

Watermark Market Neutral Fund Limited

ABN 45 163 980 498

Appendix 4D Half-year report for the half-year ended 31 December 2018

Half-year report

This half-year ended report is for the reporting half-year from 1 July 2018 to 31 December 2018. The previous corresponding half-year was 1 July 2017 to 31 December 2017.

Results for announcement to the market

Revenue from ordinary activities	Down	181.94%	from	859,093	to	(703,976)
(Loss) before tax for the period	Down	19.99%	from	(3,232,701)	to	(3,878,976)
(Loss) from ordinary activities after tax attributable to members	Down	186.01%	from	(2,231,421)	to	(6,382,004)

Dividends

	Dividend Rate	Total Amount	Record Date	Date of Payment	Percentage Franked
2018 Final (paid 14/09/2018)	0.015	\$1,268,003	31/08/2018	14/09/2018	100%

Net tangible assets

	31 December 2018 \$	31 December 2017 \$
Net tangible asset backing (per share) before tax*	0.87	0.95
Net tangible asset backing (per share) after tax*	0.87	0.96

* The Board resolved on 12 February 2019 to write down the value of Deferred Tax Assets on the balance sheet as at 31 December 2018 and make an adjustment to the Company's NTA. This adjustment was reflected in the January 2019 NTA Update.

Brief explanation of results

After a strong start to the period in July 2018, the Company's investment portfolio delivered a gross return of -4.3% for the six months to 31 December 2018. Losses were felt most heavily in the long portfolio, which fell by 10.6% in period. This was as compared with the All Ordinaries Accumulation Index, which fell by 7.3%. The short portfolio also fell in value in by 5.4%, representing a profit to the Company in absolute terms.

Further information

This report is based on the Half Year Financial Report which has been subject to independent review by the Auditors, Pitcher Partners. All the documents comprise the information required by Listing Rule 4.2A. This information should be read in conjunction with the 30 June 2018 Annual Financial Report.

Watermark Market Neutral Fund Limited

ABN 45 163 980 498

Interim Financial Report for the half-year ended 31 December 2018

Watermark Market Neutral Fund Limited ABN 45 163 980 498

Interim Financial Report - for the half-year ended 31 December 2018

Contents

	Page
Corporate Directory	1
Directors' Report	2
Auditor's Independence Declaration	4
Interim Financial Statements	
Statement of Comprehensive Income	5
Statement of Financial Position	6
Statement of Changes in Equity	7
Statement of Cash Flows	8
Notes to the Financial Statements	9
Directors' Declaration	15
Independent Auditor's Review Report to the Shareholders	16

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by Watermark Market Neutral Fund Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Corporate Directory

Directors

Matthew Kidman
Chairman

Justin Braitling
Non-Independent Director

John Abernethy
Independent Director

Stephen Van Eyk
Independent Director

Robert Ferguson
Independent Director

Company secretary

Mark Licciardo

Belinda Cleminson

Registered office

Level 23 Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
Phone: (02) 9252 0225
Fax: (02) 9252 1220
Email: info@wfunds.com.au

For enquiries regarding net asset backing (as advised each month to the Australian Securities Exchange) refer to www.asx.com.au or call (02) 9252 0025.

Share registrar

Boardroom Pty Limited
Level 12
225 George Street
Sydney NSW 2000
Phone: (02) 9290 9600
Fax: (02) 9223 1762

For enquiries relating to shareholdings, dividends (including participation in the Dividend Reinvestment Plan) and related matters, please contact the share registrar.

Auditor

Pitcher Partners
Level 22 MLC Centre
Sydney NSW 2000
Telephone: (02) 9221 2099

Securities exchange

Australian Securities Exchange (ASX)
The home exchange is Sydney
ASX code: WMK Ordinary shares

Directors' Report

The Directors present their report together with the interim financial report of Watermark Market Neutral Fund Limited ("the Company") for the half-year ended 31 December 2018.

