



WATERMARK

MARKET NEUTRAL FUND

Watermark Market Neutral Fund Limited (WMK)

ASX ANNOUNCEMENT/MEDIA RELEASE

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STRONG PERFORMANCE LEADS TO RECORD PROFIT

WMK RECORDS A RECORD AFTER TAX PROFIT OF \$10.6 MILLION AND RAISES FINAL DIVIDEND TO 3 CENTS PER SHARE

- Portfolio value increases by 16.2% for the 12 months to June 30, 2016.
- The Company announces a record after tax profit of \$10.6 million
- Final dividend increased to 3 cents per share, taking total dividends declared in respect of FY16 to 6.5 cents per share, partially franked
- Market neutral investment strategy delivers strong returns in a weak year for the Australian share market
- WMK delivers a total shareholder return (TSR) of 25% for the period.

The Board of Watermark Market Neutral Fund Limited (ASX: WMK) ('WMK' or the 'Company') today announced a record \$10.6 million after tax profit for the financial year ending June 30 2016 and a final dividend of 3 cents per share, franked to 75%.

With the Australian share market posting marginal gains for the year and with low returns expected from shares in the medium-term, active investment strategies such as those employed by WMK should make an important contribution to investors' portfolio returns.

The total shareholder return in FY16 was 25%, reflecting the strong performance of the Company's shares as well as a dividend yield of over 5%. WMK's portfolio increased in value by 16.2% after all fees for the 12 months to June 30 2016, comfortably beating the Company's benchmark and the underlying share market.

WMK Chairman Matthew Kidman said that the result was a great outcome for shareholders and strongly validates the Company's unique approach to investing.

"We expect returns from risk assets will likely remain low in the medium-term, despite the best efforts of Central Banks to encourage investors to take on risk. In such an environment, an investment strategy that allows investors to hedge market risk will be increasingly valuable" Mr Kidman said. "Of equal importance will be an ability to deliver attractive returns, independent of the underlying market. WMK's investment manager has shown over many years that it can generate attractive returns in all market conditions by picking winners and losers within regions and industries" he went on to say.

Investment Performance

The gross portfolio return attributed to the Investment Manager's security selection was 22.7% for the period, with strong performance coming from a broad range of shares and sectors. The Company holds well-diversified long and short portfolios, populated with the Investment Manager's best ideas. The best performing position for FY16 was an investment in *Smartgroup Ltd*, which contributed just 2.5% to the gross portfolio return, indicating how broadly performance attribution was spread. Given how volatile share markets were though the year, several short positions also made strong contributions. Most notable were short positions in *Spotless Group Holdings* and *Dick Smith Home Entertainment*, both of which fell from grace after high profile listings by their private equity sponsors. Media names continue to make solid contributions despite a difficult operating environment for owners of traditional media assets. *APN Outdoor* and *Fairfax Media Ltd* were two such examples.

Given the economic backdrop, defensive shares such as healthcare and infrastructure have performed well. The Company continues to hold a successful investment in *Transurban Group* and the high quality hospital operator *Ramsay Healthcare*. With much of the market volatility concentrated in the mining and energy sectors; these also provided some of the best performing investments in the period. The resurgence of the Australian gold sector led to strong contributions from *Regis Resources* and *Evolution Mining* while in the white hot lithium sector, an investment in *Orocobre Ltd* performed well. The Company was short *Glencore* and *First Quantum Minerals* in the early part of the financial year as falling commodity prices led those shares lower and both positions were amongst the strongest performers.

Investments in international shares made a strong contribution to Fund returns. With the limit on global shares increasing in February, new investments in *Group Eurotunnel* and *Merck & Co* were initiated. International shares added 14% of the Fund's gross portfolio return in FY16. Our investments in international markets continued to yield deeper insights into global trends, many of which ultimately play out in Australia.

Dividends

The Board announced an increased final dividend of 3 cents per share, franked to 75%. This takes dividends declared in respect of FY16 to 6.5 cents in total, reflecting the Company's strong performance. The final dividend will be paid on the 20th of October 2016 and trade ex on the 4th of October 2016.

Company Outlook

The Outlook for the Company is strong. Shareholders will have received a copy of the latest edition of *The Leading Edge*, our quarterly journal outlining Watermark's current views on economic and investment themes. This publication considers the low growth environment we are in, and the outlook for the share market. As market risks build, the hedging in place for WMK should safeguard investors from any market setback, which will inevitably occur at some stage.

Yours sincerely,



Matthew Kidman
Chairman