The Leading Edge

QUARTERLY REPORT | **December 2012**

What happens when the mining boom ends?

In this edition of *The Leading Edge* we consider the outlook for the mining industry and the implications for the Australian economy

AUSTRALIAN LEADERS FUND

WATERMARK MARKET NEUTRAL FUND

Watermark Funds Management
Level 5, 139 Macquarie Street
NSW Sydney 2000

TEL (02) 9252 0225 **FAX** (02) 9252 1220
info@wfunds.com.au www.wfunds.com.au

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Justin Braitling
Portfolio Manager

The challenges confronting China in shifting to a sustainable growth model

The year of the dragon was the juncture at which the Chinese economic tiger was finally tamed – annual growth figures were the worst in 13 years, still a respectable 7.9% by global standards, but jarring enough to rattle the financial markets. In 2012, the world's second largest economy was able to manufacture a modest deceleration before returning to its lopsided growth model centred on investment which has reached unsustainable levels.

Investment spending accounts for almost half of China's total output as illustrated in Fig 1, while household consumption, the mainstay of most developed economies is tiny in comparison at just 35% – small even for a developing country. Cracks are starting to appear in the Chinese growth miracle as a consequence of this excessive reliance on investment.

While a smaller part of the economy, growth in consumption has been remarkably stable at around 8% p.a. If the economy is to be rebalanced successfully then the government has to both stimulate consumption by lifting household income while extending the social safety net and de-emphasising investment, a reversal of recent trends.

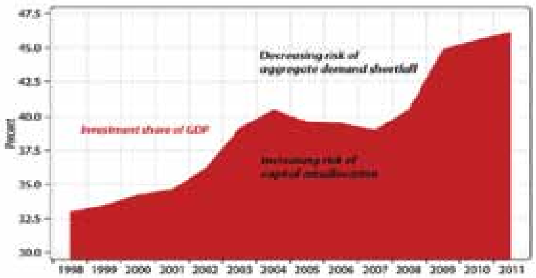
While the new Premier Xi Jinping will be expected to maintain strong GDP growth through 2013 and beyond, the Central Government is well aware of the inherent problems this unsound balance between consumption and investment represents. The challenge for the new leadership will be to engineer this move in favour of consumption without forcing a hard landing on the economy. In this context, the reacceleration in investment spending last year to buttress a deflating economy can only be seen as a step backwards in this endeavor.

The labour market holds the key to China weaning itself off investment spending as the compulsion to support growth extends from the need to find jobs for 20 million migrants moving to the cities each year. The good news is the labour market has been far more resilient through the recent downturn in contrast to the experience of the financial crisis in 2008. When faced with rising unemployment in the manufacturing sector, the Government lost its nerve at the height of the crisis and implemented a four trillion RMB ($630 billion) investment program, the scope of which it now regrets.

We may well be seeing early signs of demographic relief as the working age population in China has started to shrink, a legacy of the one child policy. As this shift takes hold, there will be less pressure on the Government to create jobs through state sponsored investment, allowing a slower overall rate of growth, making the rebalancing task a lot more manageable.

FIG 1

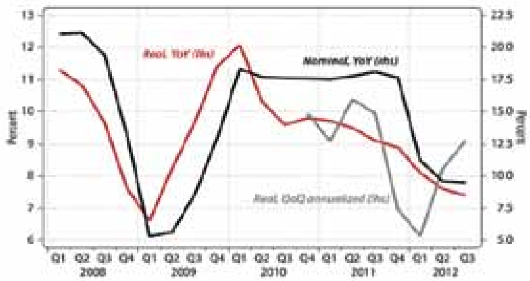
CHINA'S RISING INVESTMENT SHARE OF GDP



Source: CEIC, GaveKal Data

FIG 2

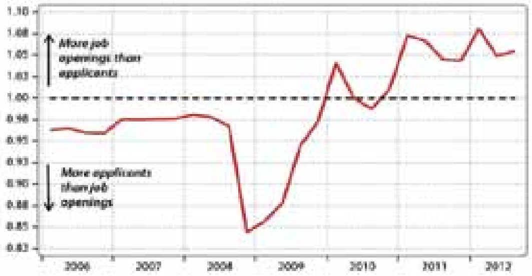
QUARTERLY GDP



Source: CEIC, GaveKal Data

FIG 3

RATIO OF LABOUR DEMAND TO SUPPLY



Source: CEIC, GaveKal Data

Cracks are starting to appear in the investment led model

Over the last decade, Chinese fixed capital formation (investment in the country's capital stock) has grown at over 15% p.a. While this largely contributed to the country's stellar growth rates, its underpinning of the economy is not without danger. The risks of capital misallocation and wasted investment have steadily been building up, particularly since the great stimulus of 2008.

As an early-stage developing economy, the need for investment was so great that the prospect of capital misallocation was low. However as China matures, the country is finding it cannot sustain this level of productive investment without eventually facing immense overcapacity, bankruptcies, and losses in the banking sector.

Although China is not yet rife with over-investment in physical capital, isolated instances of waste are becoming easier to identify as returns on investment have fallen sharply since 2008. The declining return on incremental investment is the clearest indicator of unsustainable investment spending.

While these risks are increasing, they are not without recognition among Chinese policymakers – the Government has clearly articulated its desire for a controlled slowdown in investment growth, a decline in investment share of GDP and a proportionate increase in consumption. This is prudent policy aimed at delivering longer-term sustainable growth. However, just as a rising share of investment increases misallocation risk, a decreasing share of investment increases the risk of aggregate demand shortfall. As such, China's growth over the next decade will likely be both weaker and more volatile than what we have become accustomed to.