Directors

The following persons held office as Directors of Watermark Market Neutral Fund Limited during the half-year:

Matthew Kidman (Chairman)
Justin Braitling (Non-Independent Director)
John Abernethy (Independent Director)
Stephen Van Eyk (Independent Director)
Robert Ferguson (Independent Director)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Principal activities

The principal activity of the Company has been making investments in Australian and international listed securities.

Review of operations

Investment operations over the half-year ended 31 December 2018 resulted in an operating loss before tax of \$3,878,976 (2017: loss of \$3,232,701) and an operating loss after tax of \$6,382,004 (2017: loss of \$2,231,421).

The NTA after tax for each share as at 31 December 2018 amounted to \$0.87 per share (2017: \$0.96). The NTA before tax was \$0.87 per share (2017: \$0.95).

Significant changes in the state of affairs

On 19 December 2018, the Board of Watermark Market Neutral Fund Limited announced its intention to implement a Scheme of Arrangement. As a result of the proposed Scheme, the Company will be restructured to become an unlisted registered unit trust.

Following the expiration of the previous on-market share buy back program, on 13 February 2018, the Company announced an additional 12-month on-market buy back program. 3,130,857 shares have been bought back during the reporting period.

There were no other significant changes in the state of affairs of the Company during the half-year ended 31 December 2018.

Matters subsequent to the end of the half-year

Following its 19 December announcement, the Board announced on 5 February 2019, that it had executed a Scheme Implementation Deed with Equity Trustees Limited and the Investment Manager. This Deed formally entered the Company into the Scheme, subject to a number of conditions precedent. Pursuant to the Deed, all assets of the Company will be transferred into the new trust in consideration for units, to be issued to Shareholders.

It is expected that Shareholders will be asked to vote on the Scheme in early April, with the Scheme to be implemented shortly thereafter. The Company's investment portfolio will be converted to cash ahead of the Scheme's implementation.

As a result of these announcements, the Board resolved on 12 February 2019 to write down the value of Deferred Tax Assets on the balance sheet as at 31 December 2018 and make an adjustment to the Company's NTA. This adjustment was reflected in the January 2019 NTA Update.

Having progressively reduced the Company's exposure to international shares through 2018, the Investment Manager announced on 20 January 2019 that it would withdraw from investments in global equities and focus on the Australian share market.

Matters subsequent to the end of the half-year (continued)

No other matter or circumstances has arisen since 31 December 2018 that has significantly affected, or may significantly affect:

- the operations of the Company in the future financial period, or
- the results of those operations in future financial period, or
- the state of affairs of the Company in future financial period.

Rounding of Amounts to nearest dollars

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, the amounts in the Directors' Report and in the Financial Report have been rounded to the nearest dollar, unless otherwise specified.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* in relation to the review for the half-year is set out on page 4.

This report is made in accordance with a resolution of Directors.



Matthew Kidman
Chairman

Sydney
26 February 2019

**Auditor's Independence Declaration
to the directors of Watermark Market Neutral Fund Limited
ABN 45 163 980 498**

In relation to the independent auditor's review for the half-year ended 31 December 2018, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Watermark Market Neutral Fund Limited during the period.



C I Chandran
Partner

Pitcher Partners
Sydney

26 February 2019

Watermark Market Neutral Fund Limited
Statement of Comprehensive Income
For the half-year ended 31 December 2018

