WATERMARK
FUNDS MANAGEMENT

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Watermark Funds Management Ltd (ABN 98 106 302 505, Australian Financial Services Licence No. 250 897) is the Investment Manager. Equity Trustees Ltd (ABN 46 004 031 298, AFSL No. 240975) is the Responsible Entity of the Watermark Market Neutral Trust (ARSN 603 495 692).

Information is current as at May 2016.

About Watermark

- We have a **proven track** record, having delivered annualized returns of 14% per annum since launching our first fund in 2004. Watermark funds have consistently been amongst the top performers in their peer groups.
- We are **specialist long/short investors**. Watermark's CIO has over 25 years market experience with 12 years managing hedge funds. He is supported by 5 investment professionals with combined experience of over 30 years.
- We use a **robust and repeatable investment process** which has performed through market cycles
    - Employing an institutional security selection process based on detailed fundamental research
    - Strict value discipline with contrarian approach to investing
    - Quality and value bias gives rise to unique risk attributes
- Our interests are **aligned** with our investors - Watermark's principal and key staff are substantial investors in the funds.

Our Investment Team

Justin Braitling – Portfolio Manager

Justin has over 25 years experience in investing in Australian and international securities. Prior to establishing Watermark in 2003, Justin spent 10 years as an investment analyst and portfolio manager with the successful equities team at Bankers Trust. Justin is also the Chairman of Australian Leaders Fund Ltd.

Delian Entchev – Investment Analyst

Delian joined Watermark Funds Management in August 2014 as an Investment Analyst. He is responsible for researching a number of sectors within the Australian equities market. Delian previously worked full-time during a cadetship at UBS as an Equity Research Analyst covering the Utilities and Building Materials sectors.

Omkar Joshi, CFA, CMT - Investment Analyst

Omkar joined Watermark Funds Management in October 2013 as an Investment Analyst. Omkar is responsible for researching a number of sectors within the Australian equities market. Omkar has completed an accounting cadetship with KPMG and has worked as an Equity Research Analyst in Credit Suisse's banks team.

Tom Richardson, CFA – Senior Analyst

Tom joined Watermark Funds Management in December 2009 and is employed as a Senior Analyst. Tom is responsible for researching a number of industry sectors and managing positions within the portfolios. Tom began his career as a Research Analyst with Renaissance Asset Management in 2006.

Nick Cameron – Investment Analyst

Nick joined Watermark in March 2015 and has analytical responsibilities across a number of industry sectors. He previously held Investment and Equities Analyst roles with GenesisCare, Credit Suisse and Deutsche Bank. Nick has a background in science, holding bachelor degrees in Science and Biotechnology and a PhD from Griffith University.

Joshua Ross, CFA – Investment Analyst

Joshua joined Watermark Funds Management in April 2010. Joshua is employed as an Investment Analyst responsible for researching a number of sectors within the Australian equities market. Joshua holds a Bachelor of Applied Finance and a Bachelor of Commerce (Accounting) from Macquarie University.

Managed Funds

	AUSTRALIAN LEADERS FUND	WATERMARK MARKET NEUTRAL FUND	WATERMARK MARKET NEUTRAL TRUST
Structure	LIC (ASX:ALF)	LIC (ASX:WMK)	Unit Trust
Inception	Jan 2004	July 2013	August 2012
Strategy	Directional Long/Short	Market Neutral	Market Neutral
FUM	AU$355 million	AU$89 million	AU$53 million
Benchmark	All Ordinaries Accum	RBA Cash Rate	RBA Cash Rate

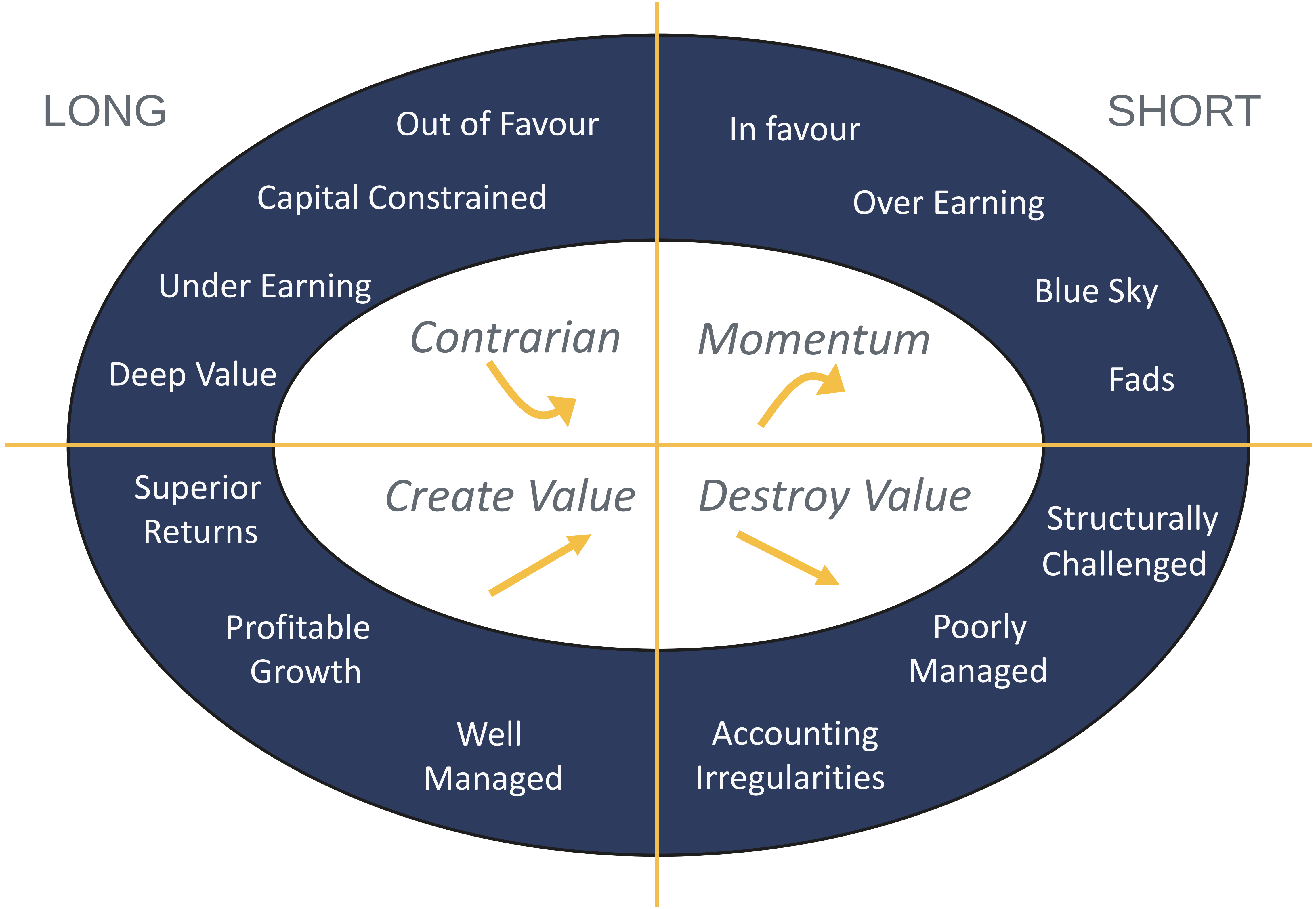
Investment Philosophy

- As *fundamental investors*, we believe investment opportunities are best identified through detailed, fundamental research of listed companies and the industries they operate in.

- We adopt *a contrarian approach* to investing, looking for companies that are out of favour with the share market. In a similar vein, we look to short-sell companies which are benefitting from favourable momentum.

- We value companies on a *buyout basis*, in the same way a trade buyer or private investor would approach an acquisition. This fosters insight into longer term value.

Investment Ideas



Economic Outlook

- Secular Stagnation: Weak global backdrop continues
  - Monetary policy becomes less effective
- A pivotal time for the Australian Economy
  - Income shock from lower commodity prices
  - Mining Investment now in free fall
  - Household income growth negligible
  - Property cycle rolling over
  - Federal election creates uncertainty
- Domestic economy slows further but avoids recession

Market Outlook

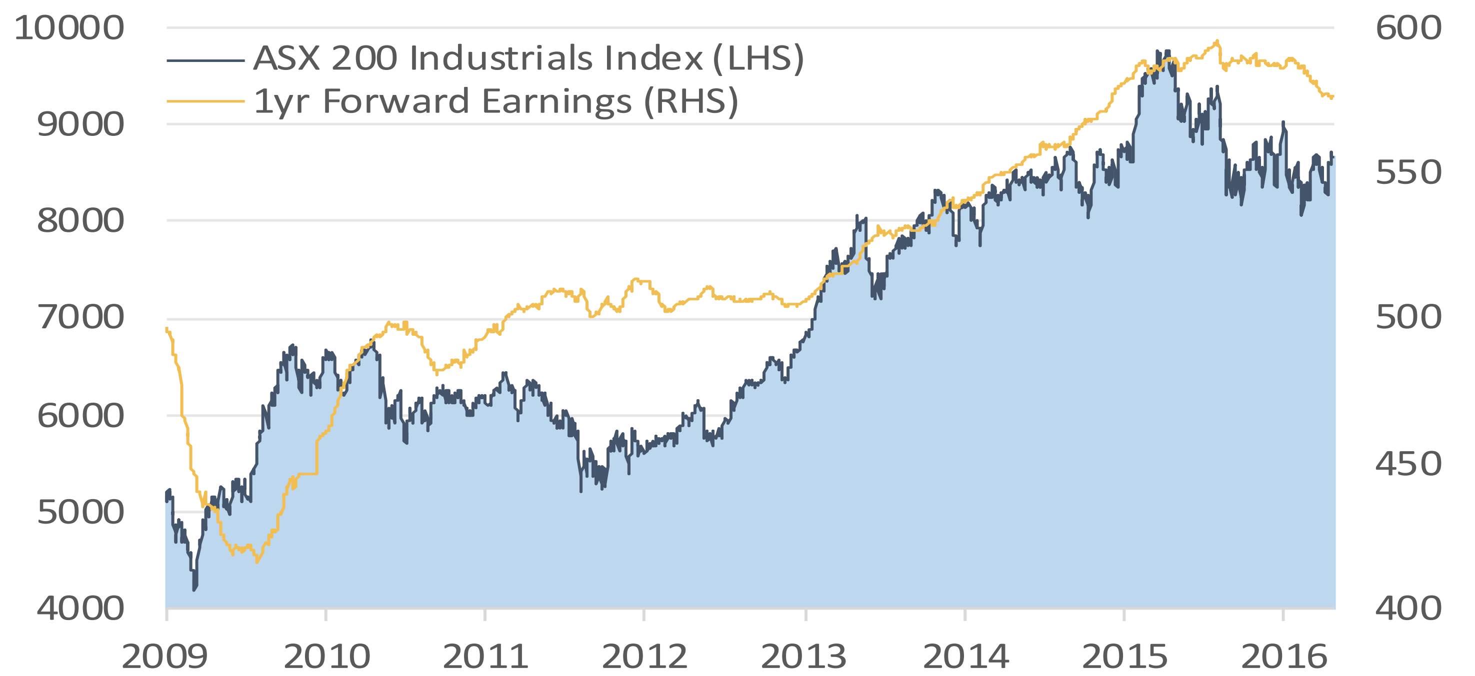
- Corporate profit growth has stalled on commodity weakness and a stronger US dollar
- US dollar assets are looking expensive, with the US share market back at inflated profit multiples.
- Stronger growth in the second half of 2016 and a weaker US dollar may support the market here. Failing this the risks are to the downside. Other markets outside the US look more attractive from a valuation perspective.
- The Australian Share market is challenged by its composition with mining and banking shares going nowhere in the medium term.

Market Outlook - Continued

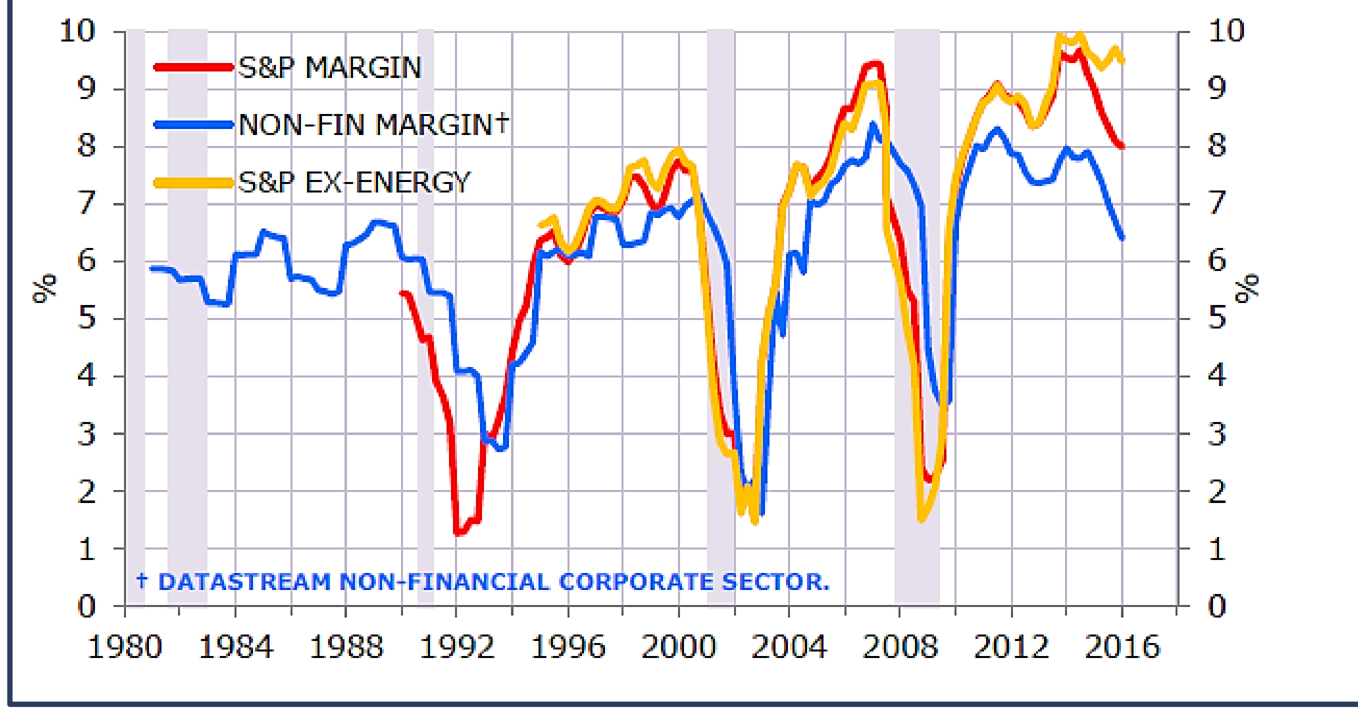
- Banking shares look fully valued versus global peers. Regulatory pressures to de-lever further will drive returns lower.
- While mining shares may rally further in the short term. In the medium term, commodity markets look fully supplied.
- Industrial companies that generate profits offshore are expensive. While this has been the one shinning light in our share market in recent years, these shares are factoring in further sharp falls in the $A.
- Cyclical shares will struggle along with a faltering economy.
- Defensive sectors such as infrastructure, healthcare and utilities are fully valued.
- *Expect low returns from shares in the medium term*