Regardless of China's ability to pivot smoothly from investment to consumption, the investment in heavy industry is set to temper from the incredible growth rates of the previous decade.

While the 2008 stimulus package was necessary in light of a rapidly slowing economy, it was much too large and intensively focused on infrastructure and construction, resulting in increases in domestic capacity for Chinese heavy industry. These industries now face substantial excess capacity at a time of low domestic and overseas demand.

A rebalancing of the Chinese economy is not good news for the mining sector

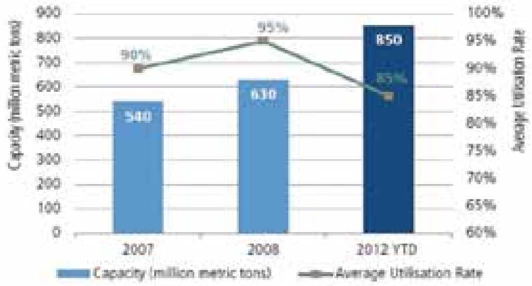
While Australian investors track aggregate demand in China closely, few ways exist of getting exposure to China's bourgeoning household sector. It is the composition of growth which is important for our share market and to the mining sector in particular. A reduced emphasis on capital formation which is the source of demand for our bulk commodities is not good news for mining companies.

Excessive capital formation and investment in heavy industry has meant demand growth for commodities has been running ahead of sustainable levels and will inevitably slow – whether this happens in an orderly or disorderly manner depends on the Central Government's dexterity in rebalancing the economy. They can take slow decisive steps now or risk a hard transition later with clear consequences for our resources sector.

We can be even more specific in gauging demand for our minerals by focusing on the outlook for China's enormous steel industry – the key source of demand growth for our two largest export commodities – iron ore and coal. Our analysis of Chinese steel demand which we detail below would indicate growth is likely to be far more subdued going forward.

FIG 4

CHINESE DOMESTIC STEEL CAPACITY AND UTILISATION RATE



Source: PIMCO, CEIC Data, National Bureau of Statistics (NBS) of China, China Iron and Steel Association (CISA). YTD as of 20 June 2012.

The Chinese steel industry is facing significant economic strain, weighed down by over two-hundred million tonnes of excess capacity. While demand was growing quickly, the surplus capacity wasn't such an issue, but as demand has stalled, the excess capacity becomes crippling.

In order of importance, China's steel production is consumed in housing; infrastructure; and manufacturing, mainly in support of the population migrating from rural to urban centres. Since the turn of the millennium a quarter of a billon rural Chinese have become city dwellers.

As we detailed in our June 2012 Quarterly Report, the demographics within China are not supportive of continued high growth in household formation. While urbanisation will continue, the pace at which this will occur is slower than previously seen – China's Twelfth Five Year Plan forecasts the urban population will rise gradually from 47.5% to 51.5%, a step down from the rates seen previously. Social housing investment remains a top priority for the Government, but it is unlikely to be a major source of new steel demand as lack of funding has so far curbed its ambition.

The economic prospects of East, Central and West China are vastly different, and as a result, steel consumption has not been evenly distributed amongst the regions – as urban migration shifts westward to its poorer regions, China's fundamental appetite for steel is likely to decrease.

A revival for construction of both infrastructure and commercial projects is likely to be the biggest risk to our lower forecast for Chinese steel demand. If a slowdown became evident, Chinese policymakers could deliver another round of investment intensive fiscal stimulus.

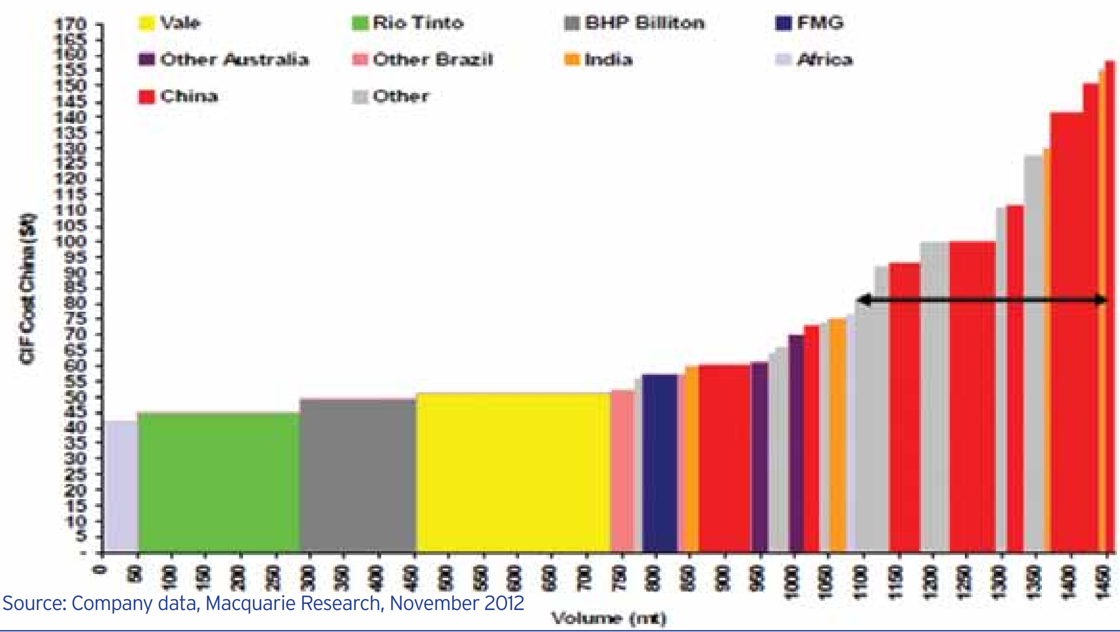
At present, this does not appear likely, and without inducement steel demand for infrastructure is set to be sluggish. The nature of infrastructure investment is shifting also, from more steel-intensive roads and railways to less intensive projects in power and water. Heavy machinery is inherently linked to the construction cycle and as such, demand for machinery will also follow this path.

