding the leveraged buyout of Primary Healthcare also led to a rally in the shares of that company, contributing to performance during the month. Invariably, the Company's portfolio will be both a beneficiary and victim of such transactions from time to time as has been evidenced neatly in the last two months.

It is a central objective of a market neutral strategy to hedge out share market risk whereby the portfolio is insulated against the impact of external forces, leaving the investment manager to create value through security selection. While we have spoken in previous months about stock specific issues, many of which have in fact reversed in the Company's favour with time, we remain confident of the value we can create in identifying and exploiting mispricing opportunities while protecting shareholders from share market risk.

While the Company is at a disadvantage in a strongly rising share market, the dual benefits provided through absolute return investing; being portfolio returns which are not dependent on a rising share market and the hedging of share market risk, will be particularly important going forward given the low forecast returns for shares and an environment where risks in asset markets are elevated.

Net Tangible Asset (NTA) Backing

Month	February 2015	March 2015
NTA before tax on unrealised gains	\$0.95	\$0.98
NTA after tax	\$0.96	\$0.98
Dividend Declared*	(\$0.02)	(\$0.02)
NTA after tax and after dividend (2¢)	\$0.94	\$0.96

*The ex-date for the dividend is 26 March 2015, payable on 14 April 2015

Performance (Net of all Fees and Expenses)

Performance at 31 March 2015	1 Mth	6 Mths	Fin. YTD	1 Yr	3 Yrs pa	5 Yrs pa	Since Inception pa
WMK (net return)	3.2%	-1.8%	-5.1%	-0.5%	N/A	N/A	3.6%
RBA Cash Rate	0.2%	1.2%	1.9%	2.5%	N/A	N/A	2.5%
Outperformance (net)	3.0%	-3.0%	-6.9%	-3.0%	N/A	N/A	1.1%

Watermark Market Neutral Fund

ASX Code	WMK
Listed	Jul 2013
Capital	\$85.1m
Market capitalisation	\$74.7m
Share price	\$0.86
NTA before tax	\$0.98
Shares on issue	87.4m
Interim Dividend (1H15)	2¢
Dividend yield	5.2%