Market Outlook

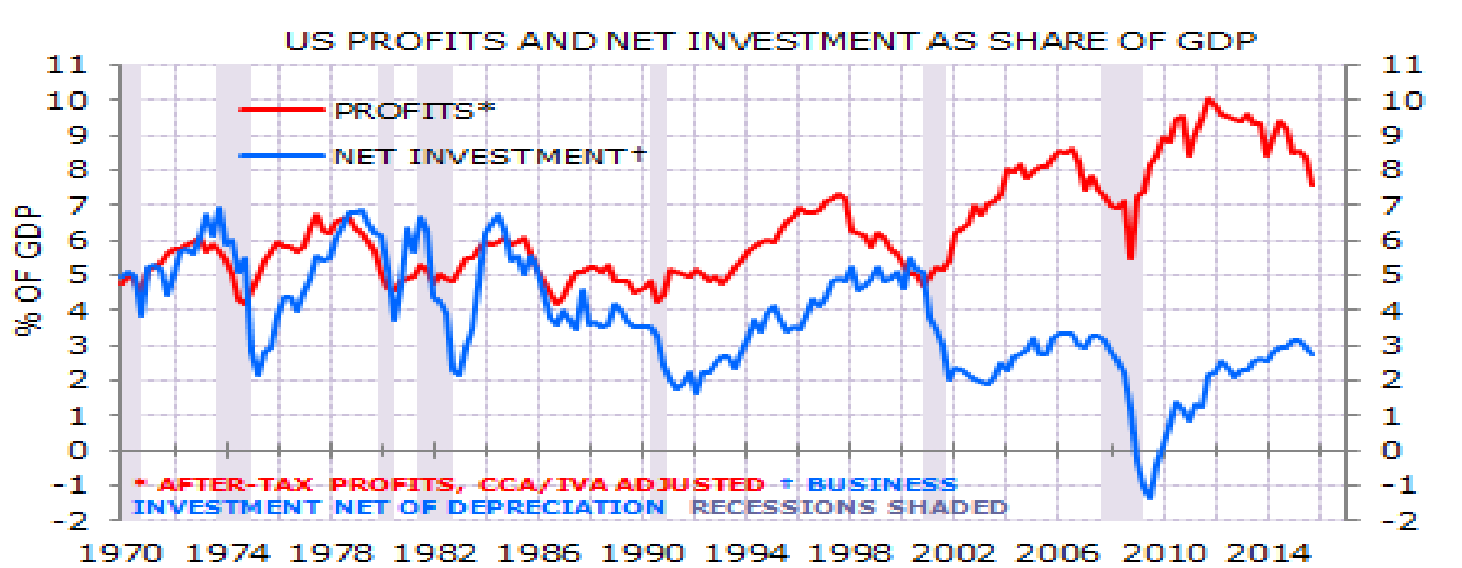
Profits are dragging the market lower



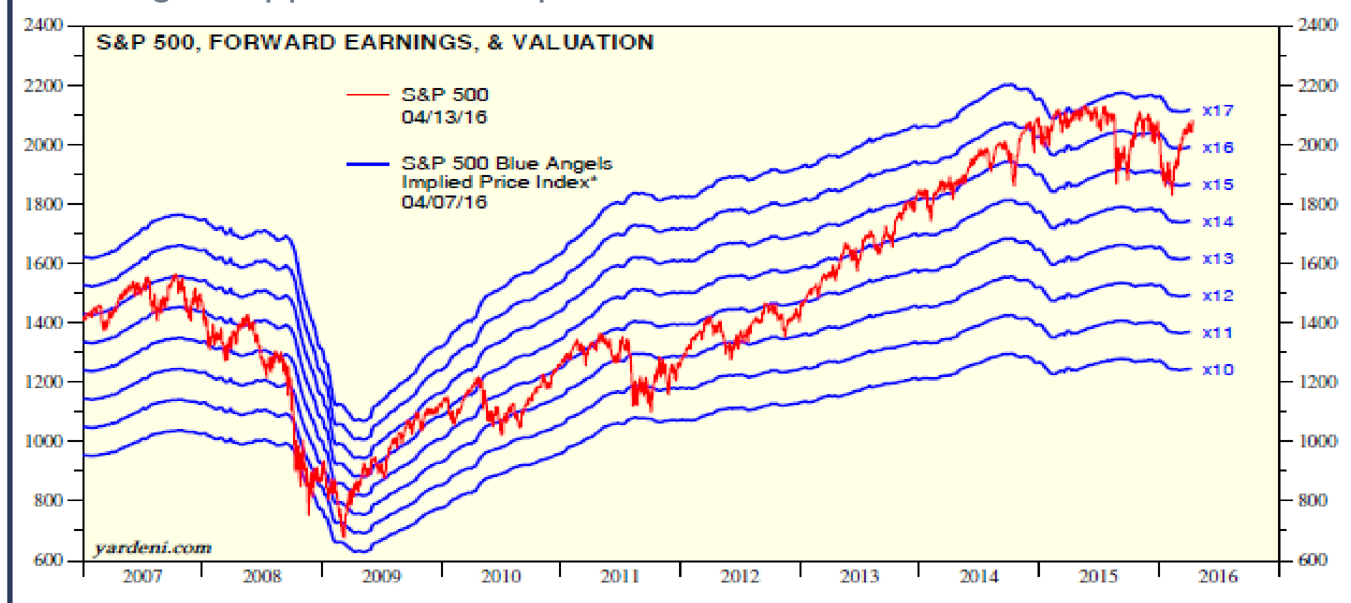
Profit Margins back at peak levels



US corporates have passed the sweet spot of profit growth

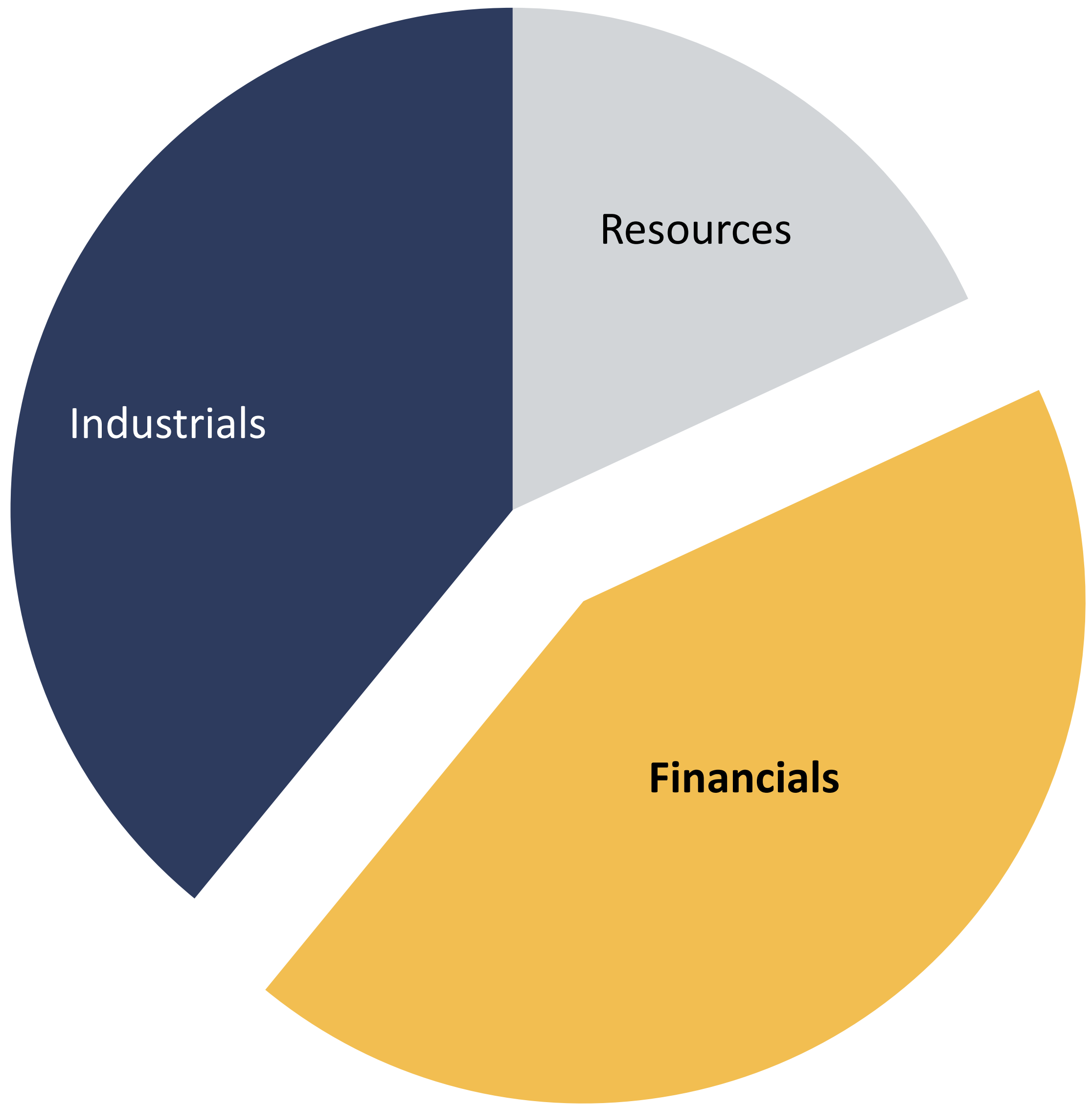


Margins appear to have peaked



Source: Minack Advisors

“Are Australian Bank shares still attractive?”



Omkar Joshi

Capital requirements are still set to increase

- Banks hold capital against their outstanding loan exposures as a buffer against losses but not all loans have the same risk

- "Advanced" banks are allowed to determine their own appropriate risk weightings based on internal models while less sophisticated banks are required to use the "standardised" risk weights which are set by the regulator

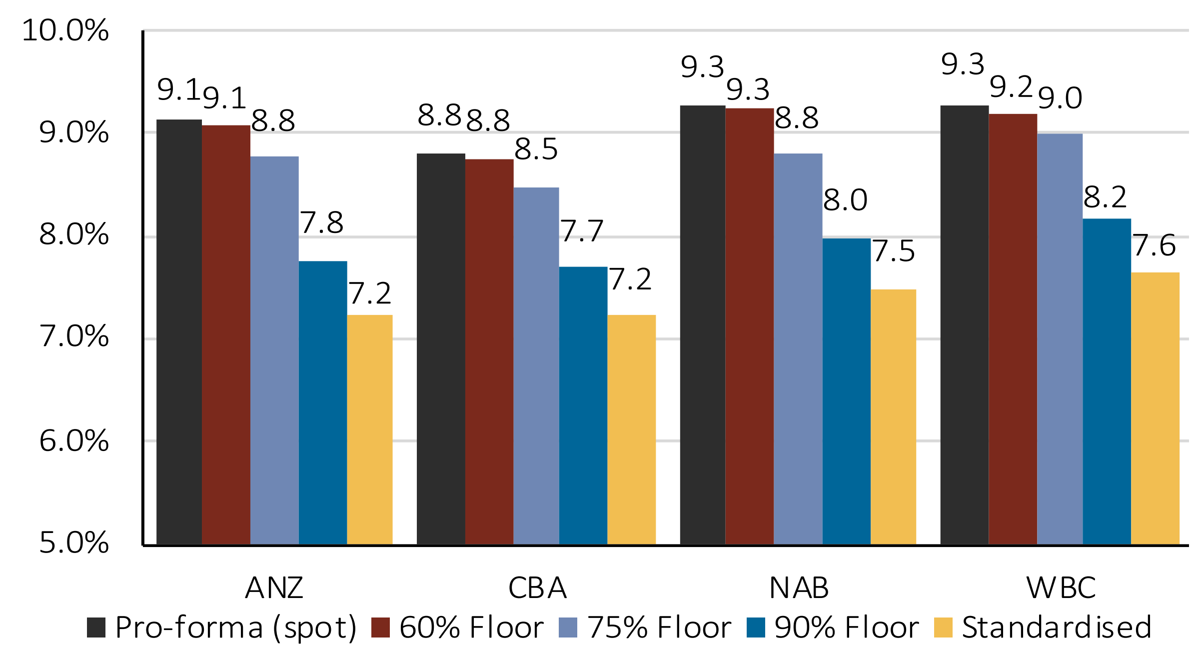
- The major banks have continued to decrease their mortgage risk weights over time in order to optically increase their capital ratios. The major banks now hold significantly less capital per mortgage than their regional peers

- Regulators are looking to reduce the variation of internal models and impose more standardisation in terms of risk weightings by the banks through introducing "capital floors" and higher risk weights on investor lending

