

Watermark Market Neutral Fund Limited

ABN 45 163 980 498

Appendix 4D

Preliminary report for the half-year ended 31 December 2015

Half-year report

This half-year ended report is for the reporting half-year from 1 July 2015 to 31 December 2015. The previous corresponding half-year was 1 July 2014 to 31 December 2014.

Results for announcement to the market

Revenue from ordinary activities	Up	1,381.7%	to	18,168,170
Profit before tax for the period	Up	268.7%	to	11,513,890
Profit from ordinary activities after tax attributable to members	Up	301.4%	to	8,994,678

Dividends

	Dividend Rate	Total Amount \$	Record Date	Date of Payment	Percentage Franked
2015 Final (paid 20/10/2015)	\$0.025	\$2,102,619	08/10/2015	20/10/2015	50%
2016 Interim (payable 29/04/2016)	\$0.025	\$2,102,369	14/04/2016	29/04/2016	50%
2016 Special (payable 29/04/2016)	\$0.01	\$840,948	14/04/2016	29/04/2016	50%

Net tangible assets

	31 December 2015	31 December 2014
Net tangible asset backing (per share) before tax	1.08	0.95
Net tangible asset backing (per share) after tax	1.07	0.96

Distribution Reinvestment Plan (DRP)

The Dividend Reinvestment Plan will not operate for the interim dividend.

Further information

This report is based on the Half Year Financial Report which has been subject to independent review by the Auditors, Pitcher Partners. All the documents comprise the information required by Listing Rule 4.2A. This information should be read in conjunction with the 30 June 2015 Annual Financial Report.

Watermark Market Neutral Fund Limited

ABN 45 163 980 498

Interim Report for the half-year ended 31 December 2015

Watermark Market Neutral Fund Limited ABN 45 163 980 498

Interim Report - for the half-year ended 31 December 2015

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2015 and any public announcements made by Watermark Market Neutral Fund Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Corporate Directory

Directors

Matthew Kidman (Chairman)
Justin Braitling (Non-Independent Director)
John Abernethy (Independent Director)
Stephen Van Eyk (Independent Director)
Robert Ferguson (Independent Director)

Secretary

Peter Roberts

Registered office

Suite 2, Level 6
139 Macquarie Street
Sydney NSW 2000
Telephone: (02) 9252 0225
Facsimile: (02) 9252 1220
Email: info@wffunds.com.au

For enquiries regarding net asset backing (as advised each month to the Australian Securities Exchange) refer to www.asx.com.au or call (02) 8262 2800.

Share registrar

Boardroom Pty Limited
Level 12
225 George Street
Sydney NSW 2000
Telephone: (02) 9290 9600
Facsimile: (02) 9279 0664

For enquiries relating to shareholdings, dividends (including participation in the Dividend Reinvestment Plan) and related matters, please contact the share registrar.

Auditor

Pitcher Partners
Level 22 MLC Centre
19 Martin Place
Sydney NSW 2000
Telephone: (02) 9221 2099
Facsimile: (02) 9223 1762

Stock exchange

Australian Securities Exchange (ASX)
The home exchange is Sydney
ASX code: WMK Ordinary shares

Directors' Report

The Directors present their report together with the financial report of Watermark Market Neutral Fund Limited ("the Company") for the half-year ended 31 December 2015.

Directors

The following persons held office as Directors during the half-year or since the end of the half-year and up to the date of this report:

Matthew Kidman (Chairman)
Justin Braithling (Non-Independent Director)
John Abernethy (Independent Director)
Stephen Van Eyk (Independent Director)
Robert Ferguson (Independent Director)

Principal activities

The principal activity of the Company is making investments in listed companies. No change in this activity took place during the half-year period 31 December 2015 or is likely to take place in the future.

Review of operations

Investment operations over the half-year ended 31 December 2015 resulted in an operating profit before tax of \$11,513,890 (2014: loss \$6,825,584) and an operating profit after tax of \$8,994,678 (2014: loss \$4,465,394). Asset backing for each ordinary share at 31 December 2015 (calculated on market value after realisation costs and all applicable taxes and before provision for dividend) amounted to \$1.07 per share (2014: \$0.96). Asset backing after tax on realised gains but before tax on unrealised gains was \$1.08 per share (2014: \$0.95).

