

Monthly Update – December 2017

Fund at a Glance

Fund Size	AU\$250m
Strategy FUM	AU\$295m
Fund Inception Date	August 2012
Fund Strategy	Equity Market Neutral
Application/Redemption	Daily
Management Fee	1.5%
Performance Fee	20%
Benchmark	RBA Cash Rate

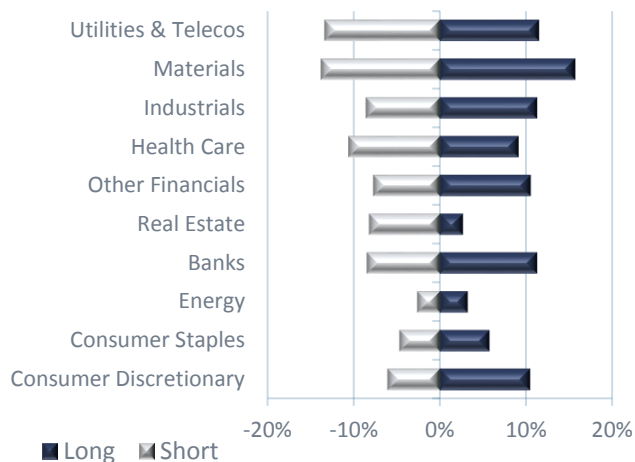
Return Characteristics¹

Positive Months	68%
Beta	-0.2%
Sharpe Ratio	1.3
Sortino Ratio	4.0
Standard Deviation (annualized)	6.8%
No. Long Positions	75
No. Short Positions	66
Gross Exposure	176%
International Exposure (% of Gross)	18%

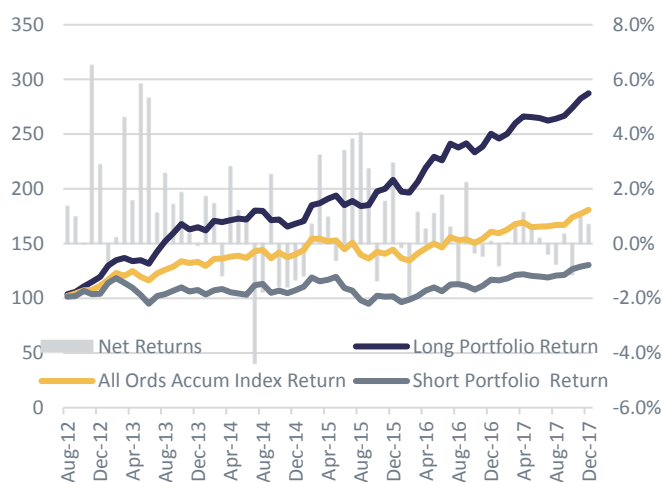
Performance

	1 Mth	1 Yr	2 Yrs (pa)	3 Yrs (pa)	4 Yrs (pa)	SI (pa)
WMNT (net return)	0.7%	1.6%	2.3%	8.5%	5.9%	11.2%
RBA Cash Rate	0.1%	1.5%	1.6%	1.8%	2.0%	2.2%
Outperformance	0.6%	0.1%	0.7%	6.7%	3.9%	9.0%

Sector Exposures



Long/Short Spread²



Gross Portfolio Structure

Investment Type	November 2017		December 2017	
	\$m	%	\$m	%
Listed Securities - Long	209.0	87.1	230.0	92.0
Listed Securities - Short	192.5	-80.2	-210.5	-84.2
Net Exposure	16.6	6.9	19.5	7.8
Cash	223.4	93.1	230.5	92.2
Capital	240	100	250	100

¹ Return Characteristics are for the period since inception. The Fund's inception date is August 2012.

² The Fund makes a profit where the long portfolio outperforms the short portfolio, after the payment of fees. Portfolio returns are before fees and costs.

Month in Review

Equity markets around the world finished the year as they began, rallying on the promise of lower taxes for US corporates and strong economic data across developed and emerging markets. This synchronised growth around the world has been an especially powerful tailwind for the commodities sector, leading to strong demand for bulk commodities and base metals. The Australian share market also participated in the pre-Christmas rally, and delivered an 11.8% return for the 12 months to the end of December, trailing most global peers by a sizeable margin.

The Fund delivered an 0.7% return after all fees in December. At a sector level, strong contributions came from Financials and Basic Industries, while the Healthcare and Industrial portfolios weighed on returns.

Mining was the best performing sector globally, as positive economic data lifted the prices of all commodities. Nickel rose 15% and Coal 30%, supporting a key position in Independence Group. We have neutralised the Fund's modest net long exposure in this part of the portfolio as the sector looks overbought in the short term. The oil price continues to benefit from large draws in crude inventory, signalling ongoing demand strength. The Fund is balanced in the energy sector given the strong rally in recent months and with full valuations creating vulnerability to any bad news.

December proved to be a difficult month for regulated utilities, as lower returns on rate-base led to pullbacks for APA Group, Ausnet Services and Spark Infrastructure. APA saw further headwinds following regulatory concerns around its uncovered pipeline assets. The fund was well positioned in the sector. Electricity generation and retailers were relatively flat for the month. With Alinta strengthening its position in the market after its parent company - Chow Tai Fook, purchased Loy Yang B, the competitive environment has intensified further. Meridian Energy saw a positive response to its \$168 million purchase of hydro power stations in Australia to complement its PowerShop business, which benefited the fund.