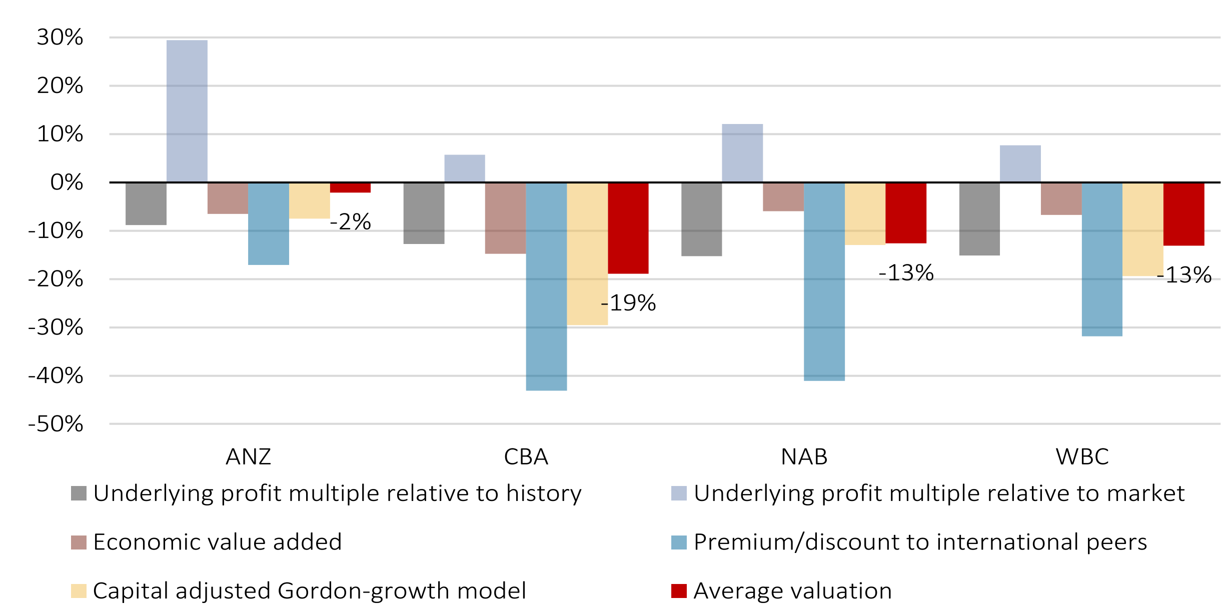
Further challenges ahead for the banks

- Underlying profit growth has lagged cash earnings growth for the last two years
- Bad debts likely to increase from here with all major banks reporting higher watchlist loans and increased 90 days past-due loans
- Net interest margins under pressure due to rising funding costs as well as aggressive discounting in mortgages
- Potential for a Royal Commission if the ALP wins the Federal election
- Downside to current share prices using a number of robust valuation methodologies

CET1 ratio impacts from capital floor scenarios

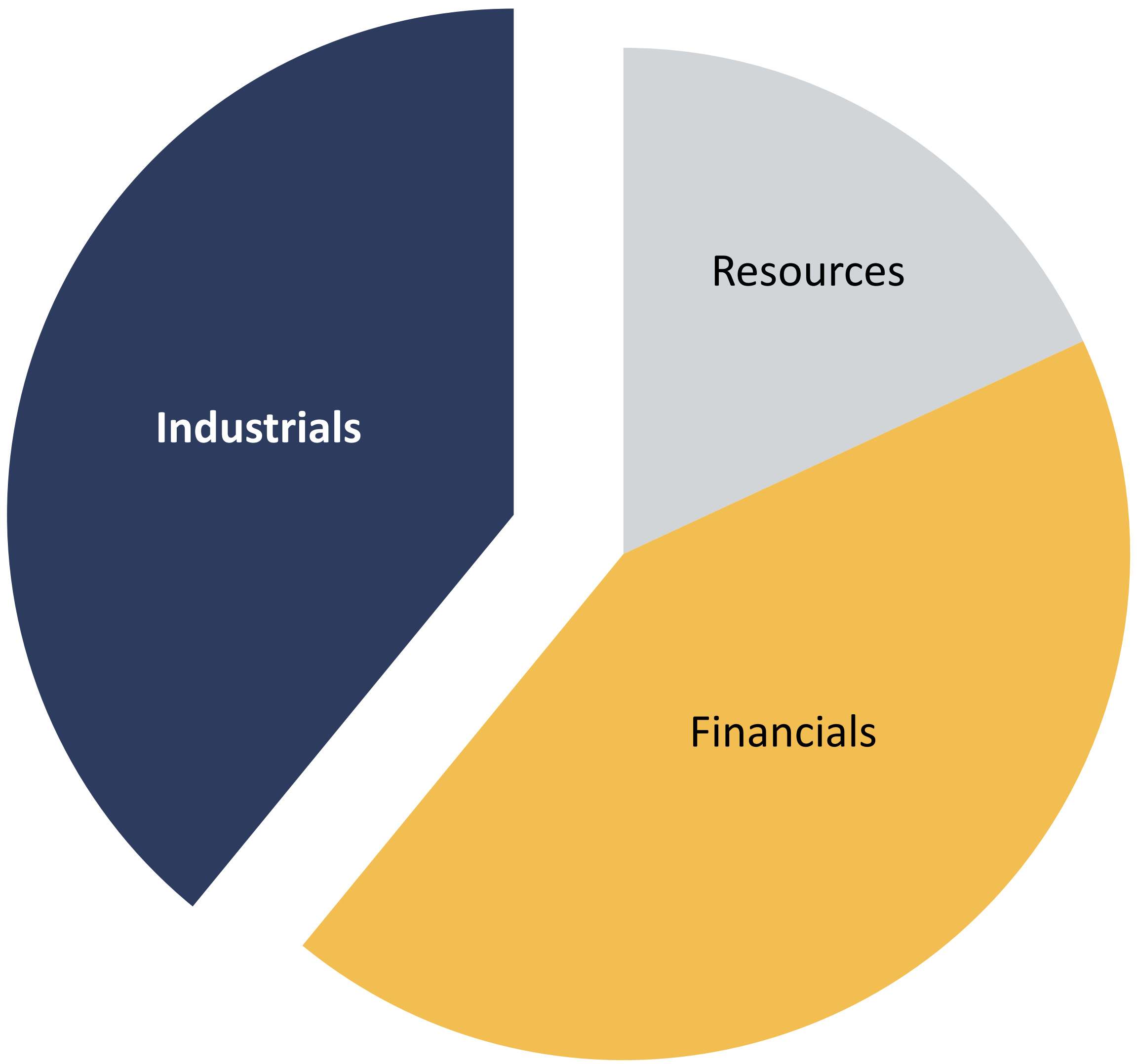


Australian major banks' valuation summary



Source: Watermark estimates

Mixed Fortunes for Industrial Shares

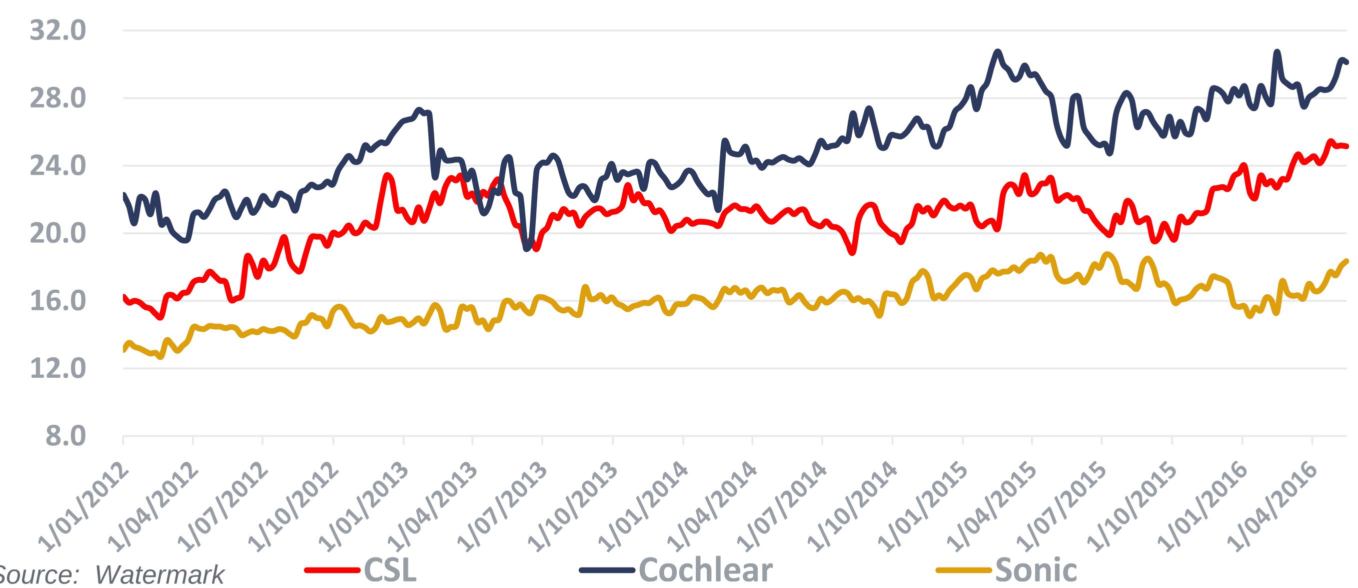


Nick Cameron
Joshua Ross
Delian Entchev
Tom Richardson

Healthcare – are we in a healthcare bubble?

- Australian healthcare stocks trade at near historic highs and are 65% more expensive versus offshore peers
- In the US, the risk of drug pricing reforms has grown during the Presidential election campaign. At the same time, there is also heightened risk of changes to funding of medical services and devices in both the US and Australia
- Due to this uncertainty global pharmaceutical, biotechnology and healthcare valuations have fallen
- Conversely, Australian healthcare stocks have rallied to new highs despite being exposed to the same risks. While a falling A$ has provided a tailwind, we believe this benefit has been fully priced-in and see risks firmly to the downside at these levels
- Healthcare stocks offshore offer far more compelling valuations. We remain buyers of Merck & Quintiles

PE ratios for CSL, Cochlear and Sonic, all reaching elevated levels



Source: Watermark

Australian Healthcare valuations vs. S&P500 Healthcare Stocks (PE ratio)

Source: Bloomberg LLP

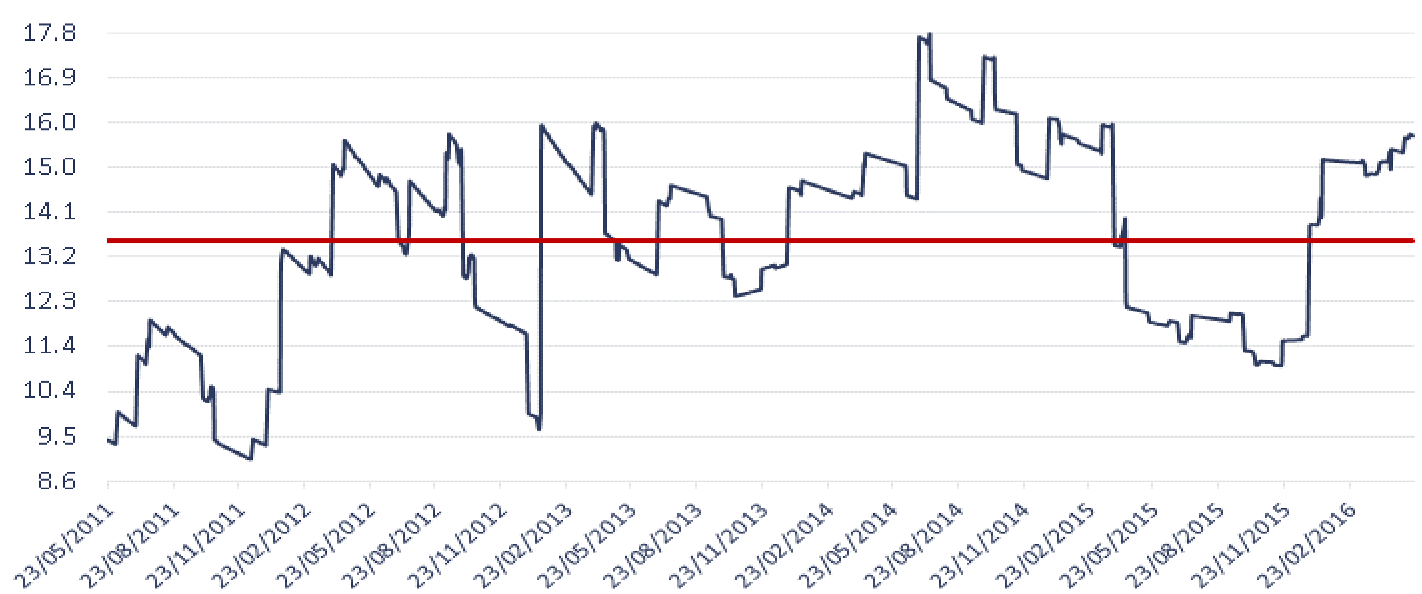
Technology – Who wins in the cloud?