Significant changes in the state of affairs

As a measure to preserve value for shareholders the board has announced on 28 August 2015 the approval of an on market buy-back of up to 10% of the Company's capital up to a maximum of 8,410,475 shares to be bought back in a 12 month period commencing 14 September 2015. As at 31 December 2015 10,000 shares had been bought back for a consideration of \$9,500.

There were no other significant changes in the state of affairs of the Company during the half-year ended 31 December 2015.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 3.

This report is made in accordance with a resolution of Directors.



Matthew Kidman
Director

Sydney
12 February 2016



PITCHER PARTNERS
ACCOUNTANTS • AUDITORS • ADVISORS

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**Auditor's Independence Declaration
to the Directors of Watermark Market Neutral Fund Limited**

As lead auditor for the review of Watermark Market Neutral Fund Limited for the half-year ended 31 December 2015, I declare that to the best of my knowledge and belief, there have been:

- a. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b. no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Watermark Market Neutral Fund Limited during the period.

Pitcher Partners

Scott Whiddett
Partner

Dated in Sydney this 12th day of February 2016

Watermark Market Neutral Fund Limited
Statement of Comprehensive Income
For the half-year ended 31 December 2015

	Half-year ended	
	31 December 2015	31 December 2014
Notes	\$	\$
Investment income from ordinary activities		
Net realised gains on investments	12,775,555	4,960,250
Net unrealised gains/(losses) on investments	2,387,966	(10,167,148)
Dividends	1,362,023	1,415,491
Interest	1,414,821	2,183,197
Trust distributions	145,676	141,426
Other income	82,129	49,260
	18,168,170	(1,417,524)
Expenses		
Management fees	(457,192)	(444,651)
Performance fees	(2,249,905)	-
Brokerage expense	(807,060)	(582,586)
Short dividend expense	(1,816,804)	(2,110,815)
Accounting fees	(59,787)	(58,518)
Share registry fees	(31,729)	(36,895)
Stock loan fees	(329,206)	(590,454)
Interest expense	(696,505)	(1,304,004)
Directors' fees	(65,000)	(65,000)
Legal fees	(5,096)	(11,086)
ASX fees	(25,761)	(28,387)
Audit fees	(38,570)	(31,115)
Other expenses	(71,665)	(144,549)
	(6,654,280)	(5,408,060)
Profit/(loss) before income tax	11,513,890	(6,825,584)
Income tax (expense)/benefit	(2,519,212)	2,360,190
Profit/(loss) for the period	8,994,678	(4,465,394)
Other comprehensive income for the period, net of tax	-	-
Total comprehensive income/(loss) for the period	8,994,678	(4,465,394)
	Cents	Cents
Earnings/(loss) per share for profit/(loss) attributable to the ordinary equity holders of the Company:		
Basic earnings per share	10.69	(5.14)
Diluted earnings per share	10.69	(5.14)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Watermark Market Neutral Fund Limited
Statement of Financial Position
As at 31 December 2015

	At 31 December 2015	30 June 2015
Notes	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	95,997,369	77,318,497
Trade and other receivables	921,468	8,193,429
Financial assets at fair value through profit or loss	89,881,241	76,651,953
Current tax assets	1,562,465	2,689,021
Other current assets	28,639	-
Total current assets	<u>188,391,182</u>	<u>164,852,900</u>
Non-current assets		
Deferred tax assets	250,969	378,155
Total non-current assets	<u>250,969</u>	<u>378,155</u>
Total assets	<u>188,642,151</u>	<u>165,231,055</u>
LIABILITIES		
Current liabilities		
Trade and other payables	2,917,825	9,047,727
Financial liabilities at fair value through profit or loss	94,552,582	72,373,875
Total current liabilities	<u>97,470,407</u>	<u>81,421,602</u>
Non-current liabilities		
Deferred tax liabilities	682,390	199,637
Total non-current liabilities	<u>682,390</u>	<u>199,637</u>
Total liabilities	<u>98,152,797</u>	<u>81,621,239</u>
Net assets	<u>90,489,354</u>	<u>83,609,816</u>
EQUITY		
Issued capital	7 83,462,162	83,474,683
Profits reserve	7,794,962	888,365
Accumulated losses	(767,770)	(753,232)
Total equity	<u>90,489,354</u>	<u>83,609,816</u>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Watermark Market Neutral Fund Limited
Statement of Changes in Equity
For the half-year ended 31 December 2015