The impact of slowing Chinese demand will be seen predominantly in hard commodity prices. Iron ore prices will be further impacted by the large increase in supply that is set to occur from 2014 onward. After lean times in the 1980s and 1990s, the mining industry was ill equipped for the large increase in demand caused by China's rapid industrialisation at the beginning of the century. Existing projects were unable to satisfy the insatiable demand for resources and this supply lag caused prices to leap. These high prices have enabled less efficient new entrants into the market, benefitting from the delayed response by incumbents and adding significant capacity at a time when demand is likely to soften.

While the new capacity will in the first instance displace high cost Chinese production Fig 5, the seaborne markets still look well and truly over supplied post 2014.

COST CURVE FOR SEABORNE IRON ORE

FIG 5



Source: Company data, Macquarie Research, November 2012

Australian mining industry – losing competitiveness in the global market

Australia abounds with natural resources both rich and rare. Prospecting our golden soil to meet global demand has built individual fortunes, corporate empires, and marvelous cities since the initial discovery of gold in Victoria in the 1850s. In this particular boom cycle, insatiable demand from China and India for iron ore and coal has seen a new class of Australian magnate rise from the outback, companies BHP and Rio Tinto become world beaters and growth surge in WA, Queensland and the Northern Territory.

On a national scale, the country has managed to extract itself from the post-GFC heap and shine above as other countries' economies have struggled through the mire – the lucky country dictum would never seem so apt as in recent times. Good fortune, however, has not been the only factor in the mining industry's roaring success – low costs, accelerating production levels, proximity to Asia and a stable regulatory environment have all been crucial pillars of our strong position in the global marketplace.

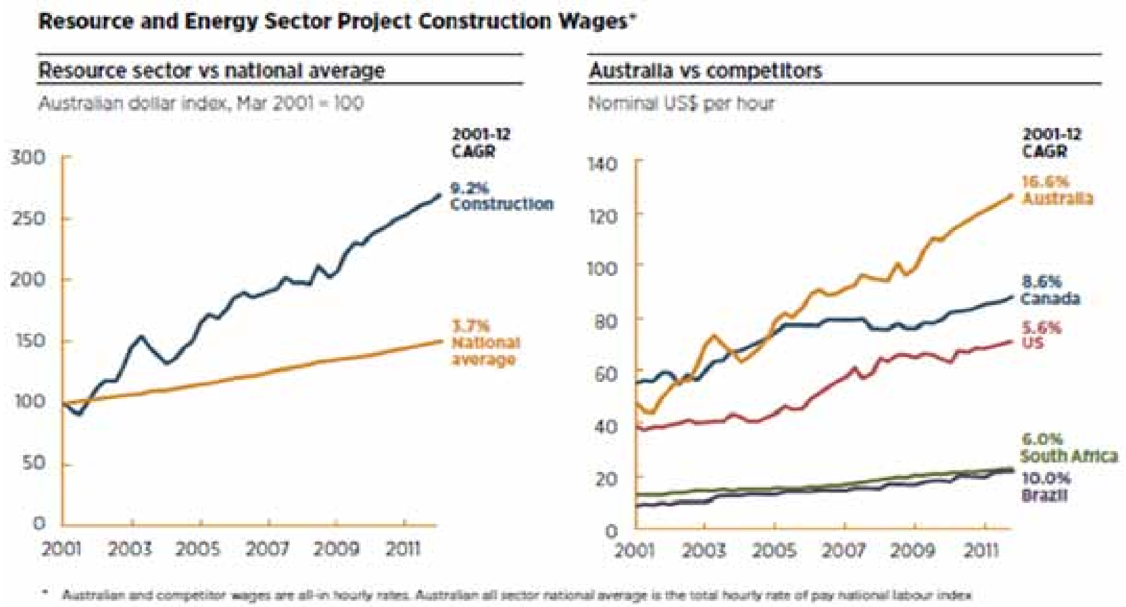
Unfortunately, these past successes cannot be assumed to continue ad infinitum – a sharp escalation in costs throughout the mining industry is undermining Australia's ability to participate in industry growth. We are not the only country to be naturally blessed with such bountiful riches. Established and frontier mining nations such as Canada, South Africa, Brazil, Mongolia and Mozambique are becoming increasingly attractive for investment and will begin to burrow into Australia's market share.

At existing operations across the country, our competitive standing as measured by where we sit on the global cost curve has eroded alarmingly. Labour rates in particular have risen much faster than the national average – unmanageable levels of staff turnover, lack of access to necessary experience and overgenerous perks and incentives are all a result of the labour shortage faced by the industry. Wages in mining have boomed in the last decade and are often quoted as 50% higher than for equally qualified US workers, and this combined with a stubbornly high local dollar makes for an uncompetitive labour market.