- Major transformations are underway in ‘traditional’ software, hardware and IT companies, providing significant opportunity and risk for investors in technology stocks. The shift to the cloud will create many winners and losers for the next few years

- Intel remains a core short. We see protracted weakness in PCs and believe the shift from on premise datacentre/servers to the cloud will pressure Intel’s Data Center revenues. The company has announced a major restructuring program, management turnover is elevated and revenues have disappointed – we see ongoing risks to earnings

- We also added to our MYOB position at sub $2.90 prices. We believe MYOB’s dominance in Australia, ability to innovate and its strong earnings growth profile remain underappreciated by the market

Intel’s Enterprise to Free-Cash-Flow multiple (EV/FCF) remains elevated



Source: Bloomberg LLP

Intel’s Data Center Group revenues have consistently missed guidance

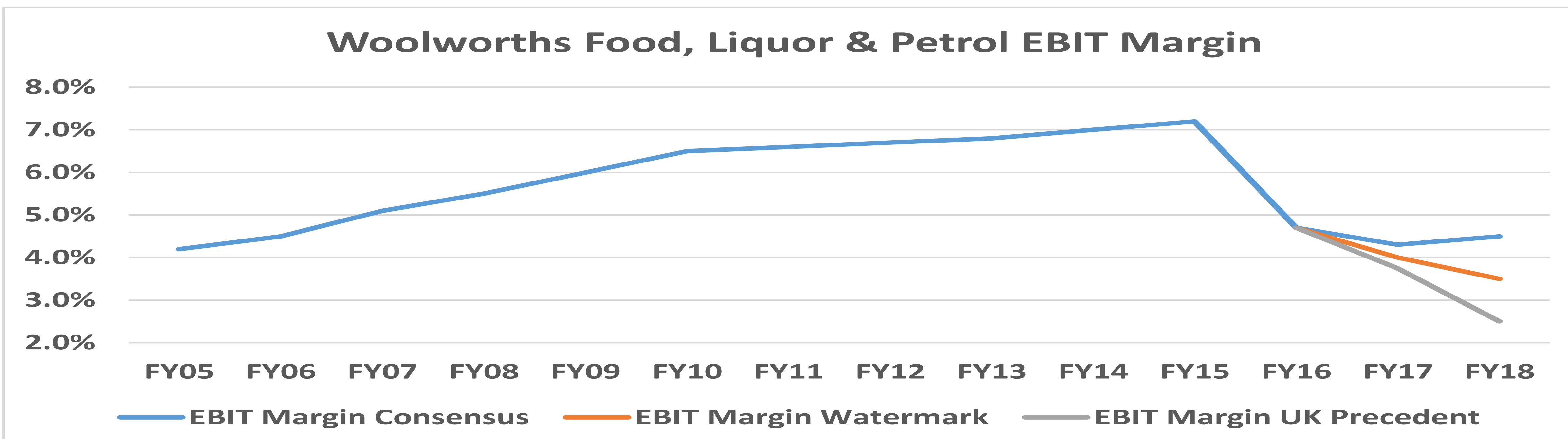
Figure 6. Intel Data Center Group Revenue vs. Guidance

	2012	2013	2014	2015	2016E	C12-C15 AVG
DCG YoY Rev Growth	4%	8%	18%	11%	6%	10%
Intel Guidance	15%	15%	15%	15%	15%	15%

Source: Alliance Bernstein Research & Estimates, Intel company reports

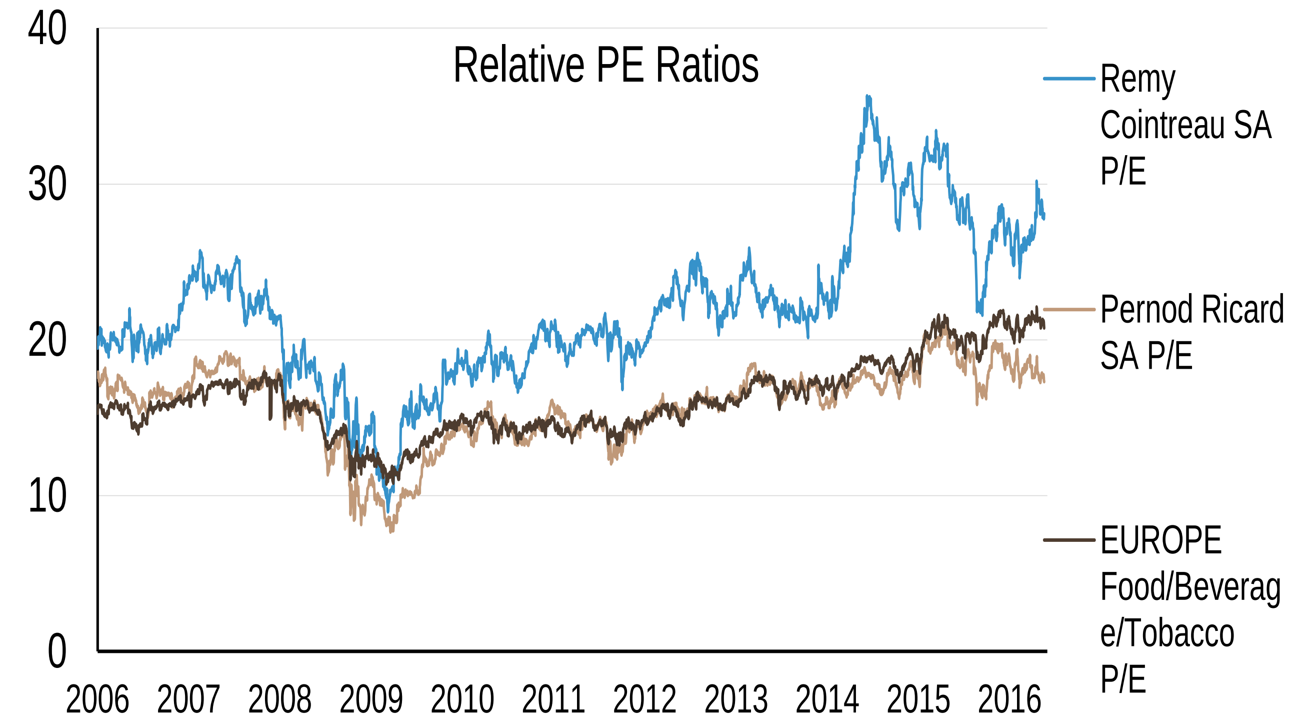
Retail: Who will win the war?

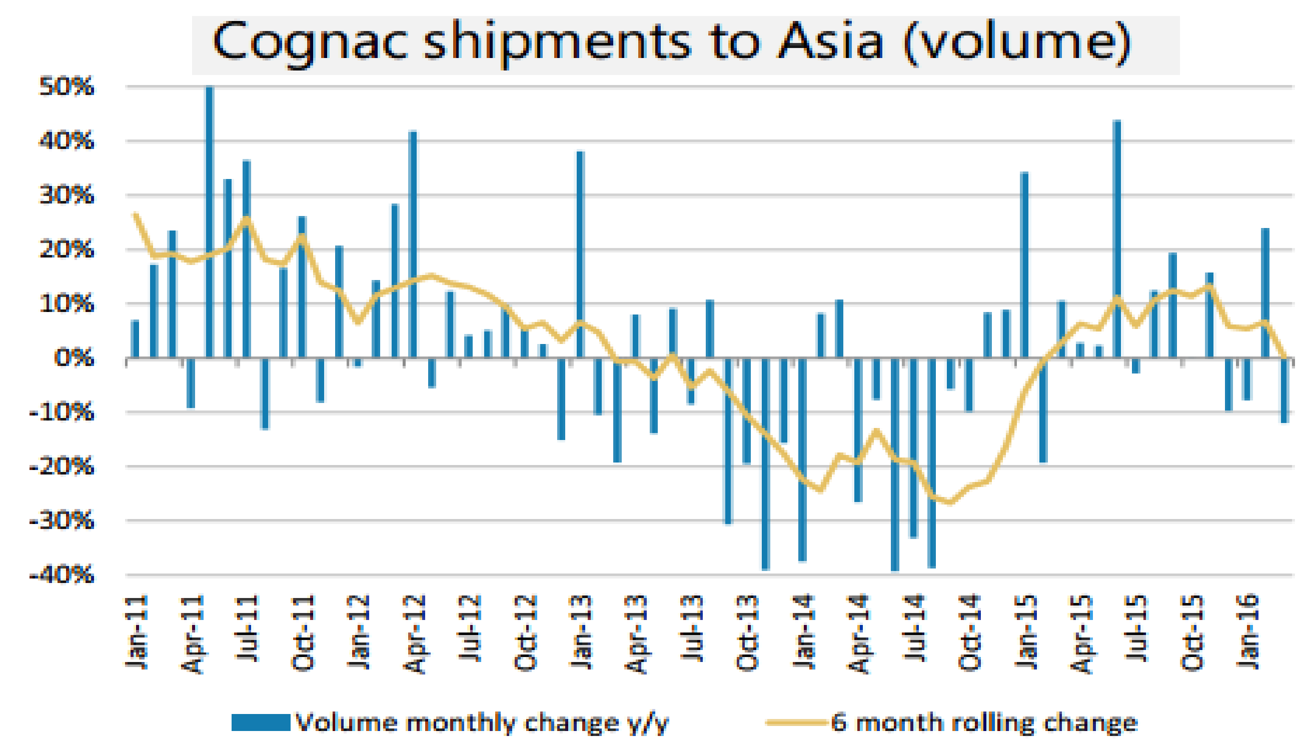
- Supermarket Wars: Discounters continue to take share, driving intense deflation for Woolworths and Coles.
- Supermarkets are still defensive by nature, however the winners (discounters) are generally private companies.
- Woolworths strategic review likely to result in a further step-down in margins and industry profitability. Market consensus too high, global benchmarks suggest 3.5% (25-30% more downside).



Beverages – Happy hour at Pernod Ricard

- Sector globally is expensive, hard to find value.
- Opportunity to go long Pernod Ricard, short Remy Cointreau.
- Pernod is a highly diversified leader across Cognac, Vodka and Whiskey. Both Pernod and Remy are excellent brand managers, we expect the valuation gap will converge over the next 12 months.
- Cognac sales into Asia have struggled since 2014 when the government clamped down on corruption, the industry is now stabilising. Absolut Vodka has recently turned positive after underperforming in the US for a number of years. For both these reasons Pernod has de-rated, from here we see limited downside risk.
- Remy on the other hand is benefitting from short-term factors which we view as unsustainable.





Source: BNIC, Morgan Stanley Research

Infrastructure: Wins in a deflationary environment

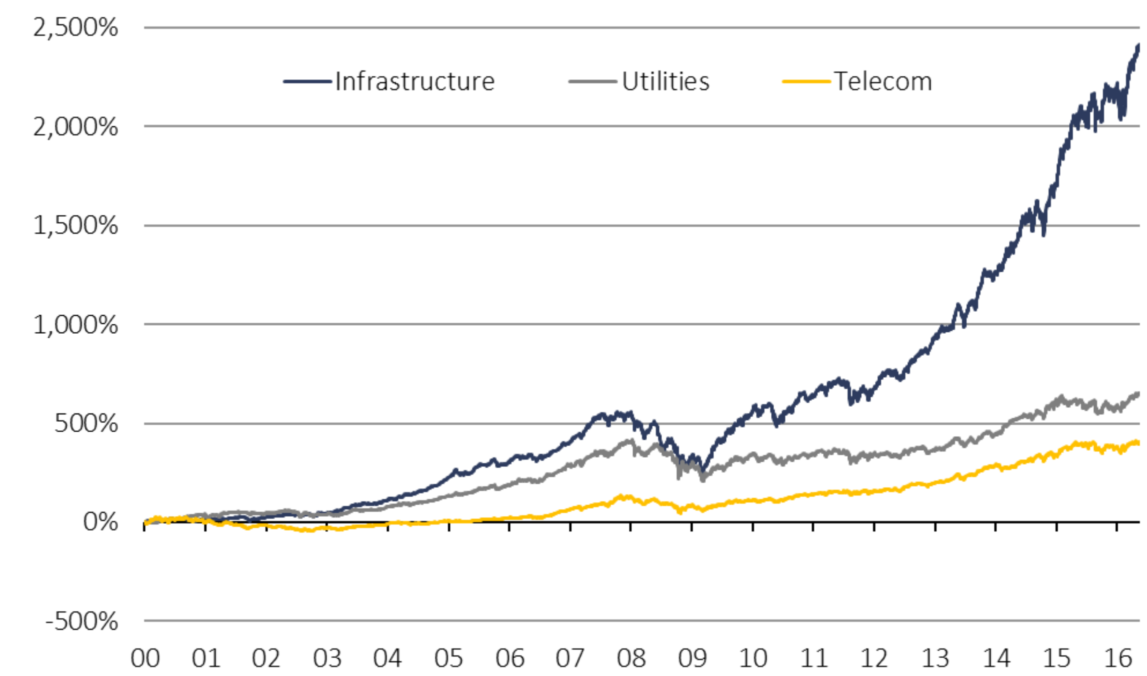
- Infrastructure has been the strongest performing sector, but valuations are looking stretched.

- We retain a core position in Transurban, while redeploying capital globally through Eurotunnel and Abertis; both very privileged assets pricing in the worst possible outcome.

- Eurotunnel holds a 100-year concession to operate shuttles across the English Channel. The stock has underperformed due to one-off issues around Europe's migrant crisis, terrorist attacks and 'Brexit' – but traffic is recovering strongly and the valuation is appealing.

- Abertis is the 2nd-largest toll road operator in the world, with assets across Europe and South America. Concerns have emerged around upcoming concession expiries, however shares are currently priced below even a status quo outcome.

