

Watermark Market Neutral Fund Limited

ABN 45 163 980 498

Annual Report 2014

PERIOD ENDED 30 JUNE 2014

Watermark Market Neutral Fund Limited
Level 5, 139 Macquarie Street NSW Sydney 2000

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Watermark Market Neutral Fund Limited
Corporate directory

Directors

Matthew Kidman
Chairman

Justin Braitling
Non-Independent Director

John Abernethy
Independent Director

Stephen Van Eyk
Independent Director

Robert Ferguson
Independent Director

Secretary

Peter Roberts

Registered office

Suite 4, Level 5
139 Macquarie Street
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) 8262 2800.

Share registrar

Boardroom Pty Limited
Level 7, 207 Kent Street
Sydney NSW 2000
Phone: (02) 9290 9600
Fax: (02) 9279 0664

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

Auditors

Moore Stephens Sydney
Level 15, 135 King Street
Sydney NSW 2000
Phone: (02) 8236 7700

Stock exchange

Australian Securities Exchange (ASX)
The home exchange is Sydney.
ASX code: WMK Ordinary shares
ASX code: WMKO Options \$1.00 expiring 31 December 2014

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Annual Report - 30 June 2014

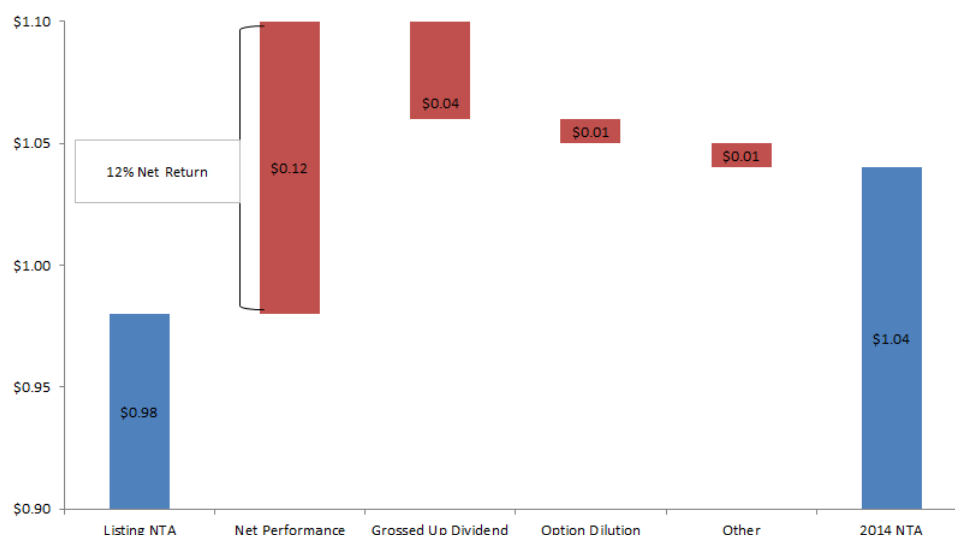
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Chairman's Letter

The Watermark Market Neutral Fund reported a maiden after tax profit of \$6.6 million for the period ending June 30, 2014. As at the 30 June 2014, the pre tax net tangible asset backing (NTA) of WMK was \$1.06 per share, up 8.4c on the NTA of \$0.976 per share at the time of listing. Total dividends declared for the year were 5 cents a share fully franked, comprising a 2.5 cent interim dividend and a 2.5 cent final dividend.

Figure 1. NTA Bridge



We are pleased with the fund's performance in its first year as a public company. The fund reported a positive net return of 11.8 per cent for the year after all fees. In recognition of these strong results, the company's shares have traded at or close to the after tax NTA since listing. Over time we would expect the shares to trade in line with the fund's underlying net asset backing. The fund's objective is to protect shareholders' capital while paying an increasing stream of fully franked dividends when possible.