Energy, consumables, capital equipment and transport have all combined to help push Australia firmly up the cost curve. To be competitive in bulk commodities you must first have access to a low cost resource, but then you also need access to competitive infrastructure to get it to market. Taking full advantage of the recent boom, rail and port operators have locked mining companies into highly onerous long term, take-or-pay contracts further weakening their competitive position. Mine closures started in 2012 and unless these high costs are soon addressed, more are expected further down the track. Fig 7 below clearly shows the deteriorating position of Australian mines.

AUSTRALIAN LABOUR RATES HAVE BECOME UNCOMPETITIVE

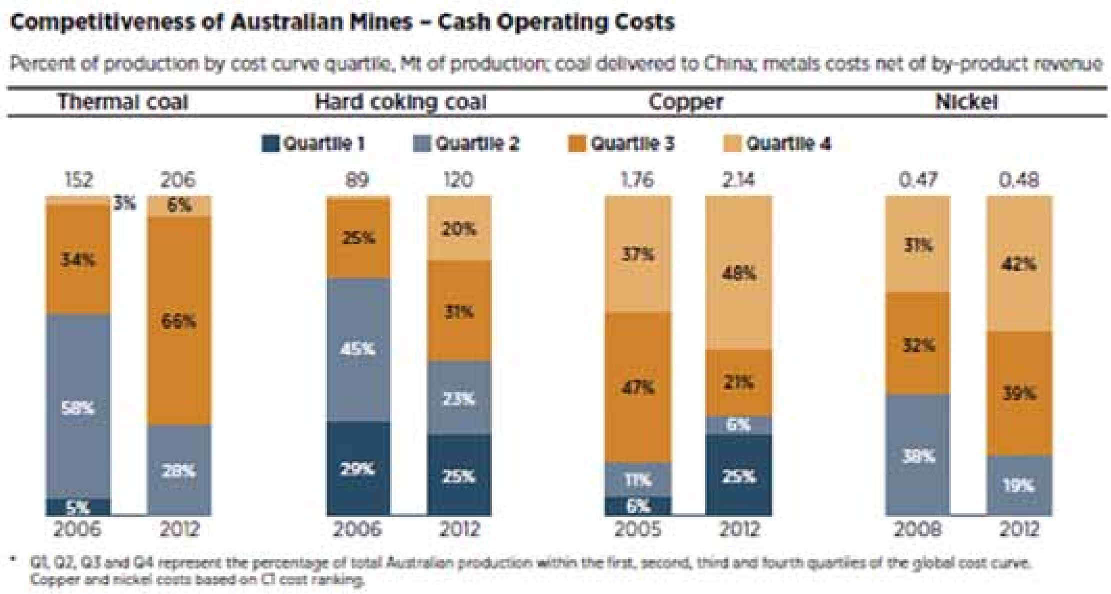
FIG 6



Source: IPA; ABS

AUSTRALIA BECOMING A SWING PRODUCER

FIG 7

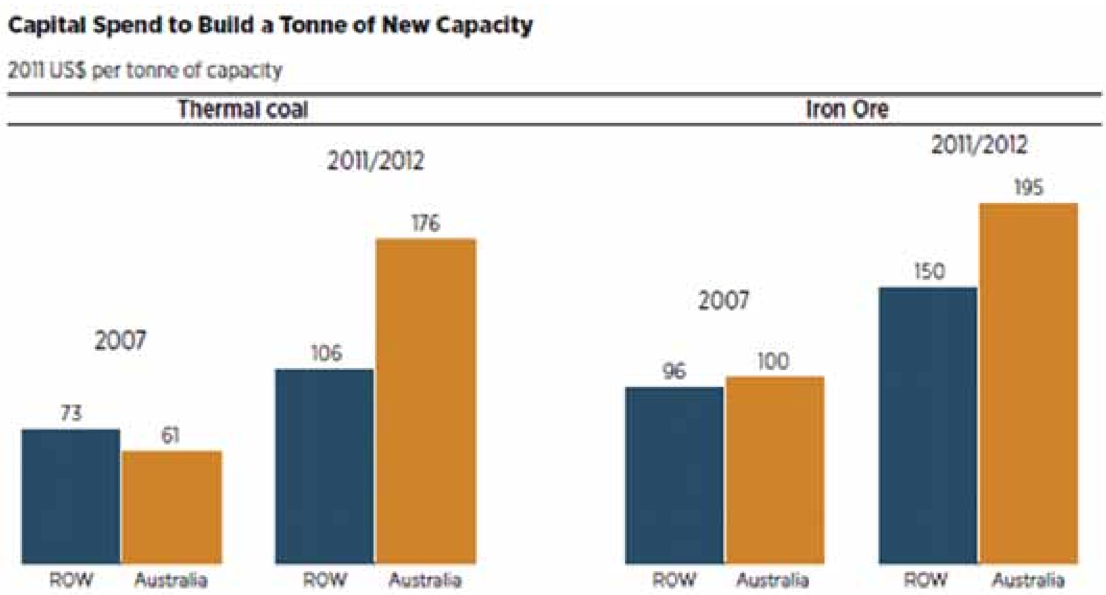


Source: AME; Brook Hunt

It is not only operating mines that are under pressure from rising costs. New projects once slated to come to market are being shelved as mining companies re-analyse the economic benefit in today's costly environment. This was particularly evident when BHP announced the deferral of the Olympic Dam Project in August last year. Bulk commodity projects such as iron ore and coal are particularly vulnerable to cost escalations. These ventures require large infrastructure components and significant capital equipment. A recent study by the Minerals Council of Australia revealed that the costs of local iron ore projects are 30% higher than the global average and for thermal coal those costs blow out to 66%.

INVESTMENT RETURNS UNDER PRESSURE.