	Half-year ended	
	31 December	31 December
	2018	2017
Notes	\$	\$
Investment income from ordinary activities		
Net (losses) on investments	(2,178,811)	(1,307,849)
Dividends	598,020	1,022,342
Interest	1,002,600	1,224,502
Trust distributions	50,032	117,420
Other income	-	603
Net foreign exchange (losses)	(175,817)	(197,925)
	<u>(703,976)</u>	<u>859,093</u>
Expenses		
Management fees	(390,424)	(429,669)
Brokerage expense	(371,780)	(487,182)
Short dividend expense	(1,308,341)	(1,804,091)
Accounting fees	(47,421)	(53,510)
Share registry fees	(26,324)	(35,978)
Stock loan fees	(186,958)	(229,060)
Interest expense	(612,012)	(848,745)
Directors' fees	(65,000)	(65,000)
ASX fees	(31,181)	(29,520)
Audit and tax fees	(38,732)	(40,491)
Other expenses	(96,827)	(68,548)
	<u>(3,175,000)</u>	<u>(4,091,794)</u>
(Loss) before income tax	(3,878,976)	(3,232,701)
Income tax (expense)/benefit	(2,503,028)	1,001,280
(Loss) for the period	<u>(6,382,004)</u>	<u>(2,231,421)</u>
Other comprehensive income for the period, net of tax	<u>-</u>	<u>-</u>
Total comprehensive (loss) for the period	<u>(6,382,004)</u>	<u>(2,231,421)</u>
	Cents	Cents
(Loss) per share for (loss) attributable to the ordinary equity holders of the Company:		
Basic (loss) per share	4 (7.70)	(2.55)
Diluted (loss) per share	4 (7.70)	(2.55)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Watermark Market Neutral Fund Limited
Statement of Financial Position
As at 31 December 2018

	At 31 December 2018	30 June 2018
Notes	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	70,968,036	73,480,754
Trade and other receivables	724,073	5,343,214
Financial assets at fair value through profit or loss	2(a) 41,503,834	74,758,692
Current tax assets (tax refund)	626,354	-
Other current assets	42,617	-
Total current assets	113,864,914	153,582,660
Non-current assets		
Deferred tax assets	-	2,514,868
Total non-current assets	-	2,514,868
Total assets	113,864,914	156,097,528
LIABILITIES		
Current liabilities		
Trade and other payables	490,461	4,520,455
Derivative financial instruments	-	38,800
Financial liabilities at fair value through profit or loss	2(a) 42,247,747	70,221,048
Total current liabilities	42,738,208	74,780,303
Non-current liabilities		
Deferred tax liabilities	-	11,840
Total non-current liabilities	-	11,840
Total liabilities	42,738,208	74,792,143
Net assets	71,126,706	81,305,385
EQUITY		
Issued capital	6(a) 81,931,296	84,475,177
Profits reserve	345,210	61,392
Accumulated losses	(11,149,800)	(3,231,184)
Total equity	71,126,706	81,305,385

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Watermark Market Neutral Fund Limited
Statement of Changes in Equity
For the half-year ended 31 December 2018

	Notes	Issued capital \$	Profits reserve \$	Accumulated losses \$	Total \$
Balance at 1 July 2017		86,782,148	2,954,036	(1,028,187)	88,707,997
(Loss) for the period		-	-	(2,231,421)	(2,231,421)
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	7	200,691	(2,183,952)	-	(1,983,261)
Costs of issued capital		(1,822)	-	-	(1,822)
On market buy back		(210,620)	-	-	(210,620)
Transfer to profits reserve		-	150,795	(150,795)	-
		(11,751)	(2,033,157)	(150,795)	(2,195,703)
Balance at 31 December 2017		86,770,397	920,879	(3,410,403)	84,280,873
Balance at 1 July 2018		84,475,177	61,392	(3,231,184)	81,305,385
(Loss) for the period		-	-	(6,382,004)	(6,382,004)
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	7	-	(1,252,794)	-	(1,252,794)
Costs of issued capital		(4,246)	-	-	(4,246)
On market buy back	6	(2,539,635)	-	-	(2,539,635)
Transfer to profits reserve		-	1,536,612	(1,536,612)	-
		(2,543,881)	283,818	(1,536,612)	(3,796,675)
Balance at 31 December 2018		81,931,296	345,210	(11,149,800)	71,126,706

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Watermark Market Neutral Fund Limited
Statement of Cash Flows
For the half-year ended 31 December 2018

