



NTA and Monthly Update – May 2016

Company at a Glance

ASX Code	WMK
Fund Size	AU\$91.7m
Fund Strategy	Equity Market Neutral
Share Price	\$1.02
NTA Before Tax	\$1.04
Shares on Issue	87.1m
Dividend (HY16 Interim)	2.5 cents
Dividend (HY16 Interim Special)	1.0 cents
Dividend Yield (annualised)	5.9%

Net Tangible Asset (NTA) Backing

	Apr 16	May 16
NTA Before Tax	\$1.02	\$1.04
NTA After Tax	\$1.03	\$1.04

Gross Portfolio Structure

Long Exposure	102.0%	117.9%
Short Exposure	-109.1%	-121.1%
Gross Exposure	211.1%	239.0%
Cash	107.1%	103.3%

Month in Review

Despite being slightly net short the rising Australian share market, the Fund generated a positive return of 1.7% in May after all fees. Strong performance in the cyclical and defensive parts of the portfolio was offset in part by losses in financials. Highlights included the strong performance of investments in *Fairfax Media*, *Super Retail Group* and *Smartgroup Corp*. The Fund's short exposures in the transport sector also made a positive contribution.

The domestic economy continues to slow, which prompted the RBA to cut rates in an attempt to stave off looming deflationary pressures. Headwinds remain for retailers, with consumer confidence materially weaker since the announcement of the Federal election. We hold several short positions in the retail grocery sector, balanced by an investment in *Super Retail Group*. The Fund's net short exposure in building materials weighed on performance in May.

Defensive sectors were the strongest performers in the month, with healthcare names leading the way. Notwithstanding the Fund's net short exposure to the domestic healthcare sector, performance was positive due to a strong contribution from offshore investments in *Merck & Co* and *Medtronic* along with our investment in *Ramsay Healthcare*. Infrastructure and utility shares rallied strongly, buoyed by investors' renewed appetite for yield. A successful investment in *Group Eurotunnel* was closed out late in the month, with uncertainty around the potential for 'Brexit' likely to weigh on the stock.

Bank shares led the market higher, although first half profit results announced through the month were mixed and suggest that the underlying trends impacting banks' profits are subdued. Our analysis of banks here and abroad indicates that the Australian banks and their Canadian peers are expensive on a range of measures. On that basis and in view of the subdued trends reflected in the first half results, we retain our net short exposure to both the Australian and Canadian banks. Investments in *QBE Insurance Group* and *American International Group* were solid performers in May although the net long exposure in this sector has been reduced.

Commodity prices came under pressure during the month given rising expectations of a US rate hike. Steel prices in particular suffered heavy falls, which led in turn to a fall in the iron ore price. The Oil price on the other hand was stronger, with production now at lows not seen for two decades. We have initiated an investment in *Royal Dutch Shell*, with an expectation that the recent merger with *BG Group* will yield opportunities for portfolio optimisation. The Fund's investment in Lithium producer *Orocobre* continues to perform well, as demand for the commodity surges with the uptake of electric vehicles.

WMK Performance

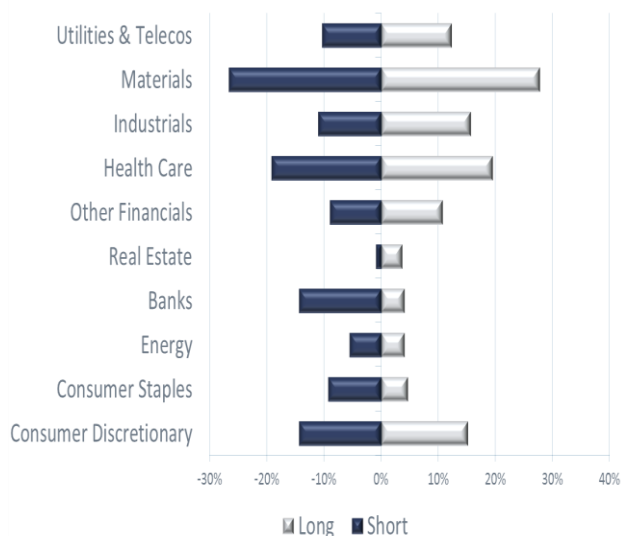
	1 Mth	6 Mths	FYTD	1 Yr	S.I. (pa)
Portfolio Return (net)	1.7%	3.7%	14.5%	18.3%	8.3%
RBA Cash Rate	0.2%	1.0%	1.8%	2.0%	2.3%
Outperformance (net)	1.5%	2.7%	12.7%	16.3%	5.9%