FIG 8



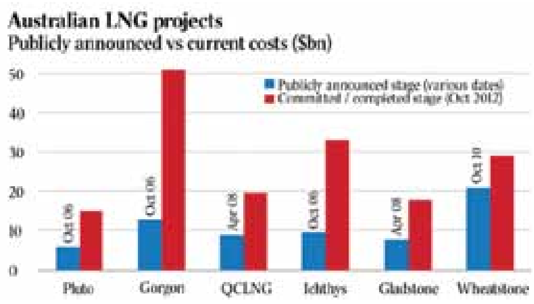
Source: Bank of America Merrill Lynch; JP Morgan; company announcements; press reports

Future investment in bulk commodities is being threatened by a combination of rapid cost escalation, and a weaker demand outlook for both steel making materials in Chinese and thermal coal in India.

Australia is fortunate to also hold significant gas reserves and this has led to the development of a series of large LNG projects offshore in Western Australia and in the gas saturated coal fields of Queensland. These projects have not escaped the cost blowouts witnessed across the industry, despite modular fabrication work being conducted offshore. It is the enormous capital cost escalation outlined in Fig 9 below that is endangering investment in Australia beyond the projects which have already been announced. The Oil and Gas majors have options here as well, particularly now that cheap shale gas reserves have become available in North America. With these projects offering contracts linked to US gas prices, the Australian projects linked to higher oil prices are looking less attractive to customers.

AUSTRALIAN LNG PROJECTS ARE ALSO BECOMING LESS COMPETITIVE

FIG 9



Source: ABARES, BREE

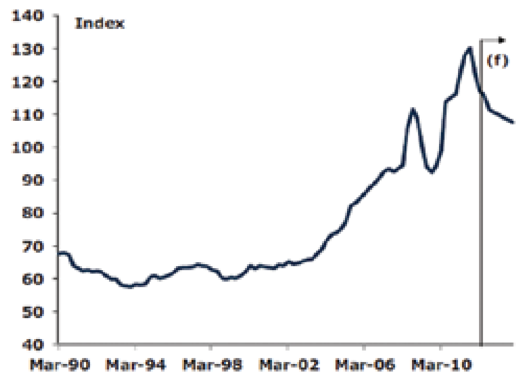
The Impact on the Australian Economy from a weaker mining sector

There are few more consequential events for Australia than a sharp and sustained fall in commodity prices. Over the past seven years, our terms of trade have been closely aligned with national income, employment and household income growth. The primary driver of the gap that opened up between real and nominal GDP growth was the steep rise in the terms of trade as shown in Fig #. In nominal terms, the Australian economy was booming, expanding at double digit levels pre-GFC.

As the terms of trade retraces, a series of cascading impacts will flow through into the wider economy. Income measures of growth reveal more clearly the impact we will see on the economy as commodity prices fall. A sharp fall in mining profits and government tax and royalty receipts will have a direct impact on national income. Secondary effects on employment and government spending as costs are cut and budgets are balanced will further impact spending. You can see in Fig 10 Australia may well experience an income recession some time in coming years if the terms of trade decline further.

THE TERMS OF TRADE HAVE PEAKED

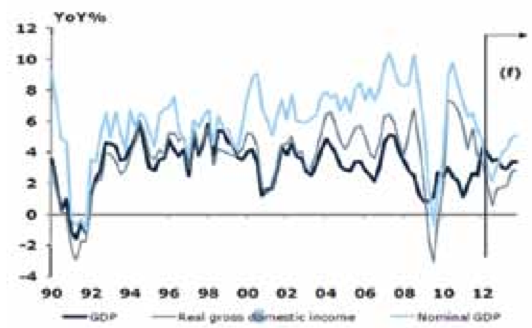
FIG 10A



Source: Goldman Sachs Global ECS Research

NOMINAL INCOME TO MOVE LOWER

FIG 10B

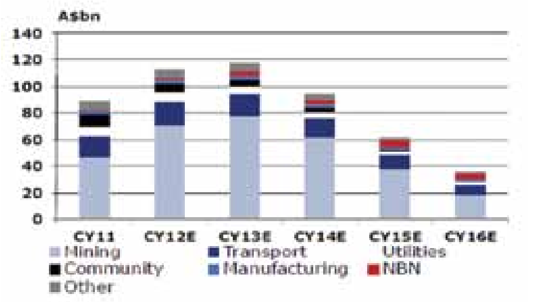


Source: Goldman Sachs Global ECS Research

The other major event set to impact the national economy is the forthcoming peak in mining investment. Chairman of National Australia Bank and Woodside Petroleum, Michael Chaney coined the term "growth cliff" – highlighting the risk to the economy as these mining mega-projects roll off and run out as shown in Fig 11. For reasons outlined earlier in this report, future investment will not fill this void. The peak will be reached in 2013 before declining quite quickly. This contribution to GDP growth is likely to have peaked in 2012 at around two percentage points. This forms another risk in 2014 as projects wind down and begin to drag on economic momentum.

AUSTRALIAN INVESTMENT PROFILE

FIG 11



Source: Goldman Sachs Global ECS Research, Deloitte Access Economics

Australia has been the envy of many developed economies in recent times, dodging the recession bullet during the GFC and maintaining steady GDP growth through 2008-2012 – an anomaly amongst most developed economies. But should commodity prices fall back over the next few years, policy makers will need to react swiftly and decisively to limit the impact on the national economy.