	Half-year ended	
	31 December	31 December
	2018	2017
Notes	\$	\$
Cash flows from operating activities		
Proceeds from sale of financial assets	157,507,744	173,469,193
Purchase of financial assets	(129,840,158)	(131,580,351)
Proceeds from re-purchase of financial liabilities	108,646,126	136,343,863
Payments for settlements of financial liabilities	(133,191,789)	(175,177,090)
Dividends and trust distributions received	971,491	1,271,842
Interest received	1,044,438	1,195,028
Interest paid	(673,816)	(856,722)
Income taxes paid	(624,534)	(1,226,436)
Other income received	-	603
Investment management fees paid	(328,554)	(431,816)
Performance fees paid	-	(163,954)
Dividends paid on short stocks	(1,479,092)	(1,835,752)
Brokerage expense	(375,829)	(479,323)
Stock loan fees	(203,982)	(235,245)
Payments for other expenses	(316,711)	(395,874)
Net cash inflow/(outflow) from operating activities	1,135,334	(102,034)
Cash flows from financing activities		
Payments for shares bought back	6 (2,213,375)	(210,620)
Dividends paid to company's shareholders	(1,252,794)	(2,183,952)
Shares issued	-	200,691
Share issue transaction costs	(6,066)	(2,603)
Net cash (outflow) from financing activities	(3,472,235)	(2,196,484)
Net (decrease) in cash and cash equivalents	(2,336,901)	(2,298,518)
Cash and cash equivalents at the beginning of the year	73,480,754	80,021,172
Effects of exchange rate changes on cash and cash equivalents	(175,817)	(197,925)
Cash and cash equivalents at end of half-year	70,968,036	77,524,729

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these interim financial reports are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The interim financial reports are for the entity Watermark Market Neutral Fund Limited.

(a) Basis of preparation of half-year report

These interim financial reports for the half-year reporting period ended 31 December 2018 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Compliance with AASB 134 by a for-profit entity ensures compliance with International Financial Reporting Standards IAS 34 *Interim Financial Reporting*.

The Company is a for-profit entity for financial reporting purposes under Australian Accounting Standard.

These interim financial reports do not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by Watermark Market Neutral Fund Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The interim financial reports have been prepared on an accrual basis, and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

The interim financial reports were authorised for issue by the Board of Directors on 26 February 2019.

(b) Significant accounting policies

The Company had to change some of its accounting policies as a result of new and revised accounting standards which became effective for the first time in the current reporting period. The affected policies are:

- *AASB 9 Financial Instruments* (and applicable amendments)

AASB 9 became effective for annual periods beginning on or after 1 January 2018. It addresses the classification, measurement and derecognition of financial assets and liabilities and replaces the multiple classification and measurement models in AASB 139. The derecognition rules have not changed from the previous requirements, and the Company does not apply hedge accounting.

Financial instruments

(i) Classification

- Financial assets

The Company classifies its investments based on its business model for managing those financial assets. The Company's portfolio of financial assets is managed and performance is evaluated on a fair value basis in accordance with the Company's documented investment strategy. The Company's policy is to evaluate the information about these financial assets on a fair value basis together with other related financial information.

For equity securities and derivatives, the contractual cash flows of these instruments do not represent solely payments of principal and interest. Consequently, these investments are measured at fair value through profit or loss.

The Company holds equity securities of \$41,503,834 (2018: \$74,758,692) which had previously been designated at fair value through profit or loss. On adoption of AASB 9 these securities are mandatorily classified as fair value through profit or loss.

1 Summary of significant accounting policies (continued)

(b) Significant accounting policies (continued)

- Financial liabilities

The Company makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are held for trading and are consequently classified as financial liabilities at fair value through profit or loss. Derivative contracts that have a negative fair value are presented as liabilities at fair value through profit or loss.

The Company holds equity securities of \$42,247,747 (2018: \$70,221,048) which had previously been designated at fair value through profit or loss and derivatives of nil (2018: \$38,800) which had previously been held for trading. On adoption of AASB 9 these debt securities are mandatorily classified as fair value through profit or loss.