	Notes	Issued capital \$	Profits reserve \$	Accumulated losses \$	Total \$
Balance at 1 July 2014		<u>83,214,877</u>	<u>4,819,638</u>	<u>-</u>	<u>88,034,515</u>
Loss for the half-year		-	-	(4,465,394)	(4,465,394)
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	8	-	(2,183,325)	-	(2,183,325)
Costs of issued capital		(4,809)	-	-	(4,809)
Shares issued on options exercised		2,983,171	-	-	2,983,171
On market buy back		(96,098)	-	-	(96,098)
Shares issued under dividend reinvestment plan		251,653	-	-	251,653
		<u>3,133,917</u>	<u>(2,183,325)</u>	<u>-</u>	<u>950,592</u>
Balance at 31 December 2014		<u>86,348,794</u>	<u>2,636,313</u>	<u>(4,465,394)</u>	<u>84,519,713</u>
Balance at 1 July 2015		<u>83,474,683</u>	<u>888,365</u>	<u>(753,232)</u>	<u>83,609,816</u>
Profit for the half-year		-	-	8,994,678	8,994,678
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	8	-	(2,102,619)	-	(2,102,619)
Costs of issued capital		(3,021)	-	-	(3,021)
On market buy back		(9,500)	-	-	(9,500)
Transfer to profits reserve		-	9,009,216	(9,009,216)	-
		<u>(12,521)</u>	<u>6,906,597</u>	<u>(9,009,216)</u>	<u>(2,115,140)</u>
Balance at 31 December 2015		<u>83,462,162</u>	<u>7,794,962</u>	<u>(767,770)</u>	<u>90,489,354</u>

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Watermark Market Neutral Fund Limited
Statement of Cash Flows
For the half-year ended 31 December 2015

Statement of Cash Flows

	Half-year ended	
	31 December	31 December
	2015	2014
Notes	\$	\$
Cash flows from operating activities		
Proceeds from sale of financial assets	133,405,705	129,826,467
Purchase of financial assets	(136,371,257)	(110,588,147)
Proceeds from short sale of financial liabilities	164,020,126	107,680,016
Re-purchase of financial liabilities	(137,304,027)	(122,855,938)
Dividends and trust distributions received	1,486,194	1,648,523
Interest received	1,391,754	2,250,729
Interest paid	(700,157)	(1,309,163)
Underwriting income	73,433	-
Income taxes paid	(781,422)	(265,419)
Other income received	8,696	49,260
Investment management fees paid	(441,121)	(465,519)
Performance fees paid	-	(2,259,714)
Dividends paid on short stocks	(2,137,650)	(2,481,352)
Brokerage expense	(800,578)	(623,623)
Stock loan fees	(342,178)	(589,564)
Payments for other expenses	(316,324)	(394,992)
Net cash inflow/(outflow) from operating activities	21,191,194	(378,436)
Cash flows from financing activities		
Payments for shares bought back	7 (233,015)	(96,098)
Share issue transaction costs	7 (4,316)	(4,809)
Dividends paid to company's shareholders	(2,109,428)	(1,931,671)
Shares issued on options exercised	-	2,983,171
Net cash (outflow)/inflow financing activities	(2,346,759)	950,593
Net increase in cash and cash equivalents	18,844,435	572,157
Cash and cash equivalents at the beginning of the period	77,318,497	85,432,794
Effects of exchange rate changes on cash and cash equivalents	(165,563)	301,397
Cash and cash equivalents at end of half-year	95,997,369	86,306,348

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

1 General information

Watermark Market Neutral Fund Limited (the "Company") is a listed public company domiciled in Australia. The address of Watermark Market Neutral Fund Limited's registered office is Suite 2, Level 6, 139 Macquarie Street, Sydney, NSW, 2000. The Company is primarily involved in making investments, and deriving revenue and investment income from listed securities and unit trusts in Australia.