Period in review

The 2012 year started on a positive footing following renewed efforts by the European Central Bank (ECB) via its long-term refinancing operations (LTRO) to increase liquidity and reduce the refinancing risk of European sovereigns. Coupled with stronger economic data in the US, global share markets advanced through the first Quarter 2012.

By mid-year concerns around the Greek elections and the withdrawal of support from Germany saw markets sell off sharply. This was made worse by weaker economic trends as Europe slipped further into recession and the US economy showed signs of stagnation.

While the economic picture has failed to improve outside of China, global equity markets have staged a defiant rally through the second half of the year as Central Banks the world over have pushed further into the unknown realm of unconventional monetary policy. The ECB has committed to "do whatever it takes" and the US Federal Reserve has moved to unlimited quantitative easing. The new LDP government in Japan is now talking of inflation targeting. The erosion of Central Bank independence and the prospect of competitive exchange rate depreciation is particularly troubling – even the Reserve Bank of Australia has adopted a more dovish tone, signaling for the first time that interest rates will remain structurally lower for longer, having cut rates by 125 basis points in 2012.

Share markets sold off leading in to the final Quarter of the year with fears around the legislated "fiscal cliff", however investors correctly anticipated a deferral to later in 2013 and markets finished well up for the year.

While shares fell in 2011 as policymakers struggled to address the legacy risks of the Global Financial Crisis, share markets rallied in 2012 largely in response to concerted efforts by policy makers to maintain liquidity and reduce financial risks. The strong performance of shares in response to this policy action was very much at odds with underlying growth trends which deteriorated as global growth slowed to just 2.2% in 2012 from 2.9% in 2011.

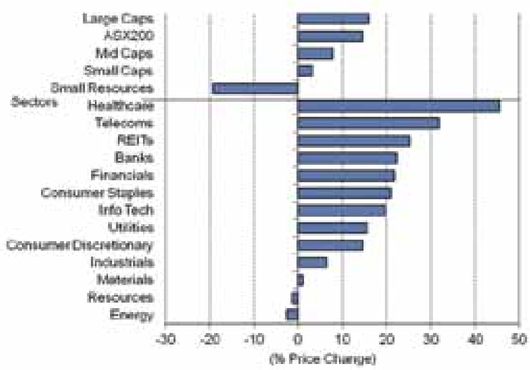
The Australian share market followed the lead from offshore, with the All Ordinaries Accumulation Index increasing by 18.8% over the year, amongst the best performing globally. This was despite weaker profit trends from Australian public companies as the year unfolded. Given pervasive profit downgrades, the market advance was driven entirely by a re-rating of shares relative to profits. In fact, the re-rating of Australian shares was far higher than what we saw in international share markets, leaving Australian shares fully valued relative to underlying profits at year-end.

The re-rating of share markets has been a direct response to the reduced risk factors emanating offshore. A further re-rating of Australian shares which typically pay out a higher proportion of earnings in dividends followed as global investors in low interest rate countries chased yield. With the RBA cutting interest rates by a further 125 basis points, domestic investors joined the quest for higher yielding securities.

To give you a sense of the divergence we have seen between shares and underlying profits, analysts at the start of the year were looking for profits to grow by 10% in 2012, but by the end of the year it was clear profits were going to contract

SECTOR PERFORMANCE IN 2012

FIG 12



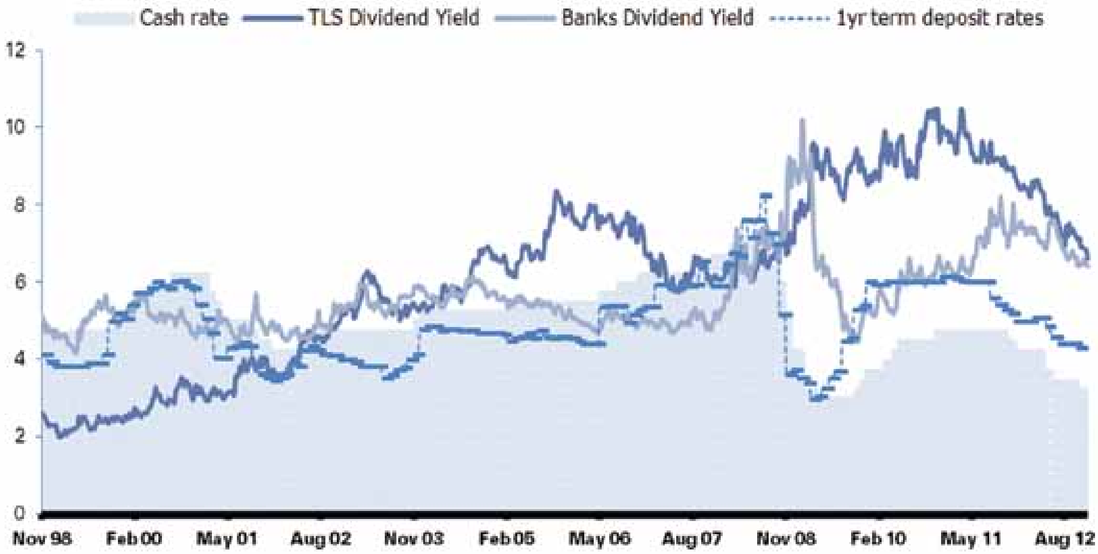
marginally. While most of this disappointment was in resources as commodity prices fell, cyclical industrial companies have also struggled with a strong dollar and a weak economy. Not surprisingly the strongest share price performance came from high yielding defensive sectors – Health Care, Telecom and Property Trusts.

The banks also did particularly well in a benign credit environment, and with little balance sheet growth they are paying out most of their earnings in dividends.