Infrastructure stocks are up 25x in value since 2000



An attractive entry price emerged in Eurotunnel

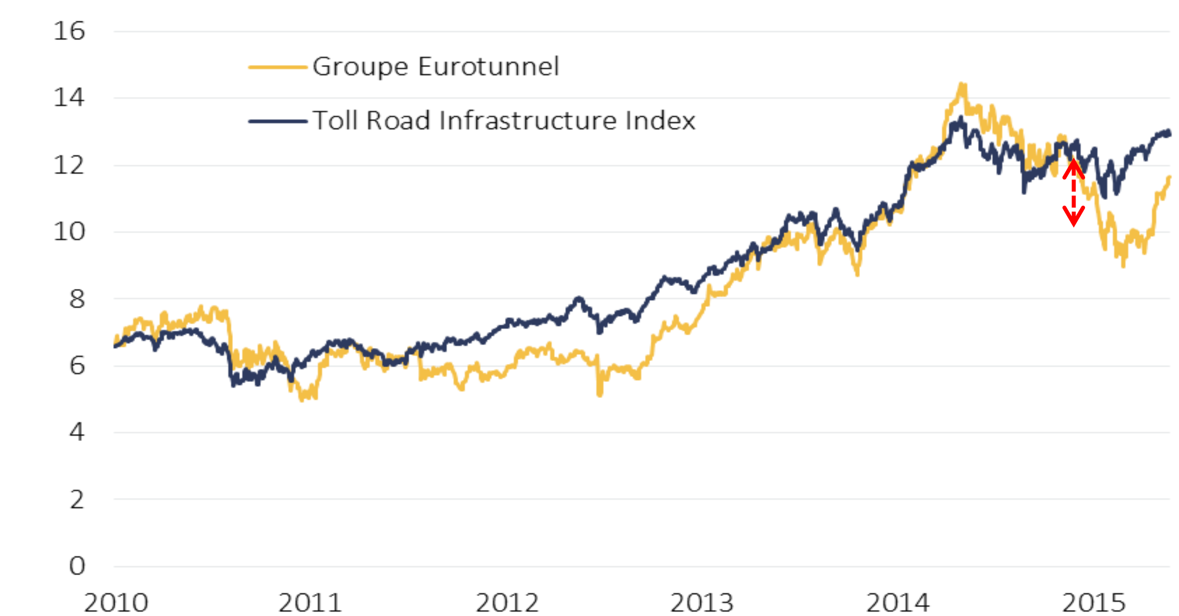


Figure source: Bloomberg

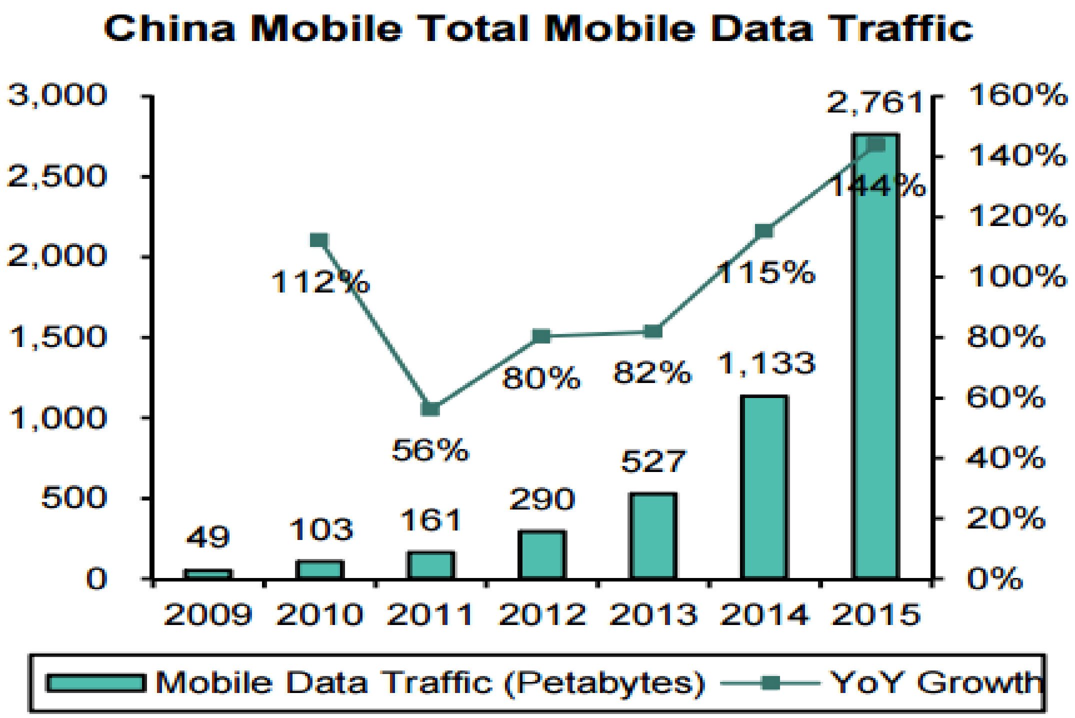
Telecom: Challenged in a convergent world

- Telecommunication Service providers are struggling to grow revenues and are challenged by the rapid shift from voice to data consumption.

- China Mobile is not only by far the largest telco in the world, but one of the fastest-growing. It is in a great position to benefit from exponential growth in Chinese data consumption. Regulatory overhangs that have plagued the stock over the last two years are now largely behind us.

- Nokia's business has transformed over the last few years, now focusing on its core competency of network equipment. This industry has historically been very challenged but is now showing signs of repair. We expect Nokia's acquisition of Alcatel-Lucent to unlock significant value.

Phenomenal growth in Chinese data consumption



Telco equipment industry consolidating

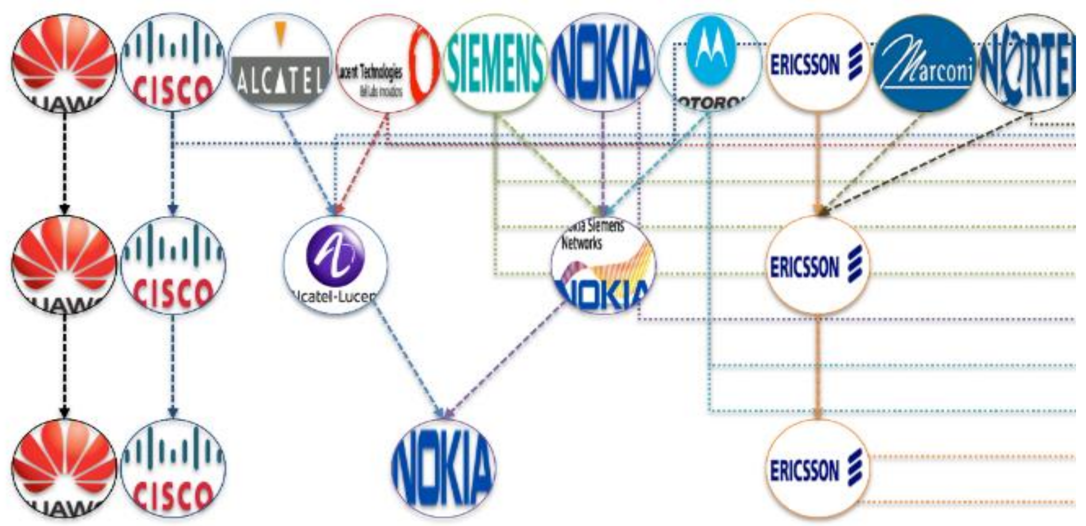
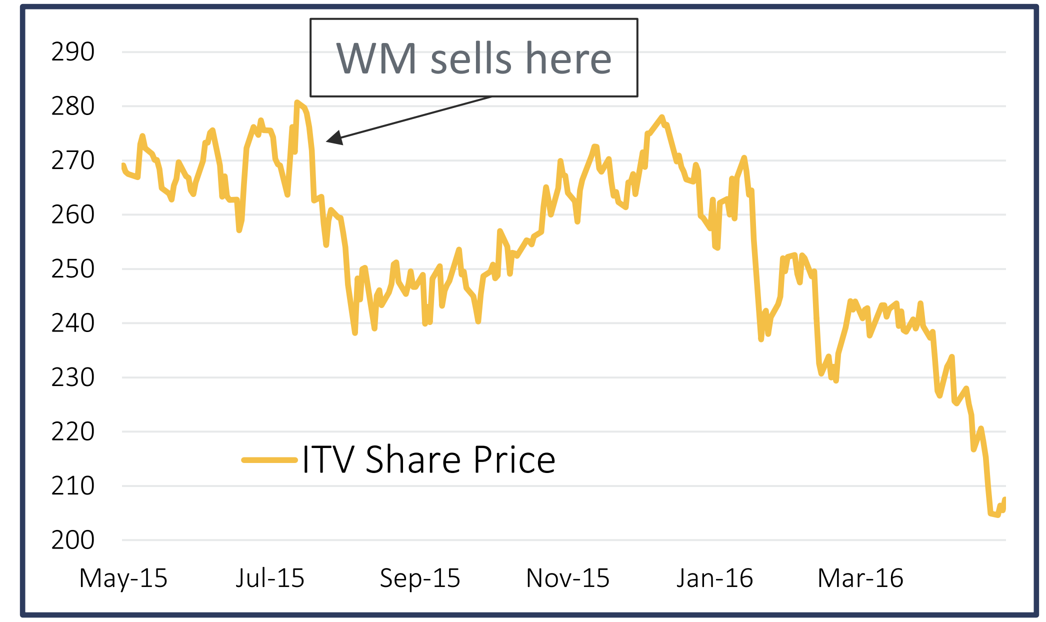
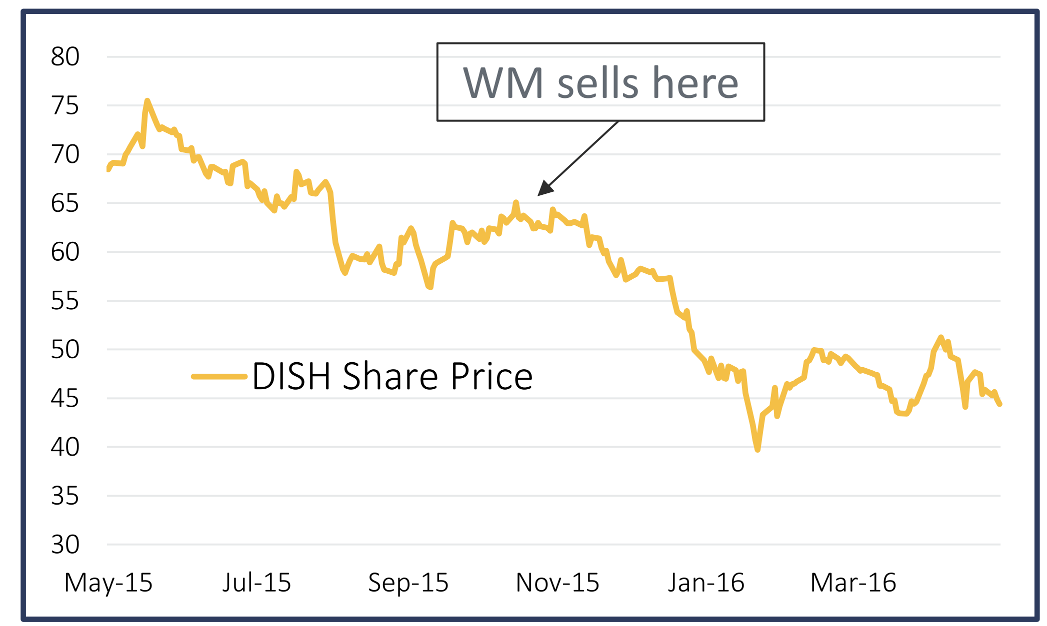


Figure sources: Bernstein, METISfiles

Dynamic Media landscape creates opportunities

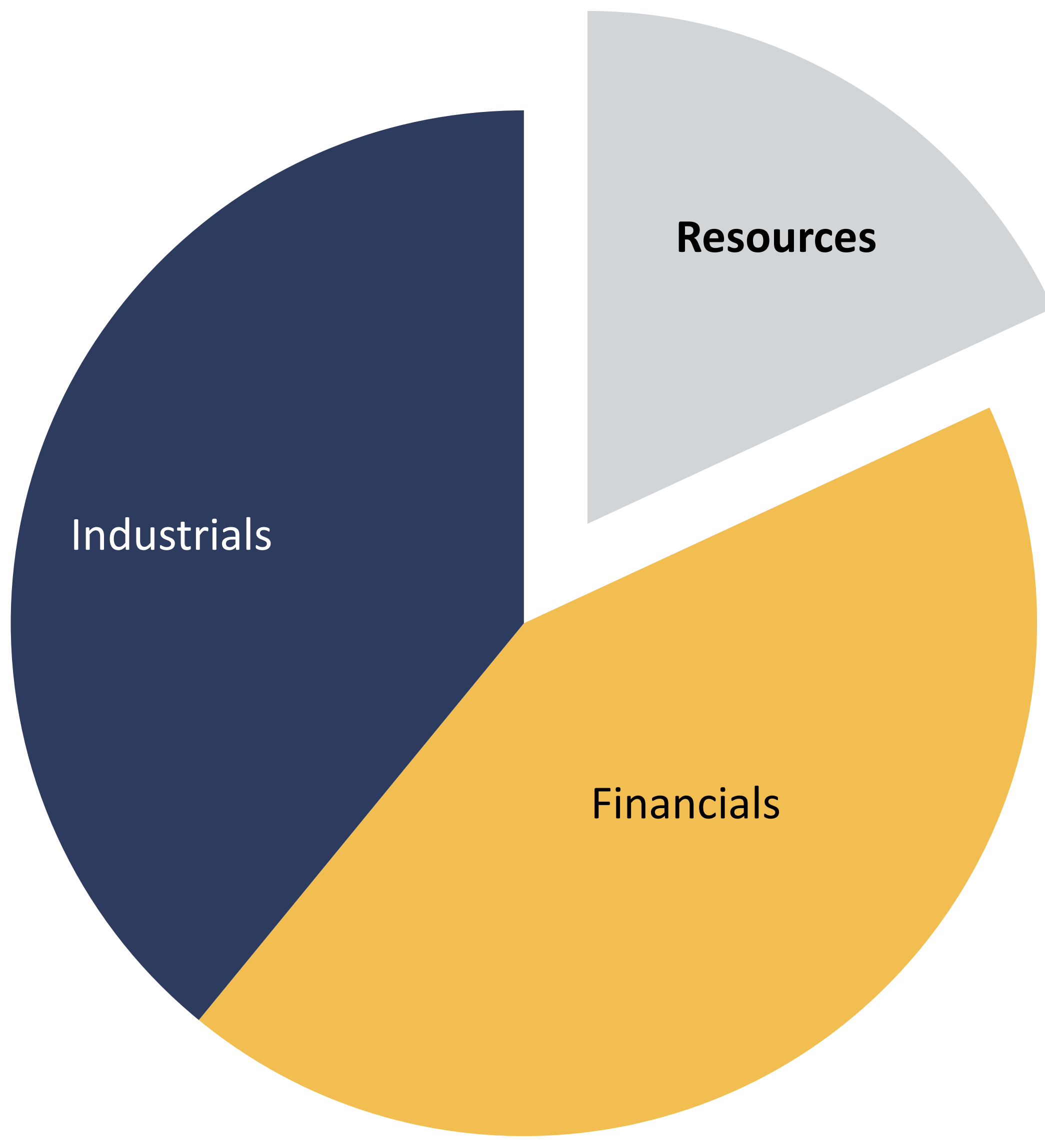
- Advertisers continue to shift spend to digital, with Mobile growth accelerating (Facebook, Google).
- Significant new investment in content (Google, Netflix, Amazon) challenges the economics of traditional studios (Viacom).
- Our short positions in ITV and DISH have been highly successful.
- Core holding in Fairfax performing well as Domain grows and old media assets explore partnerships.





