



ASX ANNOUNCEMENT – February 13 2016

CHANGE TO ALLOWABLE INVESTMENTS

The Board of Watermark Market Neutral Fund Limited (WMK) has approved an amendment to further increase the Fund's allowable investments in International Equities. The Investment Manager - Watermark Funds Management, can further increase the exposure to international shares with a revised limit of 50% of the Fund's gross exposure.

This change will take effect on the 19th of February.

One year ago, the Company altered its investment mandate allowing the Manager to invest up to 20% of the gross portfolio in international equities. This has been a successful endeavour, with a disproportionate share of the fund's attribution last year coming from international holdings.

For the year to December 31 2015, WMK delivered gross security level performance of 26.3%, with 21% coming from Australia and the balance from offshore holdings. Almost 20% of performance has come from international positions, double the average weighting in the fund.

The investment team at Watermark have deep experience in the industries they follow. This is presenting bottom-up investment opportunities both locally and abroad. The manager has been presented with more opportunities in international shares than anticipated and given the relative strength of international share markets, the Fund's investment in international shares has occurred more quickly than expected. With the portfolio now at its 20% limit, Watermark is unable to pursue these ideas further.

Following early successes and with many opportunities ahead of us, the Company is further increasing the investable limit in international shares, up to 50% of the Fund's gross exposure. I would like to emphasise, the increase to 50% is not a target weighting, it is an upper limit only. The board feels that the Manager is well-equipped to broaden its international research coverage while ensuring, in the medium term at least, that Australian companies continue to dominate the portfolio.

Watermark has established an international coverage universe comprising the 600 largest and most relevant companies in each of the nominated sectors we follow. Sector coverage is broadly consistent with the Global Industry Classification Systems (GICs) designed by MSCI and S&P. The focus is on global leaders in each industry with a heavy emphasis on developed markets. These are highly liquid securities, with ample lending capacity and low volatility.

The company will report its international weightings monthly, along with the NTA announcement that is lodged with the ASX. International attribution will also be reported periodically.

For more information on the Fund's international investments please refer to Watermark's most recent quarterly report. In the latest edition of *The Leading Edge* the Manager outlines the investment case for key positions in the international share portfolio.



WATERMARK

MARKET NEUTRAL FUND

Background

Due to the small size of the Australian share market, we tend to follow industry and market trends that develop offshore. The Manager's international equities experience is valuable in helping to identify these trends early, before they play out in the Australian share market. Engagement with international leaders adds value to the Manager's knowledge of these industries, enhancing its ability to make the right investments when considering opportunities both locally and offshore.

The approach to international investments is very much bottom up, drawing on the deep industry experience analysts have in the sectors they follow. Watermark analysts are charged with the task of selectively identifying from their international share universe, the best and worst companies in each sector for inclusion as long and short positions respectively. As they look to compile a balance of long and short positions in each sector, net exposures to sectors and regions will be quite small. Security selection will drive returns rather than sector or regional allocations.

In 'long/short' investing, the Manager is often looking to hedge the Fund's exposure in a particular industry. The best 'long/short' pairs are examples where one company is benefiting at the expense of another. However they may not both be Australian companies; the natural pair to an Australian company is more often than not a competitor domiciled offshore.

Watermark looks to balance long and short positions in particular regions resulting in a hedged currency exposure. Where it has an unhedged position, it can reallocate cash holdings to a foreign currency to maintain a neutral exposure. The Board is confident that Watermark has developed appropriate risk controls in respect of its international investments.

We embarked on this path one year ago and have been successful to date. We are excited by the opportunity ahead of us and wish to progress to the next step in 2016.

If you have any questions or comments in relation to this change, please contact Watermark Funds Management in 02 9252 0225 or email info@wffunds.com.au.

Regards

Matthew Kidman
Chairman