WMK should be viewed as an alternative investment strategy. Investors should be cautious in drawing comparisons of WMK's performance against movements in the share market; WMK's strategy is designed to eliminate underlying net exposure to the market with the portfolio's performance reflecting the manager's stock picking efforts. Investors should remember, the share market does not always go up and will at some stage certainly fall. In those difficult years for the share market, WMK is aiming to achieve similar returns irrespective of any negative movements in the market.

With interest rates at such low levels, asset markets everywhere are benefiting from relaxed monetary policies. As prices rise, the risk in holding these assets is also increasing as rates will at some stage return to higher levels. While many investors seek to protect themselves through asset diversification, it may not have the desired effect; when markets fall the impact can be felt across all asset classes.

Investors have few ways of laying off these risks other than from holding cash, as all investments are exposed in one way or another to the underlying asset class- be it property, fixed interest or shares. This is the great conundrum, as low yields are forcing investors to take on higher levels of risk to preserve returns. While these risks appear benign now, as leverage to inflated asset values builds and interest rates rise, financial stresses will return.

WMK is different to other share funds; its fully hedged structure is largely immunised from adverse market movements, making it a valuable addition to a balanced portfolio. While the board is confident the Company's capital is, in the main, protected from adverse market movements, this does not ensure WMK shares will not fall if the share market was to fall sharply.

As a measure to preserve value for shareholders the board has announced the approval of an on market buy-back of up to 10% of the Company's capital which may be implemented at any time after the 27 August 2014. If WMK shares were to move materially below NTA at any point in time, as may occur if the share market were to fall, the manager could buy back the Company's shares at a discount to NTA, adding value for all shareholders who remain on the register. The directors consider that a purchase of the Company's own shares represents a particularly good investment opportunity where the Company's shares are trading at a discount to NTA and the market is falling.

On listing each investor was issued a free bonus option for every share held in WMK. We would like to remind our option holders that these securities are valuable and last traded at 3.2 cents per option on the 8th of August, 2014. While they do not expire until December of this year, please keep them in mind when managing your investment in the company.

Finally I would like to thank all investors for their support in the company's first year as a public company. If we are successful with this strategy we hope to present strong results each year, irrespective of underlying financial market conditions.

Matthew Kidman
Chairman

Sydney
12 August 2014

2 Chief Investment Officer's Report

Against the backdrop of a continued rally in the Australian share market, the portfolio delivered a solid 11.8% return net of all fees for the period to June 30, 2014. The objective of a market neutral strategy is to deliver consistent, positive returns with low volatility and minimal correlation to the underlying share market. During FY14, the portfolio delivered a positive return in all but 2 months and volatility was 60% lower than the share market.

Since listing in July last year we have kept our shareholders funds largely in cash and liquid securities. In the months following listing we borrowed a portfolio of shares we felt would underperform and sold these shares (shorts). We received cash proceeds from these sales which were used to fund the investment portfolio (longs). The structure is quite simple. The investment portfolio of shares we like is funded from short proceeds raised from selling the shares we don't like, while the company's capital is retained in cash. As the value of the two portfolios are roughly the same this is a fully hedged structure with the fund benefiting to the extent our long portfolio outperforms the shares we have sold short, while our shareholders funds sit in the bank earning interest.

When we look at the performance of these two portfolios over the period you will see clearly where the value has been created. The 'Short' portfolio, a liability on the company's balance sheet actually fell slightly over the period (it increased marginally after adding back dividends). That was no easy feat in a year when the market shot up by 16.4%. The cash proceeds raised from selling these shares were used to fund our long portfolio, an asset on the balance sheet which increased by 18.3% over the same period, comfortably ahead of the accumulation index which increased by 16.4%.

Portfolio Review

As security selection is paramount in this process, we break the share market down into four key sectors in reviewing performance: Defensive industries protected from the economic cycle; Cyclical industries exposed to the economic cycle; and the Resources and Financial Services sectors.