Source: Bloomberg

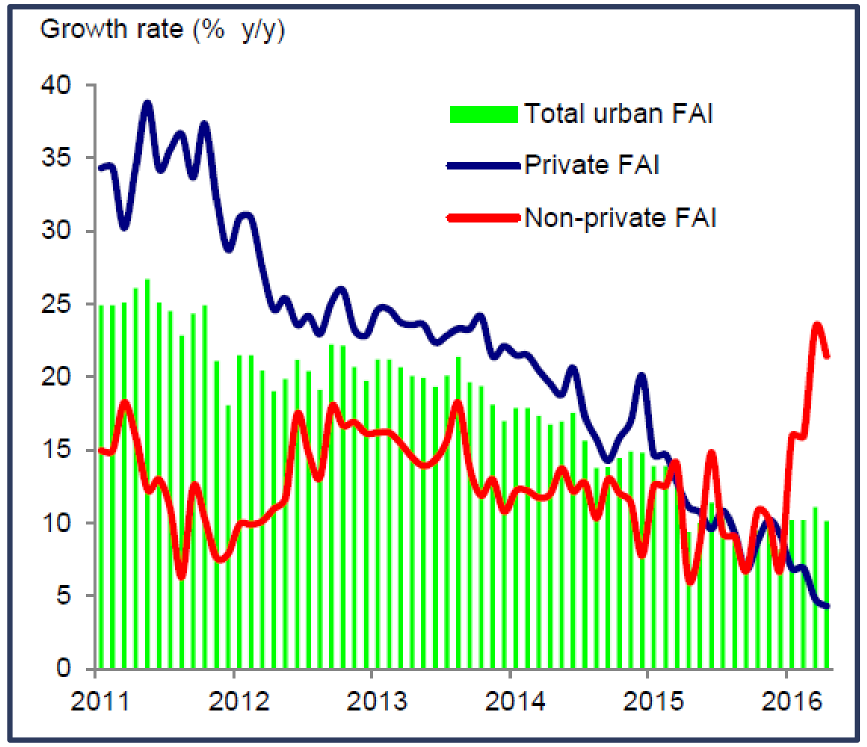
“Can the rally in Resources continue?”

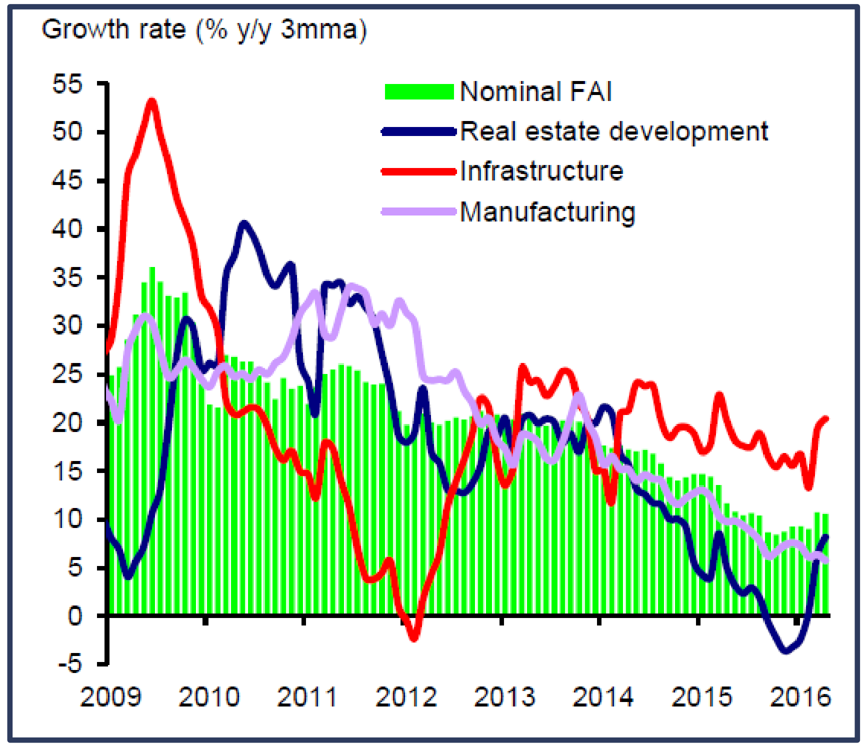


Tom Richardson

Government stimulus driven rally

- State led investment in China has surged to maintain ambitious growth targets. Private investment is yet to respond.
- After three years of slowing property investment, the first quarter of 2016 turned up sharply.
- Infrastructure investment rises as the corruption purge abated.
- Credit growth is creating a worrying debt burden. Reform agenda delayed.





Source: CEIC, UBS Research

Balanced resources portfolio: no net exposure

- Bulk Commodities - Iron ore supply demand balance has improved for the next 12-18 months. Medium to longer term remains challenged.

- Base Metals - We have a favourable view on Zinc and Nickel (IGO), remain cautious on copper as supply response has been minimal (Glencore).

- Gold - Investor demand has returned and is supporting the price. We continue to look for opportunities to add to our positions (EVN).

- Energy – Oil price will continue to grind higher as supply dissipates (ENI). However, LNG remains oversupplied in the medium term (CVX).

- Niche Commodities - Our Lithium investments have performed very well (ORE), however we are taking profits. We are cautious on other speculative commodities (Graphite).

Performance Update

Tim Bolger- Chief Operating Officer

Performance of Watermark Funds

Performance to 30 April 2016

Australian Leaders Fund

	1 Month	6 Month	FYTD	1 YEAR	3 YEARS (P.A.)	5 Years (P.A.)	7 YEARS (P.A.)	SI (P.A.)
Net Return	-0.4%	1.3%	8.1%	10.9%	9.2%	9.9%	16.0%	13.8%
All Ords Accum	3.2%	2.8%	1.3%	-3.7%	5.4%	6.2%	9.7%	8.5%
Outperformance	**-3.6%**	**-1.5%**	**6.8%**	**14.5%**	**3.8%**	**3.7%**	**6.3%**	**5.3%**

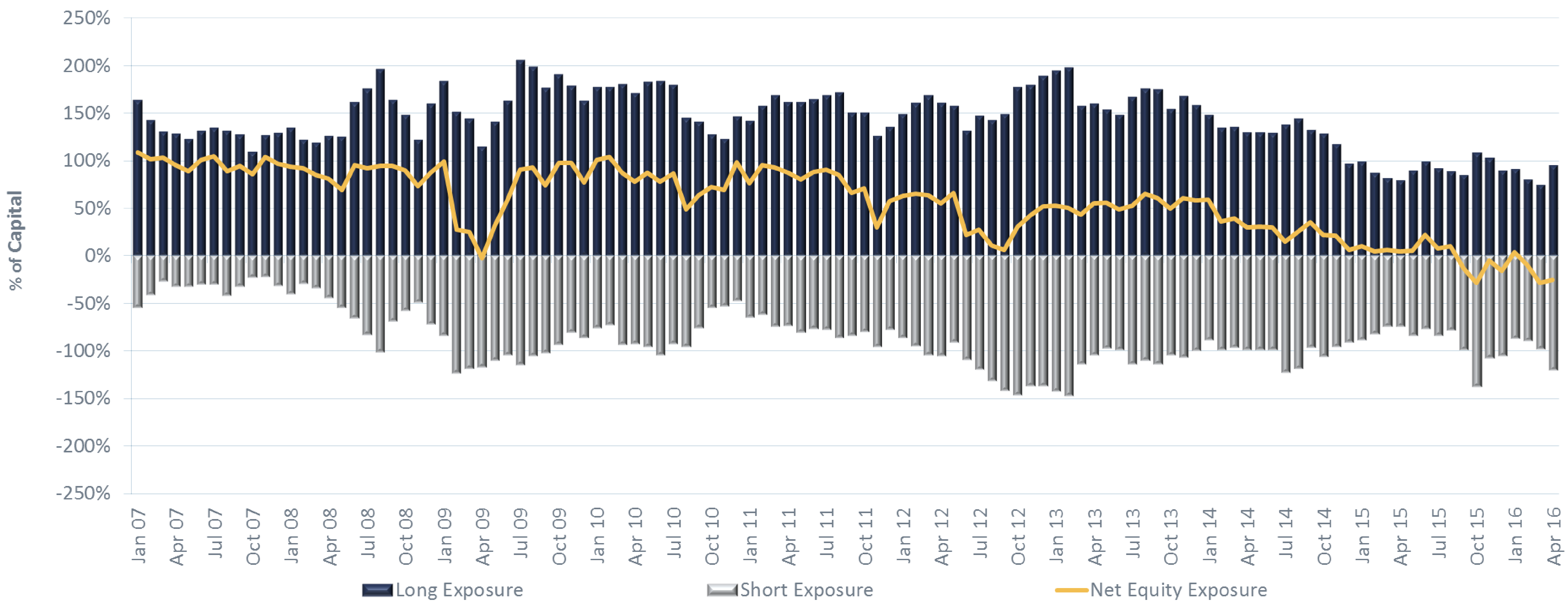
Watermark Market Neutral Fund

	1 Month	3 Month	6 Month	FYTD	1 YEAR	SI (P.A.)
Net Return	0.2%	-0.9%	3.5%	12.6%	15.6%	7.9%
RBA Cash Rate	0.2%	0.5%	1.0%	1.7%	2.0%	2.3%
Outperformance	**0.0%**	**-1.4%**	**2.5%**	**10.9%**	**13.6%**	**5.6%**

ALF Inception Date – January 2004
WMK Inception Date – July 2013

ALF Net Equity Exposure

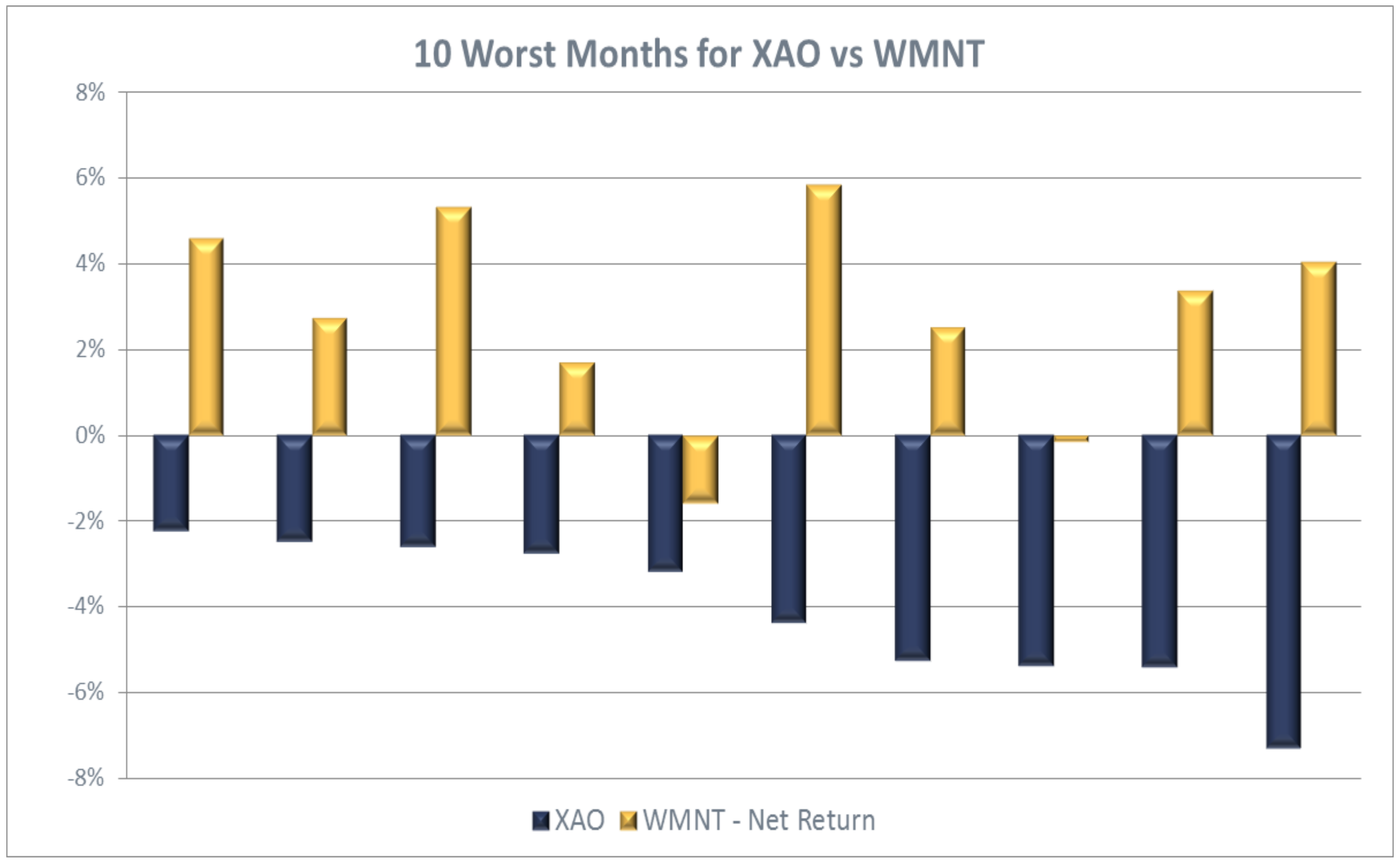
ALF currently has the lowest net equity exposure since inception, reflecting our cautious outlook and ability to add value while retaining insurance against a market set back.