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

Nick Cameron
Investment Analyst

Tim Bolger
COO & Head of Distribution

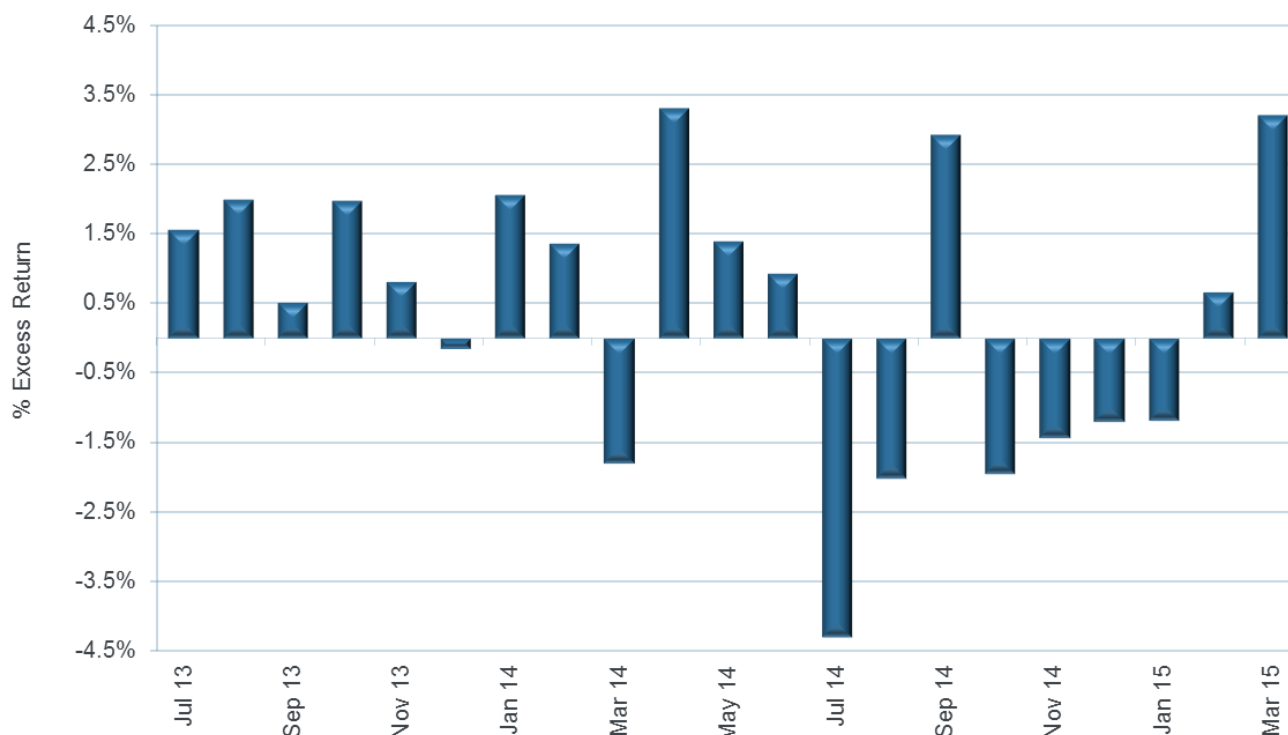
Shannon Wells
Office Manager

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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 March, the Long Portfolio increased in value by 1.0%, outperforming the short portfolio which decreased by 2.7%. 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	1.0%	11.1%	8.9%	7.0%
Short Portfolio	-2.7%	7.6%	9.8%	10.2%
Cash	0.1%	0.4%	0.9%	1.1%
Total	3.3%	3.1%	-1.0%	-3.9%

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

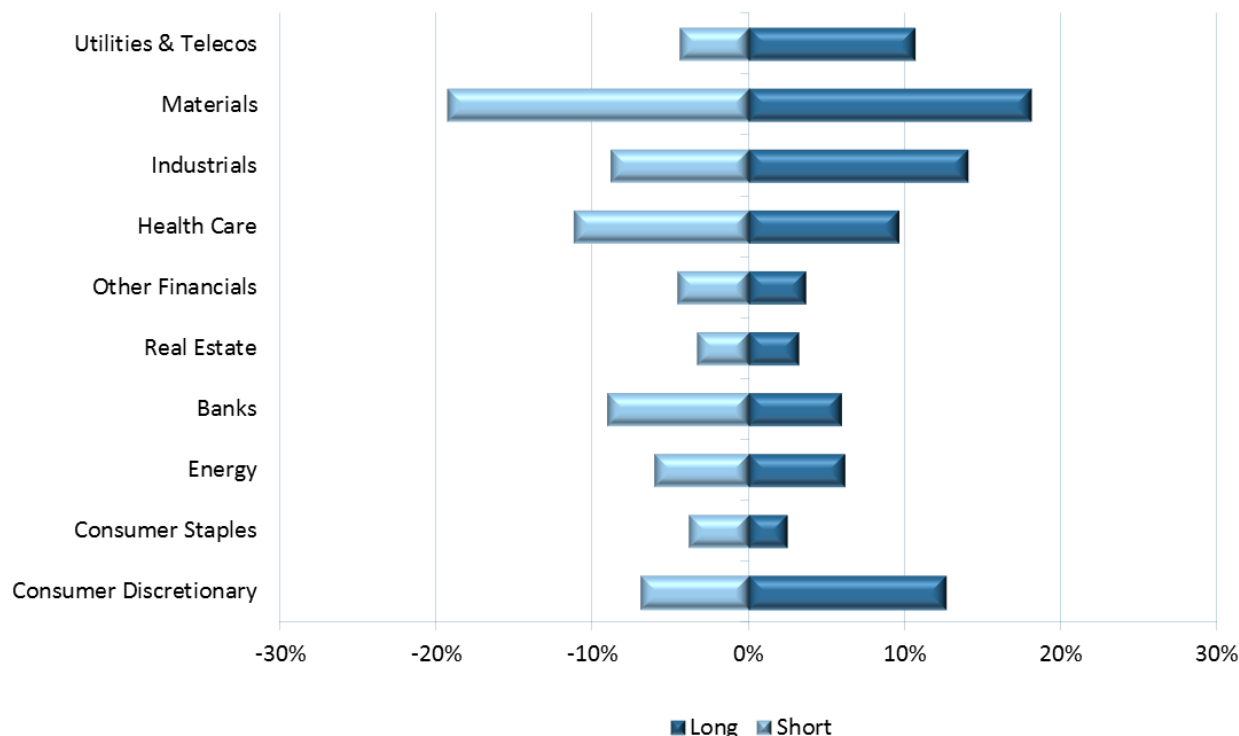
Investment Type	28 February 2015		31 March 2015	
	\$m	%	\$m	%
Listed Securities - Long	73	88%	73	86%
Listed Securities - Short	-72	-87%	-67	-79%
Net Exposure	1	1%	6	7%
Cash	82	99%	79	93%
Capital	83	100%	85	100%

Sector Exposures

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Dividend History

In February 2015, the Board declared a 2 cent interim dividend, franked to 70%. It remains an objective of the Board to pay a growing stream of franked dividends to shareholders over time, provided the Company has sufficient profit reserves and franking credits. Dividends are paid on a six-monthly basis. The Board maintains its target of delivering a yield of 5% and has a preference for the payment of fully franked dividends where possible.

Disclaimer: This document is issued by Watermark Funds Management Pty Ltd (ABN 98 106 302 505, AFSL 250897) in relation to the Watermark Market Neutral Fund Ltd. Watermark Funds Management Ltd (the Investment Manager) is a privately owned funds management business, founded by the principal, Justin Braithling in 2004.

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