The interim financial statements were authorised for issue by the Board of Directors on 12 February 2016.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these interim financial statements are set out below. The interim financial statements are for the entity Watermark Market Neutral Fund Limited.

(a) Basis of preparation of half-year report

These interim financial statements for the half-year reporting period ended 31 December 2015 have been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The Company is a for-profit entity for financial reporting purposes under Australian Accounting Standard.

These interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2015 and any public announcements made by Watermark Market Neutral Fund Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The interim financial statements have been prepared on an accrual basis, and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

(i) New and amended standards adopted by the Company

A number of new or amended standards became applicable for the current reporting period, however, the Company did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

3 Fair value measurements

This note provides an update on the judgements and estimates made by the Company in determining the fair values of the financial instruments since the last annual financial report.

The Company measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Financial assets and financial liabilities at fair value through profit or loss (FVTPL)

(a) Fair value hierarchy

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy (consistent with the hierarchy applied to financial assets and financial liabilities):

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2), and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

(i) Recognised fair value measurements

The following table presents the Company's financial assets and liabilities measured and recognised at fair value at 31 December 2015 and 30 June 2015 on a recurring basis.

3 Fair value measurements (continued)

(a) Fair value hierarchy (continued)

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
At 31 December 2015				
Financial assets				
Financial assets at FVTPL				
Equity securities	89,881,241	-	-	89,881,241
Total financial assets	89,881,241	-	-	89,881,241
Financial liabilities				
Financial liabilities at FVTPL				
Equity securities sold short	94,511,431	-	-	94,511,431
Unlisted equity securities sold short	-	41,151	-	41,151
Total financial liabilities	94,511,431	41,151	-	94,552,582
At 30 June 2015				
Financial assets				
Financial assets at FVTPL				
Equity securities	75,600,689	-	-	75,600,689
Unlisted equity securities	-	1,051,264	-	1,051,264
Total financial assets	75,600,689	1,051,264	-	76,651,953
Financial liabilities				
Financial liabilities at FVTPL				
Equity securities sold short	72,332,724	-	-	72,332,724
Unlisted equity securities sold short	-	41,151	-	41,151
Total financial liabilities	72,332,724	41,151	-	72,373,875

Included within Level 1 of the hierarchy are listed investments. The fair value of these financial assets and liabilities have been based on the last sale prices at the end of the reporting year, excluding transaction costs.

The majority of the investments included in Level 2 of the hierarchy include amounts in relation to Initial Public Offerings and Placements in which the Company has subscribed to during the year. These investments have not listed on the Australian Securities Exchange as at year end and therefore represent investments in an inactive market. In valuing these unlisted investments, included in Level 2 of the hierarchy, the fair value has been determined using the valuation technique of the subscription price and the amount of securities subscribed for by the Company under the relevant offers.

There were transfers between levels 1 and 2 for recurring fair value measurements during the half-year. The transfer from level 2 to level 1 relates to the listing of the unlisted equity securities as at period end. There were no transfers in and out of level 3.

The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

(ii) Disclosed fair values

For all financial instruments other than those measured at fair value their carrying value approximates fair value.

The carrying amounts of trade and other receivables and payables are assumed to approximate their fair values due to their short-term nature.

4 Segment information

The Company has only one reportable segment. The Company is engaged primarily in investment activities conducted in Australia, deriving revenue from dividend income, interest income and from the sale of its investments. The Company invests in both Australian and International equities.

5 Income tax expense

Income tax expense is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the financial period. The estimated average tax rate used for the period to 31 December 2015 is 22% (2014: 35%). The movement in the estimated average tax rate is due to increased realised gains from tax free assets.

6 Contingencies

The Company had no contingent liabilities at 31 December 2015 (June 2015: nil) .