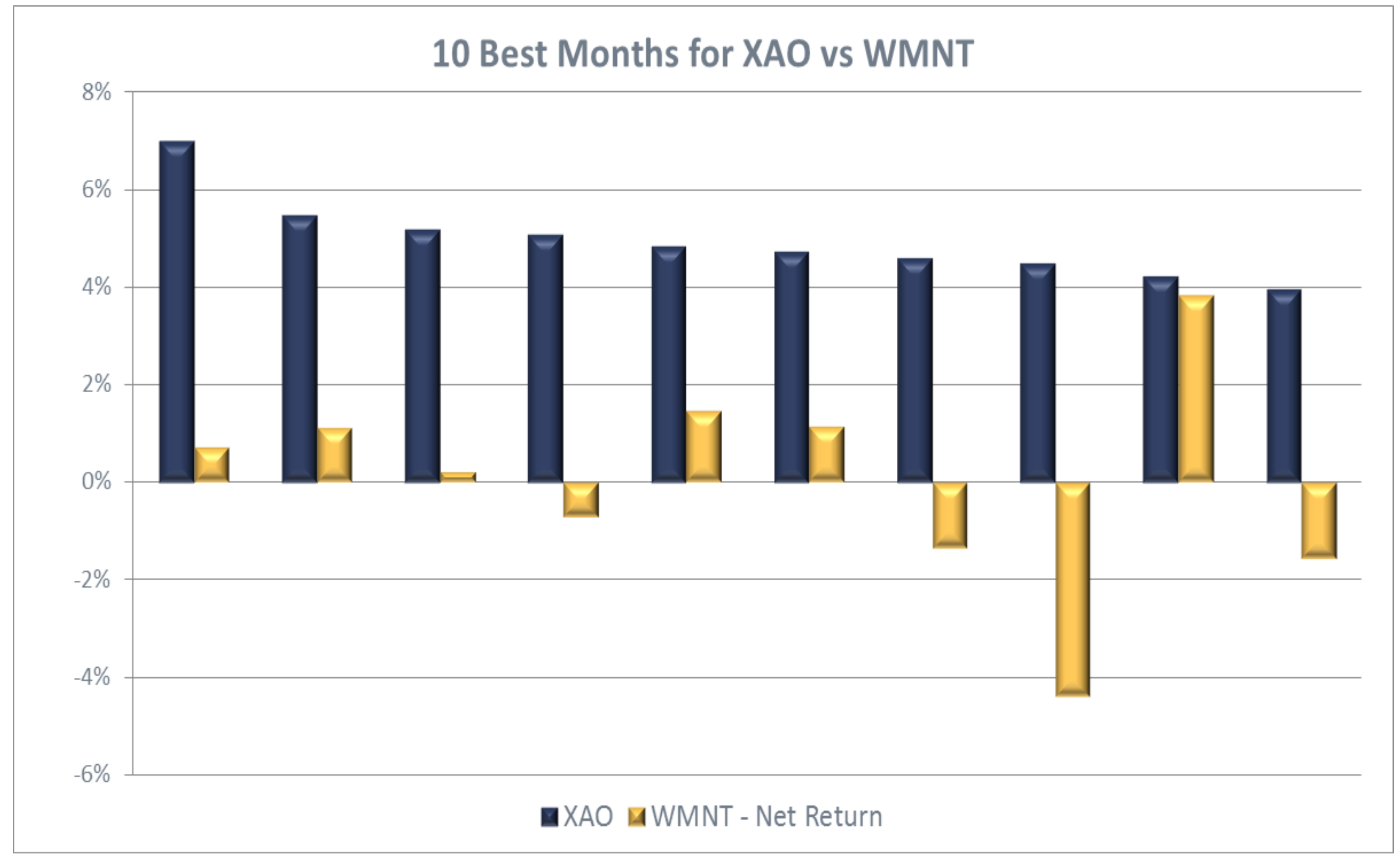


Market Neutral - Genuine Diversification

- Market Neutral Strategies have low or negative correlations with share markets
- Watermark's strategy performs particularly well when share markets fall – quality and value bias

Hedging strategies can materially reduce market risk and volatility while averaging up returns