The current market recovery is unusual in that *Defensive* shares have led the market higher, as investors have sought yield in a low interest rate environment. While this has left the sector looking overvalued generally, we are still finding selective opportunities here.

The fund has a significant exposure to healthcare, an industry supported by positive demographic trends with an ageing population. In international markets large pharma and generic companies are rapidly consolidating, this has created opportunities for *Mayne Pharma Group* to pick up divested portfolios. We added further value in shorting a number of biotech names we felt had been over promoted, many with questionable underlying science. Aged care is another sector seeing strong growth as the government provides incentives to accommodate those in need.

We have had little exposure to the major listed supermarkets as we are concerned with the pace of store rollouts which are surpassing population growth and international discounters *Aldi* and *Costco* are gaining traction.

Crown Resorts, a core holding in the fund, performed particularly well as its investment in Melco Crown soared higher along with visitation trends in Macau. We have maintained a number of positions in emerging telecom and technology such as *Amcom Telecommunication* and *NextDC Limited* as these companies are benefiting from the emerging digital economy.

As the mining boom fades, the economy is facing headwinds from falling commodity prices and an easing in mining investment. While lower interest rates and a stronger housing market are providing some relief to the household sector, this is being offset by ongoing fiscal consolidation and deleveraging. With this economic backdrop, the fund has had no net exposure to *Cyclical* companies exposed to the soft economy.

We did benefit however from the recovery in *APN News and Media* following the reorganisation of their radio assets. The digital employment provider - *Seek Limited* was also an important contributor. The fund's investments in the transport sector performed particularly well with big contributions coming from *Brambles Limited* and *Aurizon Holdings*. Shorts in the digital travel sector worked well as the value of these shares fell sharply. In the contracting space, a large short in *Forge Group* also paid off when the company fell into receivership.

2 Chief Investment Officer's Report (continued)

In *Financial Services*, our investment in *Henderson Group* contributed significantly to performance as the wealth manager builds its global presence. Over the year, our stance on the Australian banks has become more cautious as margin pressures are now building and bad debt charges are at a cyclical low. It is also clear in light of the Financial System Inquiry's Interim Report that regulatory uncertainty remains high and further capital imposts are being considered. The fund's exposure to the turnaround at the *Bank of Queensland* made an important contribution.

The *Resources* sector has more than likely moved into a bear market and may well trade in a range for some time. While demand for commodities remains robust, most markets are now in balance as higher prices have induced new supply. We remain wary of companies exposed to bulk commodities -iron ore and coal in particular. Shorts in this sector made a strong contribution to performance in recent months with the weakness in the iron ore price. We have a strong preference for producers of industrial metals and certain niche commodities where the fundamentals remain strong. Key holdings in *Tiger Resources*, *Sirius Resources* and *Orocobre Limited* all contributed in 2014. While we expect ongoing volatility in the price of gold, there is a sound case supporting a resumption of gold's upward advance. The fund did very well from its investments in *Oceana Gold* and *Doray Minerals* in the period. The energy sector has performed well in recent months and we are finding a number of opportunities in unconventional oil & gas. *Sundance Energy* has been an outstanding investment for the fund and continues as a core holding.

Justin Braithling
Chief Investment Officer
Watermark Funds Management

Company Profile

Investment Objective

The Company's investment objective is to deliver consistent positive returns with reduced market risk, irrespective of movements in the underlying share market. The Company will also seek to return a consistent stream of fully franked dividends to Shareholders.

Investment Philosophy

The Manager believes successful investing requires the following skills:

- An ability to evaluate the true worth of a business and the management charged with running it;
- An understanding of how and why a company's shares come to be mispriced; and
- An appreciation of the risks that may undermine the investment case.

Employing these skills, the Manager believes the best investment opportunities arise when shares in strong, well managed companies can be purchased on attractive terms. These companies typically exhibit the following characteristics:

- A history of superior returns through the economic cycle;
- Management with a track record of creating and distributing value to shareholders; and
- Businesses with a capacity to grow.