Having underperformed for much of 2017, the global media and telecom sectors rallied strongly in December. Companies in these industries tend to derive a large share of their earnings in the US and will be major beneficiaries of tax reform. Australian TMT shares finished off the year with another strong month. Software shares in particular were buoyed by Oracle's bid for local construction software firm Aconex at a 50% premium. We participated in Bain Capital's sell-down of another tranche of its shareholding in MYOB. The Company is seeing uplift in its average return per user as customers transition to subscription software and for the growth it is delivering, the shares look particularly undervalued relative to both the broader market and peers. An investment in TradeMe was again a key contributor to domestic performance and we took advantage of the strength to trim our position.

Short exposures in the domestic healthcare sector detracted from returns in the month, with continued strength in this part of the market defying already stretched valuations for key local names. A further downgrade to forecast earnings for Allergan saw shares in that company fall again in December. We retain our conviction that management of this high-quality pharma company can execute successfully on their strategy, leaving the company attractively valued at current levels. We have continued to build a position in Nevro Corp, a medical device company and market leader in pain management through spinal cord neurostimulation. A position in Spark Therapeutics was re-established following a 30% decline in the share price. This was a result of disappointment from investors around early results from Spark's Haemophilia A gene therapy in a tiny number of patients. We disagree with the market's reaction and view the preliminary data as encouraging, backing back the company to deliver improved results after further optimisation.

Solid contributions came from positions in banks and diversified financials. An investment in consumer finance business Synchrony continues to perform well, with the company enjoying a privileged position supplying store credit cards to major global retailers such as Amazon and Wal-Mart. The Fund's investment in Westfield Corp was rewarded in December, with French property giant Unibail-Rodamco acquiring the company in a cash and scrip deal valued at a significant premium to the last trade price of \$8.50.



In the consumer sector, Tabcorp Holdings had another strong month following shareholders' approval of its merger with Tatts Group and an investment in Aristocrat Leisure also performed well.

We have initiated several new positions in the industrials sector, where our strategy is to take advantage of the strong momentum across the industrial economy while selectively shorting companies that face structural challenges. The Fund holds two core investments in the aerospace sector: French company Safran S.A – which manufactures aircraft and rocket engines; and the US based Hexcel Corporation which is a leading producer of carbon fibre and resin systems. These are partly-hedged with a core short in Rolls-Royce.

Monthly Net Performance (%)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2012	-	-	-	-	-	-	-	1.36	0.97	0.00	6.51	2.88	11.72
2013	-0.71	0.21	4.60	1.55	5.83	5.31	1.11	2.57	1.43	1.86	0.35	-0.06	24.05
2014	1.71	1.45	-1.17	2.80	1.21	0.84	-4.38	-1.77	2.52	-1.57	-1.58	-1.32	-1.26
2015	-1.18	0.70	3.23	0.96	-0.61	3.39	3.82	4.04	2.73	-1.36	1.53	2.93	20.19
2016	-0.14	-1.93	1.13	0.53	1.08	1.76	0.60	-1.46	2.23	-0.34	-0.46	0.07	3.03
2017	-0.81	0.02	0.76	1.13	0.61	0.19	-0.39	-0.75	0.34	-1.14	1.00	0.69	1.65



Macquarie Wrap

BT Wrap

BT Panorama

Asgard

Netwealth

IOOF Pursuit

Mason Stevens

Powerwrap

Hub24

AMP North

More Information

Rani Singh – Business Development Manager

02 8047 7744

0422 745 731

singh@wfunds.com.auwww.wfunds.com.au

Link Fund Solutions – Unit Registry

LFS_contact@linkgroup.com<http://www.linkfundsolutions.com/>

Disclaimer: This document is issued by Watermark Funds Management Pty Ltd (ABN 98 106 302 505, AFSL 250897) in relation to the Watermark Market Neutral Trust (the Fund). Watermark Funds Management Ltd (Watermark) is a privately owned funds management business. Equity Trustees Limited (ABN 46 004 031 298, AFSL 240975) is the Responsible Entity for the Fund. The information provided is general information only. It does not constitute financial, tax or legal advice or an offer or solicitation to subscribe for units or shares in any fund of which Watermark is the contracted Investment Manager. The information in this document has been prepared without taking account of your objectives, financial situation or needs. Before acting on the information or deciding whether to acquire or hold a product, consider its appropriateness and the relevant Product Disclosure Statement (PDS), which is available on Watermark's website; wfunds.com.au, or by phoning 02 92550225. Watermark receives management and performance fees in respect of the Fund, details of which are also set out in the PDS. Watermark, its affiliates and associates accept no liability for any inaccurate, incomplete or omitted information of any kind or any losses caused by using this information. All investments carry risks. There can be no assurance that any Watermark Fund will achieve its targeted rate of return and no guarantee against loss resulting from an investment in the Fund. Past fund performance is not indicative of future performance.