7 Issued capital

(a) Share capital

	31 December 2015 Shares	30 June 2015 Shares	31 December 2015 \$	30 June 2015 \$
Ordinary shares	84,094,755	84,104,755	83,462,162	83,474,683

(b) Movements in ordinary share capital

Details	Notes	Number of shares	\$
Opening balance 1 July 2014		84,356,386	83,214,877
Options exercised for \$1.00 per share	7(d)	2,983,171	2,983,171
Cost of issued capital		-	(7,721)
Share buyback - on market	7(f)	(3,505,642)	(2,967,298)
DRP shares issued for dividend payment for \$0.9292 per share	7(e)	270,840	251,654
Closing balance 30 June 2015		<u>84,104,755</u>	<u>83,474,683</u>

Details		Number of shares	\$
Opening balance 1 July 2015		84,104,755	83,474,683
Share buyback - on market	7(f)	(10,000)	(9,500)
Cost of issued capital		-	(3,021)
Closing balance 31 December 2015		<u>84,094,755</u>	<u>83,462,162</u>

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

7 Issued capital (continued)

(d) Options

On 15 July 2013, as part of IPO the Company issued options to acquire ordinary shares in the Company at an exercise price of \$1.00 with expiry 31 December 2014.

Since issue total 6,808,381 options have been exercised and allotted for a total consideration of \$6,808,381. On 31 December 2014, 63,710,244 options expired.

(e) Dividend reinvestment plan

The Company has established a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. Shares were issued under the plan at a 3% discount to the market price. The discount is determined from time to time and is capped at 3%.

(f) Share buy-back

The Company announced a 12 months on-market share buy-back program on 12 August 2014. Since its commencement on 27 August 2014 the Company has brought 3,505,642 shares at an average price of \$0.85.

The Company renewed the share buy-back program for 12 months from 14 September 2015 and has bought back 10,000 shares at an average price of \$0.95.

8 Dividends

(a) Ordinary shares

	Half-year ended	
	31 December	31 December
	2015	2014
	\$	\$
Final dividend franked based on tax paid @ 30.0%	2,102,619	2,183,325

(b) Dividends not recognised at the end of the reporting period

	Half-year ended	
	31 December	31 December
	2015	2014
	\$	\$
Since half-year end the Directors have recommended the payment of:		
- an interim dividend of 2.5 cents per fully paid ordinary share (2014 - 2.0 cents),		
50% franked (2014: 70% franked) based on tax paid at 30%; and		
- a special dividend of 1.0 cent per fully paid ordinary share (2014 - nil), 50%		
franked (2014: nil) based on tax paid at 30%.		
The aggregate amount of the proposed dividend expected to be paid on		
29/04/2016 out of the profits reserve at 31 December 2015, but not recognised as		
a liability at half-year end, is	2,943,317	1,750,208

9 Events occurring after the reporting period

No matter or circumstance has occurred subsequent to the end of the period that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company or economic entity in subsequent financial years.

Watermark Market Neutral Fund Limited
Directors' Declaration
For the half-year ended 31 December 2015

In the Directors' opinion:

- (a) the interim financial statements and notes set out on pages 4 to 11 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standard AASB 134: *Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the Company's financial position as at 31 December 2015 and of its performance for the half-year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of Directors.



Matthew Kidman
Director

Sydney
12 February 2016



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**Independent Auditor's Review Report
To the members of Watermark Market
Neutral Fund Limited
A.B.N. 45 163 980 498**

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Watermark Market Neutral Fund Limited (the Company), which comprises the statement of financial position as at 31 December 2015, statement of comprehensive income, statement of changes in equity and statement of cash flows for the half year ended on that date, a statement of significant accounting policies, other selected explanatory notes and the directors' declaration of the company.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal controls as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Company's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Watermark Market Neutral Fund Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Independence

In conducting our review, we have complied with the applicable independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Watermark Market Neutral Fund Limited is not in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Company's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Pitcher Partners



Scott Whiddett
Partner

Dated in Sydney this 12th day of February 2016