Investment Income

Interest income from financial assets at amortised cost is recognised on a time-proportionate basis using the effective interest method and includes interest from cash and cash equivalents. Interest from financial assets at fair value through profit or loss is determined based on the contractual coupon interest rate and includes interest from debt securities.

Except for the adoption of AASB 9, the accounting policies adopted are consistent with those of the previous financial year and corresponding interim report.

2 Fair value measurements

The Company measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Financial assets and financial liabilities at fair value through profit or loss (FVTPL)
- Derivative financial instruments

The Company has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

(a) Fair value hierarchy

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2) and;
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

2 Fair value measurements (continued)

(a) Fair value hierarchy (continued)

(i) Recognised fair value measurements

The following table presents the Company's assets and liabilities measured and recognised at fair value at 31 December 2018 and 30 June 2018 on a recurring basis.

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
At 31 December 2018				
Financial assets				
Financial assets at FVTPL				
Equity securities	40,544,518	-	-	40,544,518
Equity securities international	959,316	-	-	959,316
Total financial assets	41,503,834	-	-	41,503,834
Financial liabilities				
Financial liabilities at FVTPL				
Equity securities sold short	41,535,424	-	-	41,535,424
Equity securities international	712,323	-	-	712,323
Total financial liabilities	42,247,747	-	-	42,247,747
At 30 June 2018				
Financial assets				
Financial assets at FVTPL				
Equity securities	58,775,395	-	-	58,775,395
Equity securities international	15,983,297	-	-	15,983,297
Total financial assets	74,758,692	-	-	74,758,692
Financial liabilities				
Financial liabilities at FVTPL				
Equity securities sold short	52,771,616	-	-	52,771,616
Trading derivatives	38,800	-	-	38,800
Equity securities international	17,449,432	-	-	17,449,432
Total financial liabilities	70,259,848	-	-	70,259,848

Included within Level 1 of the hierarchy are listed investments. The fair value of these financial assets and liabilities have been based on the last close prices at the end of the reporting period, excluding transaction costs.

There were no transfers between levels for recurring fair value measurements during the half-year.

The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

(ii) Disclosed fair values

For all financial instruments other than those measured at fair value their carrying value approximates fair value.

The carrying amounts of trade and other receivables and payables approximate their fair values due to their short-term nature.

3 Segment information

The Company has only one reportable segment. The Company operates in one industry being the securities industry, deriving revenue from dividend and trust distribution income, interest income and from the sale of its trading portfolio.

4 Earnings per share

(a) Basic earnings per share

	Half-year ended	
	31 December	31 December
	2018	2017
	Cents	Cents
Basic (loss) per share attributable to the ordinary equity holders of the Company	<u>(7.70)</u>	(2.55)
Total basic (loss) per share attributable to the ordinary equity holders of the Company	<u>(7.70)</u>	(2.55)

Diluted earnings per share is equal to basic earnings per share as at the reporting date.

(b) Weighted average number of shares used as denominator

	Half-year ended	
	31 December	31 December
	2018	2017
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	<u>82,895,631</u>	87,371,782

5 Contingencies

The Company had no contingent liabilities at 31 December 2018 (June 2018: nil).

6 Issued capital

(a) Share capital

	31 December	30 June	31 December	30 June
	2018	2018	2018	2018
	Shares	Shares	\$	\$
Ordinary shares	81,402,701	84,533,558	81,931,296	84,475,177

(b) Movements in ordinary share capital

Details	Notes	Number of shares	\$
Opening balance 1 July 2017		87,357,985	86,782,148
On market buy back		(3,048,849)	(2,505,840)
DRP shares issued for dividend payment	6(d)	224,422	200,691
Cost of issued capital		-	(1,822)
Closing balance 30 June 2018		<u>84,533,558</u>	<u>84,475,177</u>

6 Issued capital (continued)

(b) Movements in ordinary share capital (continued)

Details		Number of shares	\$
Opening balance 1 July 2018		84,533,558	84,475,177
On market buy back	6(e)	(3,130,857)	(2,539,635)
Cost of issued capital		-	(4,246)
Closing balance 31 December 2018		81,402,701	81,931,296

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Dividend reinvestment plan

The Company has established a dividend reinvestment plan "DRP" under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. Shares are issued under the plan at a discount to the market price. The discount is determined from time to time and is capped at 3%.