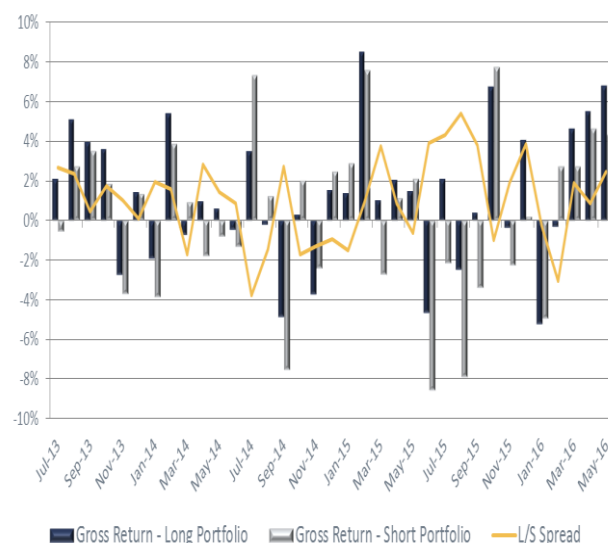
WATERMARK

MARKET NEUTRAL FUND

Sector Exposures

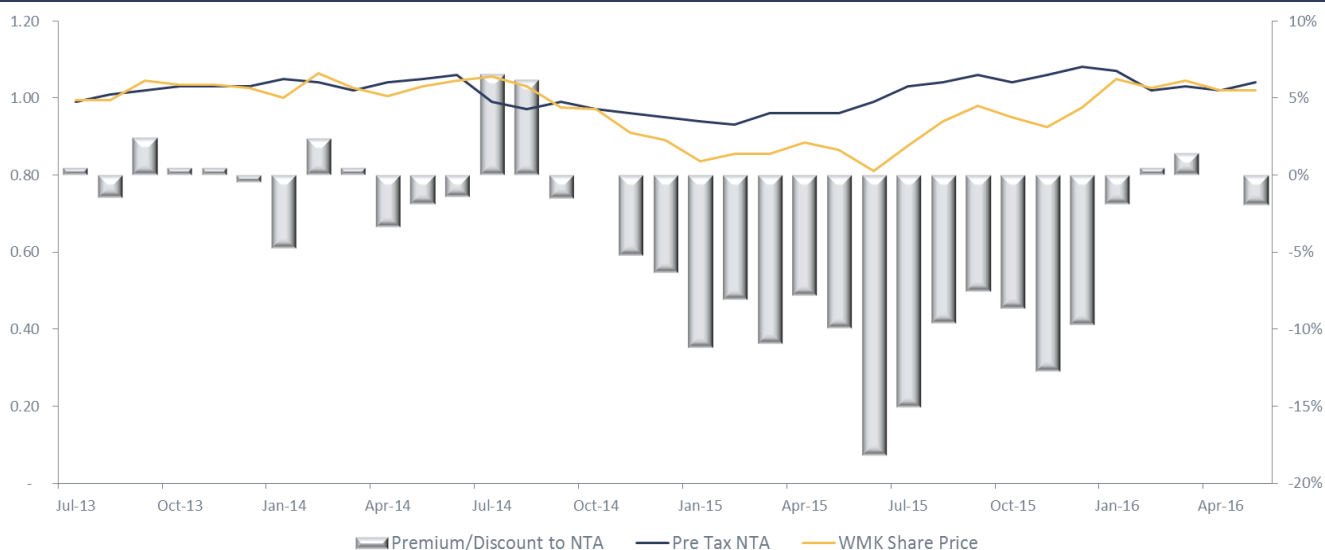


Long Short Spread*



* Long Short spread shows the gross monthly performance of the Company's long and short portfolios. The difference between the two represents the gross performance of the portfolio as a whole. The company will make a profit where the long portfolio outperforms the short portfolio, after the payment of fees and expenses

Premium/Discount to NTA History



Dividend History

The Board is committed to paying an consistent stream of franked dividends to shareholders, provided the Company has sufficient profit reserves and franking credits and that it is within prudent business practices. Dividends are paid on a six-monthly basis. From time to time the board will offer a dividend reinvestment plan.

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