In Fig 2 you can see how the dividend yields on banks and Telstra have tracked the RBA cash rate lower as the share prices of these companies have moved higher.

DIVIDEND YIELDS AND CASH RATES

FIG 13



Source: Goldman Sachs Research, IBES, RBA

Outlook for 2013:

The Economic and Market environment is still being shaped by the financial crisis. While capital markets appear to be in a process of normalising as tail risks abate, this is only due to the highly abnormal, some would say experimental measures from Central Banks and Governments to maintain liquidity and support growth. This level of support is unsustainable. One can only wonder at the level of underlying growth in advanced economies in the absence of this support, which at some stage has to be withdrawn.

The current monetary and fiscal largesse will surely manifest in some future systemic crisis. The experience in Japan where rates have been zero bound for the best part of 20 years and the economy has staggered from one recession to another demonstrates the challenges confronting Governments in exiting this course.

The focus for the first half of 2013 will shift across the Atlantic to the US as Congress looks to raise the debt ceiling, while funding the Government for the rest of the year and dealing with the sequester (deferred for two months in December 2012). Together with tax increases already implemented the US economy which is barely growing will have to withstand a 1-2% drag on growth from fiscal consolidation in 2013. This is the key issue for US growth – you have an economy dependent on $US1 trillion p.a. of deficit spending that cannot be maintained given federal debt levels and runaway entitlement spending.

The post-crisis recovery in advanced economies has left surplus capacity in product and labour markets (what economists call the output gap). At such elevated levels, the Phillips Curve would suggest interest rates need to be negative to stimulate sufficient demand and encourage investment. With rates already at the zero bound, Central bankers have been forced to embrace unconventional measures to push real interest rates into negative territory and in doing so they have altered the normal relationship between shares and bonds.

This is the bull case for equities- the equity risk premium or the difference between what bonds yield and the earnings yield on shares has blown out to record levels Fig 14.

THE EARNINGS PREMIUM OF AUSTRALIAN SHARES OVER BONDS

FIG 14

Source: UBS

This can mean one of two things. Either shares are outrageously cheap or bonds are very expensive. With recent US treasury auctions going off at the lowest rates ever recorded, including depression years, and inflation adjusted treasuries (TIPS) in the negative domain at minus 1%, we are firmly in the latter camp.

Financial market manipulation on an unprecedented scale by Central Banks is forcing investors into risky assets given the negative real rates on offer by risk-free bonds. A close examination of Fig 15 would suggest history doesn't support this case. The best time to invest in equities is actually when bond yields peak, not when they bottom. The most recent episode in 1980 launched the 20 year bull market in shares reaching an apex with the tech wreck in 2000. The two previous bond market lows in 1898 and 1945 coincided with periods of financial repression particularly in the post war period when the allies through financial controls kept real interest rates negative to debase government war debts (sound familiar?). It should come as no surprise to you that these periods of financial repression also coincided with secular bear markets in shares. We sense we may be seeing a replay here in the 21st century.

The solid advance in shares in 2012 along with a modest contraction in profits has left the market P/E at 13 times earnings, 30% higher than at the start of the year. While this is in-line with the longer term averages – given the weaker growth environment we are in, market multiples should be lower than what we have seen in the credit fuelled bull markets of the recent past. On balance, the share market looks fully valued to us. Even if the bulls are right and there is further scope for shares to re-rate, weaker profit trends are likely to temper any upside.

With valuations looking fuller and structural imbalances still to be addressed, we feel it prudent to retain cautious portfolio settings with half of our capital retained in cash and high income corporate bonds.

US GOVERNMENT BOND YIELDS AND THE US SHARE MARKET SINCE THE CIVIL WAR.

FIG 15

Source: Pring Research

ALF Funds Snapshot

Fund Statistics	
Fund NAV AUD (Millions)	$99.2
Long (76)	188.6%
Short (60)	-136.7%
Gross Exposure	325.3%
Net Exposure	51.9%
Cash	48.1%

Top 10 Holdings			
Mayne Pharma Group Ltd.	9.0%	BHP Billiton Ltd.	4.9%
Rio Tinto Ltd.	6.3%	Commonwealth Bank of Australia	4.9%
National Australia Bank Ltd.	6.3%	Transurban Group	4.9%
Woodside Petroleum Ltd.	5.0%	Origin Energy Ltd.	4.6%
News Corp.	4.9%	Australia & New Zealand Banking Group Ltd.	4.6%

ALF Portfolio Returns to December 2012

ALF	1 MONTH	3 MONTHS	6 MONTHS	FYTD	1 YEAR	3 YEARS (P.A.)	5 YEARS (P.A.)	SI (P.A.)
Long	2.6%	8.0%	19.2%	19.2%	28.5%	8.5%	8.3%	-
Short	0.9%	0.5%	6.3%	6.3%	5.5%	-2.0%	-4.7%	-
Gross	3.8%	10.4%	19.7%	19.7%	36.9%	12.8%	14.6%	18.2%
Net	3.5%	8.8%	17.3%	17.3%	32.4%	8.8%	10.1%	14.6%
Index	3.4%	6.8%	15.5%	15.5%	18.8%	2.8%	-2.0%	8.5%
Net Alpha	0.1%	2.0%	1.7%	1.7%	13.6%	6.0%	12.1%	6.1%%