Consistent with these same principles, in selecting shares to short sell the Manager looks to sell the shares of companies with weak fundamentals on occasions when they become overvalued.

Investment Process

The Manager's investment process is a fundamentally driven, security selection process based on sound investment ideas taken from the investment of public companies. A summary of the investment process is set out below.

Security Selection

Investment ideas come from monitoring economic and industry trends as well as extensive contact with company management and industry sources.

Once identified, investment opportunities are screened to ensure they are of an investment grade. A full qualitative assessment of the proposed investment is completed to establish whether the business is of a suitable quality and attractively priced.

Qualitative Review

Once a suitable investment opportunity has been identified, a full review of financial performance will be completed. This is usually followed by a meeting with management to further develop an understanding of the business and the management philosophy. Where possible, representatives of the Manager will also meet with suppliers, regulators, competitors and customers to gauge the competitive environment.

Short Selling

Short selling is an important part of the investment strategy employed by the Manager. In a market neutral structure, the manager will seek to match long and short exposures to maintain a fully hedged portfolio.

The Manager employs a similar security selection process as above, but is looking for the opposite qualities in companies to borrow and sell. The Manager believes the best "shorting" opportunities are found in poorly managed companies with weak fundamentals where the shares in those companies can be sold for more than they are worth.

Short Selling (continued)

When targeting companies to borrow and sell (short), the Manager will target:

- A history of inferior returns.
- Management with a poor track record.
- Businesses operating in highly competitive industries that are struggling to grow.
- Securities which are expensive on a range of valuation measures.

Portfolio Construction

Unlike a traditional fund, the Manager constructs two portfolios, a long and a short portfolio with the weighting of each investment in each portfolio loosely correlated with the level of conviction around individual investment ideas.

This process ensures the Manager constructs portfolios around the best individual investment ideas, with the highest conviction, while retaining a bias in favour of good, well managed companies to buy (long), and weaker businesses to sell (short).

The manager will retain 100% of investors' capital in cash and cash equivalents, held with the Prime Broker and on deposit with an Australian bank. Funds are then raised through the short-sale of securities, with the proceeds invested in the long portfolio. As such, the company can maintain a gross market exposure of up to 400% of Shareholders' capital in mispriced securities while ensuring the portfolio is fully hedged against movements in the underlying share market.

Watermark Market Neutral Fund Limited
Investments at Market Value
30 June 2014

Investments at Market Value

Consumer Services

Ainsworth Game Technology Limited	705,532	0.70%
Corporate Travel Management Limited	1,156,345	1.15%
Crown Resorts Limited	1,709,180	1.69%
Intueri Education Group Ltd	1,994,275	1.98%
Jumbo Interactive Limited	498,154	0.49%
Tatts Group Limited	1,837,099	1.82%
	7,900,585	7.83%

Media

APN News & Media Limited	1,397,861	1.39%
Twenty-First Century Fox, Inc. Class B	1,512,307	1.50%
Nine Entertainment Co. Holdings Pty Ltd.	1,223,996	1.21%
	4,134,164	4.10%

Retailing

Beacon Lighting Group Ltd	1,437,406	1.42%
Kathmandu Holdings Limited	404,727	0.40%
Super Retail Group Limited	1,725,121	1.71%
Trade Me Group Limited	1,223,896	1.21%
Reject Shop Limited	1,116,256	1.11%
	5,907,405	5.85%

Consumer Staples

Wesfarmers Limited	898,932	0.89%
Bellamy's Australia Limited	493,222	0.49%
Blackmores Limited	1,654,984	1.64%
	3,047,138	3.02%

Energy

AWE Limited	977,400	0.97%
Karoon Gas Australia Ltd	359,374	0.36%
Origin Energy Limited	2,407,841	2.39%
Oil Search Limited	1,788,128	1.77%
Sundance Energy Australia Limited	1,822,590	1.81%
Senex Energy Limited	278,000	0.28%
Worleyparsons Limited	2,193,277	2.17%
	9,826,610	9.74%