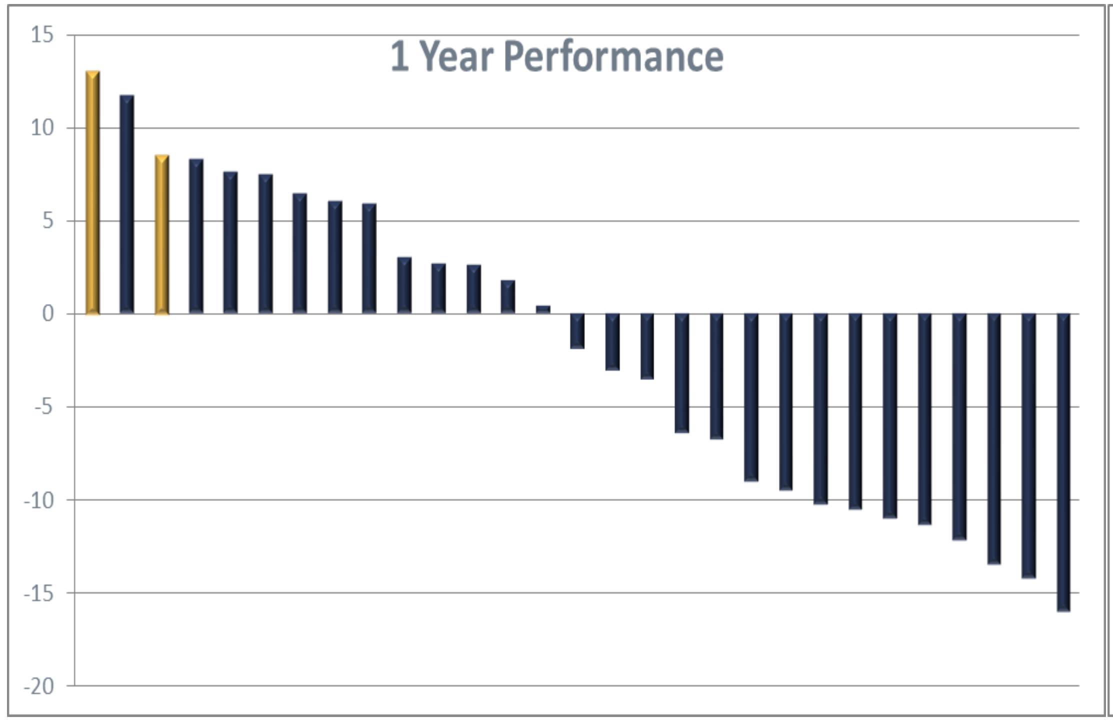


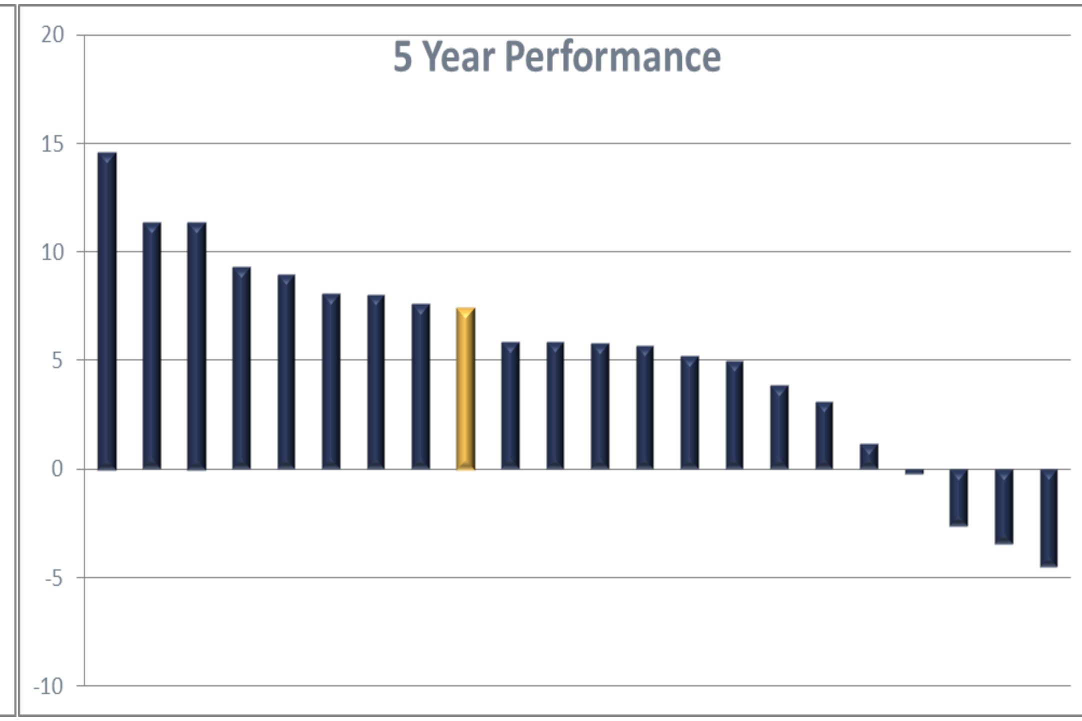


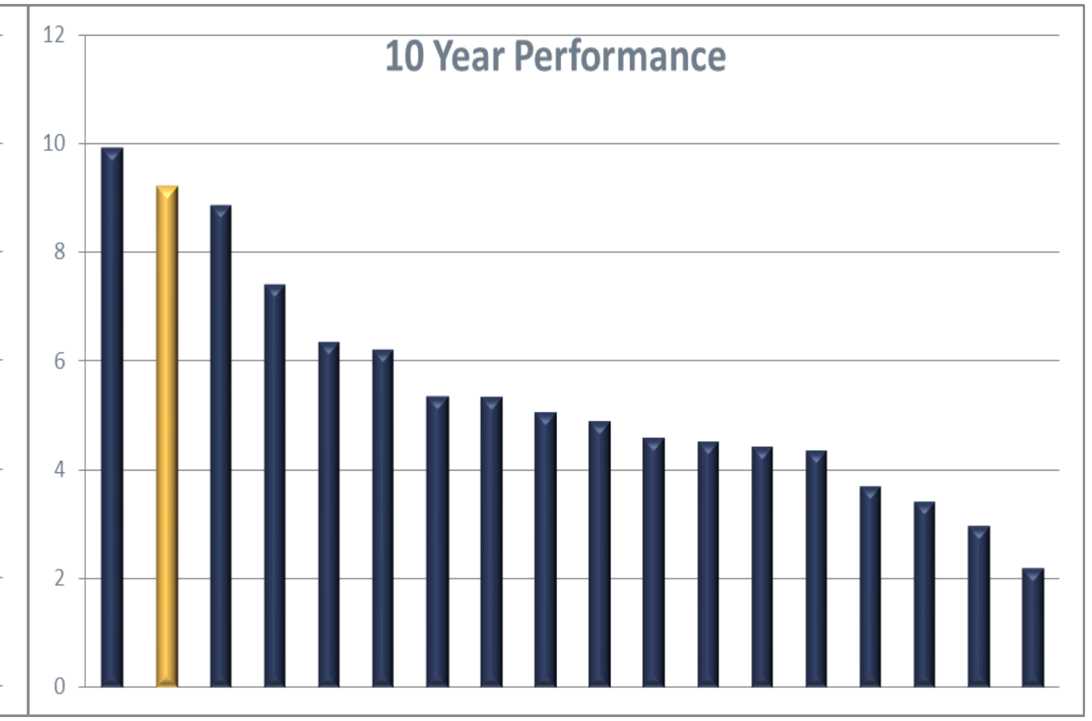
Since inception of WMNT – Aug 2012

Strong Performance Relative to LIC Peers

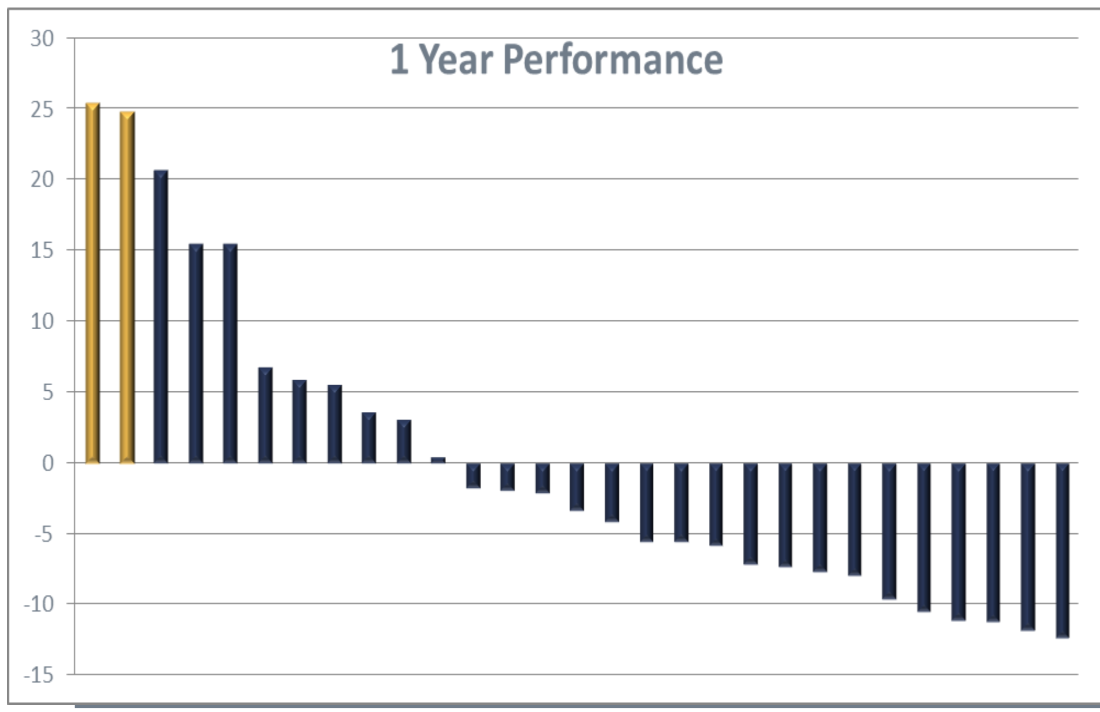
Pre tax NTA performance to March 2016

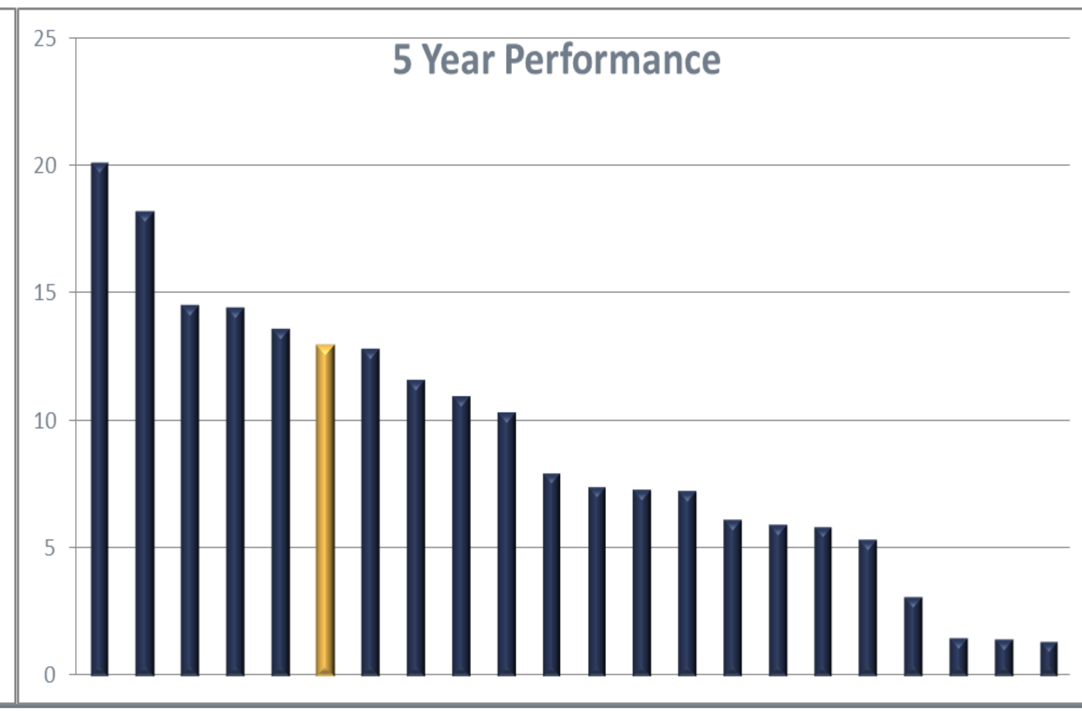


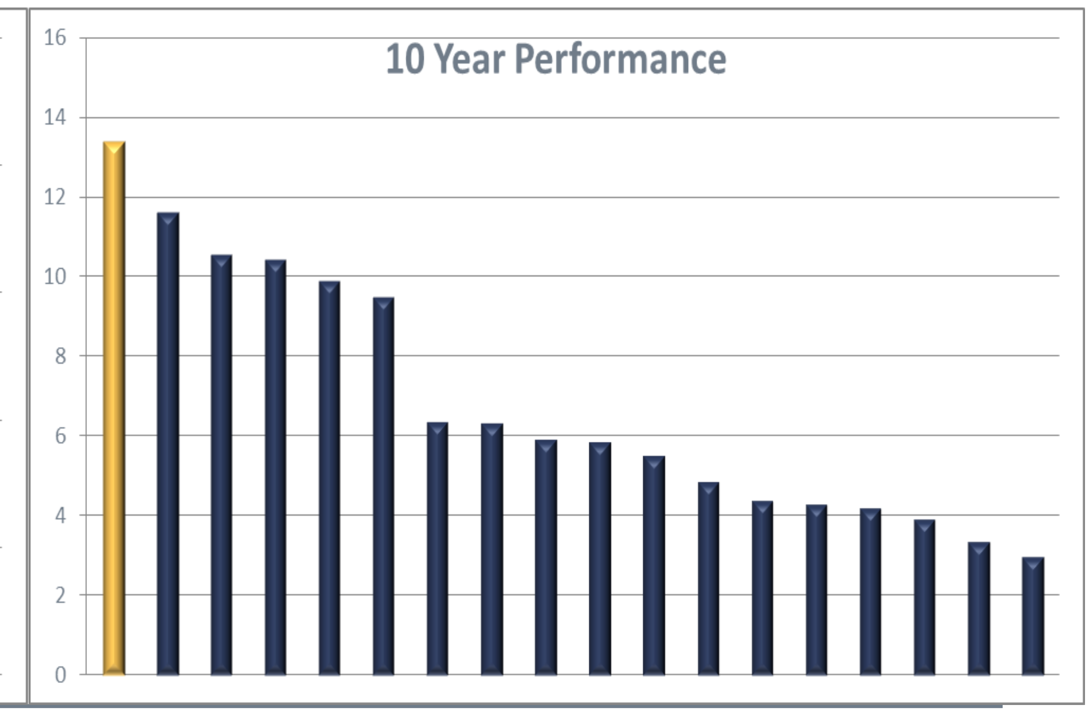




Total shareholder return (TSR): Share Price plus dividends

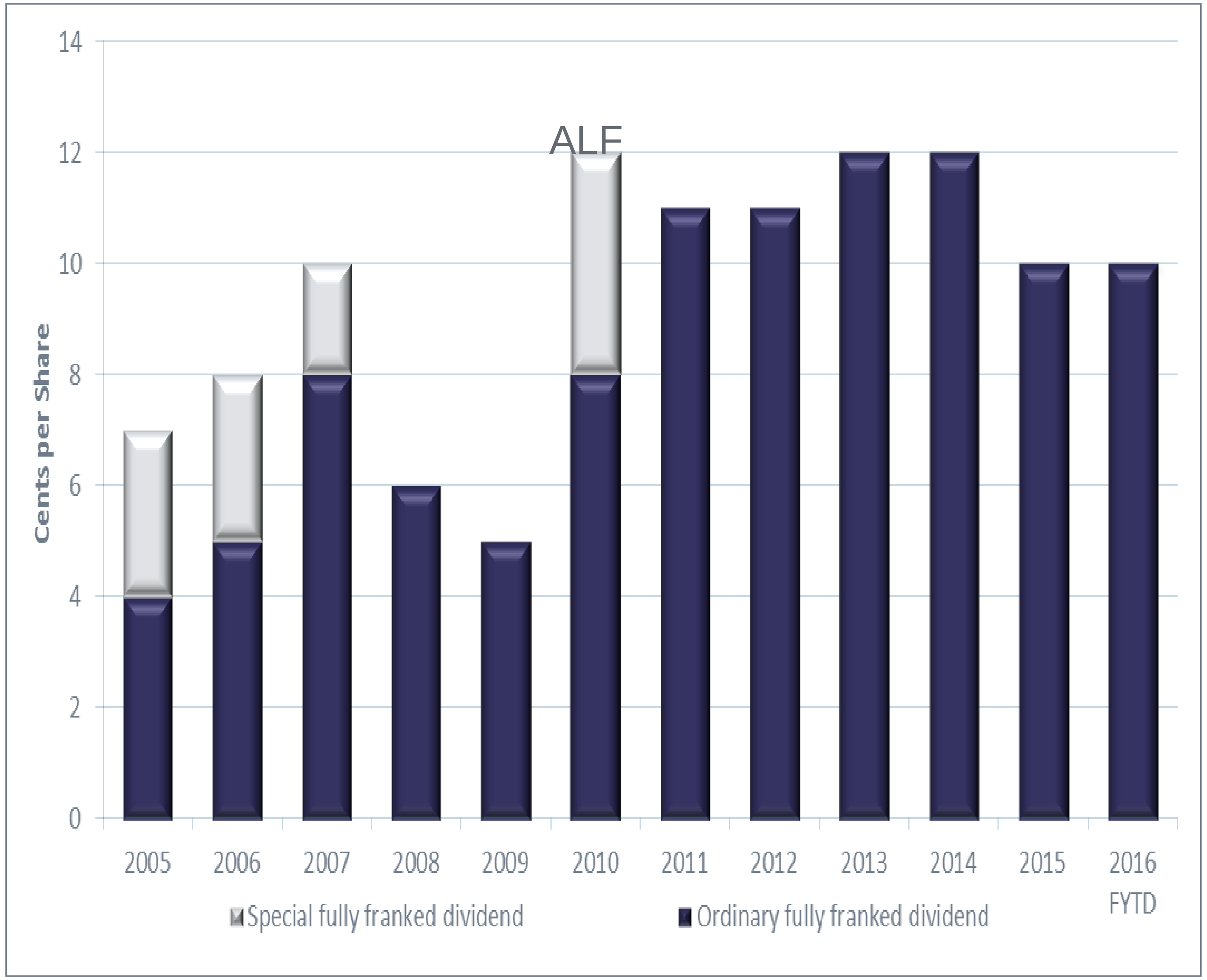


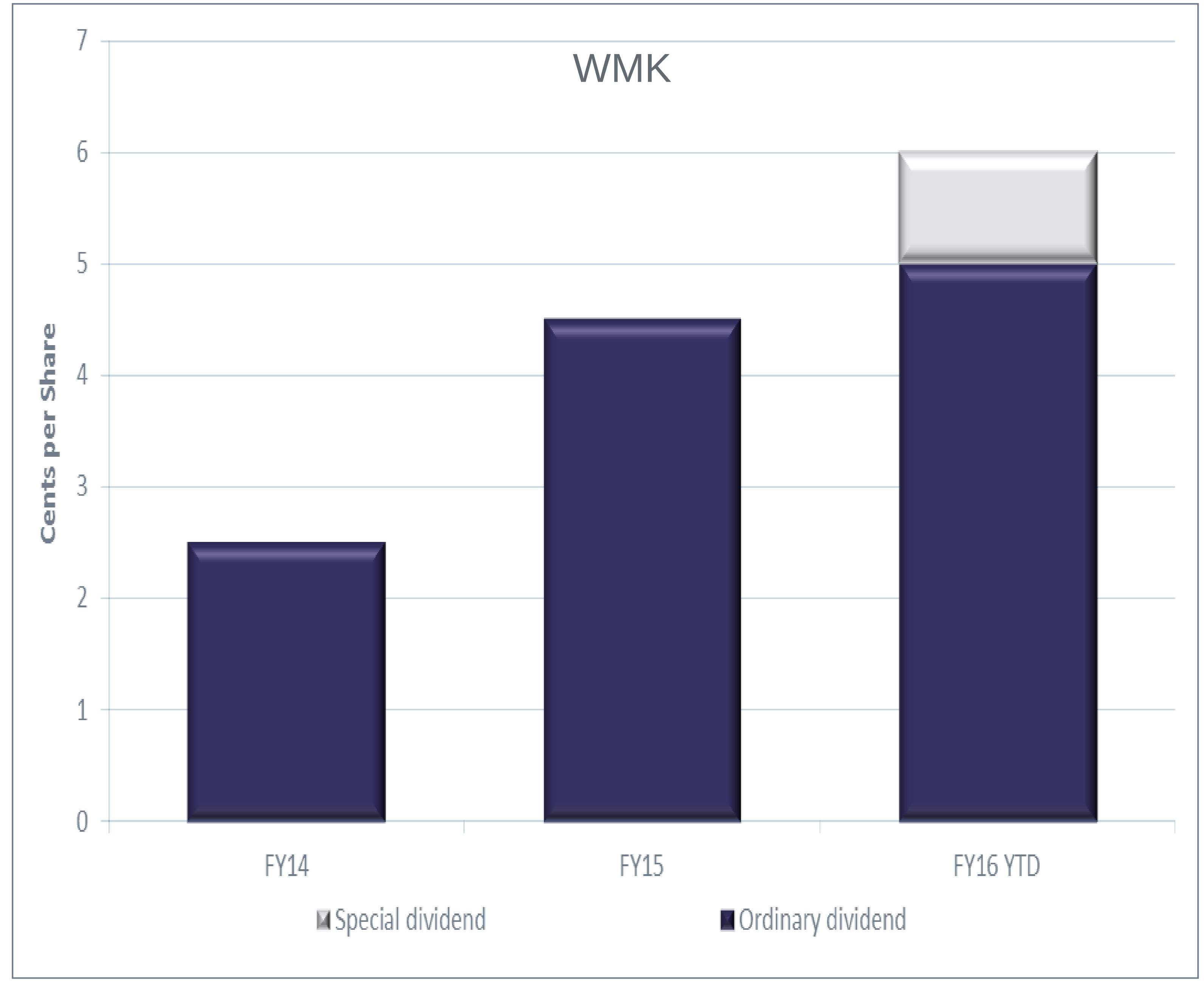




Source: Bell Potter Securities

Dividend History





ALF Annualised Dividend Yield – 7%* fully Franked

WMK Annualised Dividend Yield – 5.6%* partially Franked

* Yield calculations as at April 31 2016

International Investments

- Absolute returns from the international portfolio have been strong
- The number of international positions and their average size will increase over time (50% limit)

	Long	Short	Net	Gross
International Exposure	15.3%	-16.0%	-0.7%	31.3%

	FYTD	1 Year
Gross Portfolio Return Domestic*	**17.1%**	**20.2%**
Gross Portfolio Return International*	**18.0%**	**21.0%**

*Gross return is the calculated by subtracting the gross short return from the gross long return.

As at 30 April 2016

Questions