ALF Monthly Net Returns

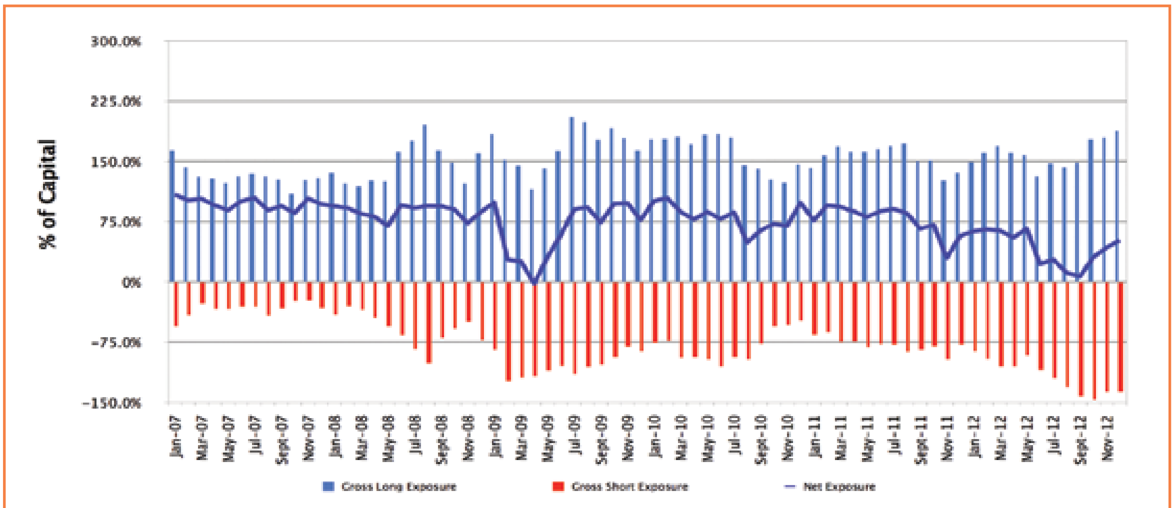
FY	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	ALF FY	INDEX
2003/4	-	-	-	-	-	-	-	0.4%	1.4%	0.2%	-0.0%	2.3%	4.3%	9.0%
2004/5	1.1%	-0.3%	4.6%	2.8%	4.4%	2.4%	0.3%	1.3%	-0.9%	-6.1%	-0.4%	4.8%	14.3%	24.7%
2005/6	2.0%	2.7%	4.8%	-3.0%	3.9%	3.7%	1.5%	2.0%	6.4%	2.9%	-2.1%	1.4%	29.0%	24.2%
2006/7	-3.2%	4.3%	1.7%	7.2%	2.8%	2.5%	3.1%	-1.6%	3.5%	1.1%	2.7%	2.0%	29.2%	30.3%
2007/8	-1.0%	3.4%	3.3%	1.0%	-0.3%	-1.9%	-11.5%	-8.4%	1.4%	4.4%	1.5%	-7.2%	-15.5%	-12.1%
2008/9	-1.3%	5.1%	-5.4%	-16.3%	-6.6%	3.0%	2.2%	2.9%	16.0%	6.7%	7.9%	7.0%	18.7%	-22.1%
2009/10	9.2%	12.4%	6.5%	-0.7%	0.8%	0.1%	-3.5%	2.2%	4.2%	-2.1%	-7.1%	-2.3%	19.9%	13.8%
2010/11	2.8%	-3.9%	2.3%	0.0%	2.7%	12.0%	2.0%	1.9%	3.6%	1.7%	-1.8%	-1.8%	22.9%	12.2%
2011/12	-4.1%	-6.8%	-8.4%	6.5%	-1.5%	0.9%	4.9%	4.7%	3.3%	1.2%	-2.4%	0.7%	-2.3%	-7.0%
2012/13	3.7%	3.6%	0.3%	-1.3%	6.5%	3.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	17.3%	15.5%

ALF Portfolio Exposure as of December 2012

Sector Exposure	LONG	SHORT	NET	INDEX	ACTIVE
Consumer Discretionary	22.2%	-20.0%	2.2%	5.0%	-2.8%
Consumer Staples	7.3%	-1.2%	6.1%	8.0%	-1.9%
Energy	25.1%	-19.4%	5.7%	7.7%	-2.0%
Banks	20.1%	-3.4%	16.7%	24.6%	-7.9%
Real Estate	6.6%	-2.4%	4.2%	7.6%	-3.4%
Other Financials	10.8%	-14.5%	-3.7%	6.4%	-10.1%
Health Care	13.8%	-18.8%	-5.0%	4.3%	-9.3%
Industrials	28.9%	-26.1%	2.8%	7.6%	-4.8%
Materials	34.4%	-20.9%	13.5%	21.3%	-7.8%
Utilities & Telecos	19.3%	-9.9%	9.4%	7.5%	1.8%
TOTAL	**188.6%**	**-136.7%**	**51.9%**	**100.0%**	**-48.1%**

Market Cap	LONG	SHORT	NET	INDEX	ACTIVE
ASX Top 100	115.2%	-56.1%	59.1%	86.4%	-27.3%
100 - 200	32.7%	-66.0%	-33.3%	7.3%	-40.6%
Ex 200	40.6%	-14.5%	26.1%	6.3%	19.8%
TOTAL	**188.6%**	**-136.7%**	**51.9%**	**100.0%**	**-48.1%**

Net Equity Exposure



WATERMARK
FUNDS MANAGEMENT

Watermark Funds Management
Level 5, 139 Macquarie Street
NSW Sydney 2000

TEL (02) 9252 0225 **FAX** (02) 9252 1220
info@wfunds.com.au www.wfunds.com.au