Financials

BT Investment Management Limited	444,063	0.44%
Emerchants Ltd.	534,372	0.53%
Henderson Group PLC Shs Chess Depository Interests	1,557,146	1.54%
OzForex Group Ltd	466,301	0.46%
Australia and New Zealand Banking Group Limited	3,568,814	3.54%
Commonwealth Bank of Australia	3,105,711	3.08%
AMP Limited	1,336,777	1.32%
QBE Insurance Group Limited	1,164,101	1.15%
Suncorp Group Limited	1,338,591	1.33%
	13,515,875	13.39%

Real Estate

Lend Lease Group	1,379,513	1.37%
Mirvac Group	1,068,826	1.06%
Scentre Group	398,720	0.40%
Westfield Corporation	715,000	0.71%
	3,562,059	3.53%

Health Care

Greencross Limited	408,537	0.40%
Japara Healthcare Ltd	641,233	0.64%
LifeHealthcare Group Ltd.	1,324,306	1.31%
Primary Health Care Limited	1,891,255	1.87%
Resmed Inc CHESS Depository Interests	1,597,645	1.58%
Monash IVF Group Ltd	1,648,662	1.63%
Vita Life Sciences Limited	220,267	0.22%
CSL Limited	395,773	0.39%
Mayne Pharma Group Limited	895,045	0.89%
Neuren Pharmaceuticals Limited	373,076	0.37%
	9,395,798	9.31%

Capital Goods

Austal Limited	1,400,801	1.39%
Macmahon Holdings Limited	543,629	0.54%
RCR Tomlinson Ltd	1,818,701	1.80%
Reece Australia Limited	712,545	0.71%
Sedgman Limited	1,041,493	1.03%
Southern Cross Electrical Engineering Limited	426,284	0.42%
Burson Group Ltd	668,994	0.66%
	6,612,446	6.55%

Commercial & Professional Services

Credit Corp Group Limited	1,104,256	1.09%
Onthehouse Holdings Limited	250,000	0.25%
Recall Holdings Ltd.	914,457	0.91%
Smartgroup Corporation Ltd	880,850	0.87%
Skilled Group Limited	925,566	0.92%
Tox Free Solutions Limited	994,132	0.99%
	5,069,261	5.02%

Transportation

Asciano Limited	938,341	0.93%
Aurizon Holdings Ltd.	1,338,913	1.33%
Transurban Group Ltd.	1,749,775	1.73%
	4,027,028	3.99%

Software & Services

Freelancer Ltd.	38,978	0.04%
Gentrack Group Ltd	1,843,952	1.83%
iSentia Group Limited	1,157,040	1.15%
Mint Wireless Limited	404,349	0.40%
Rubik Financial Limited	761,294	0.75%
3P Learning Ltd	490,038	0.49%
VMob Group Ltd.	96,225	0.10%
	4,791,876	4.75%

Materials

Alacer Gold Corp Shs Chess Depository Interests	484,841	0.48%
Alumina Limited	1,165,386	1.15%
BHP Billiton Limited	737,386	0.73%
Base Resources Limited	1,225,536	1.21%
Doray Minerals Limited	734,917	0.73%
Fletcher Building Limited	1,526,372	1.51%
Incitec Pivot Limited	1,881,549	1.86%
Mineral Deposits Limited	799,094	0.79%
Medusa Mining Limited	744,225	0.74%
Orocobre Limited	1,137,121	1.13%
Panoramic Resources Limited	787,148	0.78%
Panaust Limited	1,602,720	1.59%
Rio Tinto Limited	2,692,555	2.67%
Regis Resources Limited	640,687	0.63%
Sandfire Resources NL	419,993	0.42%
Sirius Resources NL	900,814	0.89%
Tiger Resources Limited	1,622,337	1.61%
Troy Resources Limited	452,348	0.45%
	19,555,029	19.38%