(e) Share buy back

Following the expiration of the previous on-market share buy back program, on 13 February 2018, the Company announced an additional 12-month on-market buy back program. 3,130,857 shares have been bought back during the reporting period.

After the announcement of the proposed restructure on 20 December 2018, the Company has stopped the on-market buy back of shares.

7 Dividends

(a) Ordinary shares

	Half-year ended 31 December 2018 \$	31 December 2017 \$
Final dividend franked based on tax paid @ 30% (2017: 30%)	1,252,794	2,183,950

(b) Dividend rate

Dividends paid franked based on tax paid at 30% tax rate

	Dividend Rate	Total Amount	Date of Payment	% Franked
Ordinary shares - final 2018	\$0.015	\$1,252,794	14/09/2018	100

7 Dividends (continued)

(c) Dividends not recognised at the end of the reporting period

	Half-year ended
31 December	31 December
2018	2017
\$	\$

Since half-year end the Directors have recommended the payment of:
- an interim dividend of nil per fully paid ordinary share (2017 - 1 cent), 100% franked (2017: 100% franked) based on tax paid at 30%.

The aggregate amount of the proposed dividend expected to be paid out of the profits reserve at 31 December 2018, but not recognised as a liability at half-year end, is

- 873,346

No dividends were declared during the half-year ended 31 December 2018.

8 Events occurring after the reporting period

Following its 19 December announcement, the Board announced on 5 February 2019, that it had executed a Scheme Implementation Deed with Equity Trustees Limited and the Investment Manager. This Deed formally entered the Company into the Scheme, subject to a number of conditions precedent. Pursuant to the Deed, all assets of the Company will be transferred into the new trust in consideration for units, to be issued to Shareholders.

It is expected that Shareholders will be asked to vote on the Scheme in early April, with the Scheme to be implemented shortly thereafter. The Company's investment portfolio will be converted to cash ahead of the Scheme's implementation.

As a result of these announcements, the Board resolved on 12 February 2019 to write down the value of Deferred Tax Assets on the balance sheet as at 31 December 2018 and make an adjustment to the Company's NTA. This adjustment was reflected in the January 2019 NTA Update.

Having progressively reduced the Company's exposure to international shares through 2018, the Investment Manager announced on 20 January 2019 that it would withdraw from investments in global equities and focus on the Australian share market.

Other than the matters noted above, no other matter or circumstance has occurred subsequent to the end of the period that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company or economic entity in subsequent financial periods.

Watermark Market Neutral Fund Limited
Directors' Declaration
For the half-year ended 31 December 2018

In the Directors' opinion:

- (a) the interim financial reports and notes set out on pages 5 to 14 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standard AASB 134: *Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the Company's financial position as at 31 December 2018 and of its performance for the half-year ended on that date.
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of Directors.



Matthew Kidman
Chairman

Sydney
26 February 2019

**Independent Auditor's Review Report
to the members of Watermark Market Neutral Fund Limited
ABN 45 163 980 498**

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Watermark Market Neutral Fund Limited ("the company"), which comprises the statement of financial position as at 31 December 2018, statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a statement of significant accounting policies, other selected explanatory notes and the directors' declaration of the company.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: *"Review of a Financial Report Performed by the Independent Auditor of the Entity"*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporation Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: *"Interim Financial Reporting"* and the *Corporations Regulations 2001*. As the auditor of Watermark Market Neutral Fund Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of the half-year financial report consists of making enquiries, primarily of persons responsible for the financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Watermark Market Neutral Fund Limited is not in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the company's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
- (ii) complying with Accounting Standard AASB 134: *Interim Financial Reporting* and *Corporations Regulations 2001*.



C I Chandran
Partner



Pitcher Partners
Sydney

26 February 2019