Telecommunication Services

Amcom Telecommunications Limited	752,400	0.75%
inet Limited	555,253	0.55%
Nextdc Limited	1,259,301	1.25%
	2,566,954	2.54%

Utilities

ERM Power Limited	884,219	0.88%
SP Ausnet	128,559	0.13%
	1,012,778	1.00%

TOTAL LONG PORTFOLIO **100,925,008** **100.00%**

TOTAL SHORT PORTFOLIO **-96,895,399**

Corporate Governance Statement

This statement outlines the main corporate governance practices adopted by the Company, which comply with the ASX Corporate Governance Council Principles and Recommendations (2nd Edition, August 2007 with 2010 Amendments) unless otherwise stated.

Principle 1: Lay solid foundations for management and oversight

The Board is responsible for monitoring of the overall operation, managing contracts with Managers, strategic direction, leadership and integrity of the Company and in particular, is responsible for monitoring Company's growth and profitability.

The Company's operations are conducted through Watermark Funds Management Pty Limited (Investment Manager) and White Outsourcing Pty Limited (Administration Manager). These entities incorporate the specialist wholesale investment and administration personnel who undertake the Company's executive operations. The Company has contracted with Watermark Funds Management Pty Limited and White Outsourcing Pty Limited to provide all investment management and administration services.

The Company's executive management arrangements have been structured to provide investors with a cost efficient investment vehicle and access to a significant depth of professional resources.

In order for a specific opportunity for performance matters to be discussed with each Director, each year the Chairman of the Board conducts a formal review process. The Chairman meets with each Director individually to discuss issues including performance and discusses with each Director the effectiveness of the Board as a whole, its Committees, individual Directors and the Chairman with the intention of providing mutual feedback. The Chairman reports on the general outcome of the meetings to the Board annually. Directors whose performance is unsatisfactory are asked to retire. In respect of the current financial year all assessments under this process have taken place in accordance with the process disclosed. Individual directors are subject to continuous review by the Chairman.

In addition, the performance of service providers (Watermark Funds Management Pty Limited and White Outsourcing Pty Limited) is the subject of continuous oversight by the Chairman and the Board as a whole. A performance review of service providers was conducted for the Board.

Recommendation 1.2 requires the disclosure of the process for evaluating the performance of senior executives. The Company does not comply with this recommendation as there are no senior executive officers of the Company.

Principle 2: Structure the Board to add value

The names of the directors of the Company in office at the date of this statement are set out in the Directors' Report on page 13.

The skills, experience and expertise relevant to the position of each director in office at the date of the Annual Report is included in the Directors' Report on page 15.

The term in office held by each director in office at the date of this report is as follows:

Name	Term in office
M. Kidman	1 year
J. Braitling	1 year
J. Abernethy	1 year
S. Van Eyk	1 year
R. Ferguson	1 year

On an annual basis and in accordance with the company's Constitution, the number nearest to one third of Directors are required to retire by rotation and being eligible, stand for re-election.

Principle 2: Structure the Board to add value (continued)

An independent director is considered to be a director:

- (a) who is not a member of management;
- (b) who has not within the last three years been employed in an executive capacity by the Company or been a principal of a professional adviser or consultant to the Company;
- (c) who is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- (d) who is not a significant supplier to the Company;
- (e) who has no material contractual relationship with the Company other than as a director; and
- (f) who is free from any interest or business or other relationship which could materially interfere with the director's ability to act in the best interests of the Company.

In the context of director independence, "materiality" is considered from both the company and individual director's perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the directors in question to shape the direction of the company's loyalty.

In accordance with the definition of independence above, and the materiality thresholds set, the following directors, are considered to be independent:

Name	Position
Matthew Kidman	Chairman
John Abernethy	Independent Director
Stephen Van Eyk	Independent Director
Robert Ferguson	Independent Director

Justin Braitley is not considered independent director and will excuse himself from any decision the Board makes with respect to the relationship between the Company and the Investment Manager.

Recommendation 2.1 requires that "A majority of the Board should be independent directors". The Company complies with this recommendation as the Board is 80% independent.

Recommendation 2.2 requires that "The Chair should be an independent director". The Company complies with this recommendation.

Recommendation 2.3 requires that "the roles of the Chair and Chief Executive Officer of the Company should not be exercised by the same individual". The Company does not comply with this recommendation as there is no Chief Executive Officer of the Company.

Recommendation 2.4 states the Board should establish a Nomination Committee. Due to the size of the Company it has not established a formal Nomination Committee and the functions of the Nomination Committee are undertaken by a full Board. The Board's target is to ensure that (as a minimum) directors collectively have investment accounting, general business experience and shareholder representation.

Each director has the right of access to all relevant Company information and to the Company executives and subject to prior consultation with the Chairman, may seek independent professional advice at the Company's expense. A copy of advice received by the director is made available to all other members of the Board.

The Board will hold scheduled meetings each year plus any other strategic meetings as and when necessitated by the Company's operations. The agenda for meetings is prepared through the input of the Chairman and the Company Secretary. Standing items include matters of compliance and reporting, financials, shareholder communications and investment strategy and outcomes. Submissions are circulated in advance.

Principle 3: Promote ethical and responsible decision making

The Board expects all non-executive directors to act professionally in their conduct and with the utmost integrity and objectivity. All non-executive directors must comply with the Company's Code of Conduct and Ethics. The directors in acting professionally in their conduct means that they will act with high standards of honesty, integrity and fairness, avoiding conflicts of interest, acting lawfully and ensuring confidential information is dealt with in accordance with the Company's Privacy Policy.

The Board monitors its outsourced service providers' compliance with the Company's Code of Conduct and Ethics, which is accessible to outside parties via the Company's website.

Directors are not required to hold a minimum number of shares in the Company.

Subject to them not being in possession of undisclosed price sensitive information with adequate time being given for this to be reflected in the security's price, Directors may deal in shares of the Company when appropriate. As Watermark Market Neutral Fund Limited is an investment company reporting results monthly, the Board believes the shareholders are generally fully informed.

The composition of the Board is monitored (both in respect of size, diversity and membership) to ensure that the Board has a balance of skill, experience and expertise appropriate to the needs of the Company. When a vacancy arises, the Board will identify candidates with appropriate skill, expertise and experience and appoint the most suitable person taking into account the need for diversity in gender, age, ethnicity and cultural background.

Principle 4: Safeguard integrity in financial reporting

It is a requirement of the Board that White Outsourcing Pty Limited sign-off on the content of the financial statements, and that these statements represent a true and fair view of the Company's operations and financial position of the Company.

White Outsourcing Pty Limited provides a declaration to the Board twice annually, to certify that the Company's financial statements and notes present a true and fair view, in all material respects, of the Company's financial condition and operational results and that they have been prepared and maintained in accordance with relevant Accounting Standards and the *Corporations Act 2001*. In respect of the current financial year all necessary declarations have been submitted to the Board. In addition, White Outsourcing Pty Limited (accounting and Company Secretarial) confirms in writing to the Board that the declaration provided above is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Company has an Audit Committee with a documented Charter, approved by the Board. All members must be non-executive directors and the majority must be independent directors. The Chairman is not the Chairman of the Board. The Committee is responsible for considering the effectiveness of the systems and standards of internal control, financial reporting and any other matter at the request of the Board. The Audit Committee will meet at least two times per year.

The Audit Committee may have in attendance at their meeting such members of management as may be deemed necessary to provide information and explanations. The external auditors attend meetings by invitation to report to the Committee.

The members of the Audit Committee during the year were:

- John Abernethy (Chairman)
- Robert Ferguson
- Stephen Van Eyk

Principle 4: Safeguard integrity in financial reporting (continued)

The responsibilities of the Audit Committee are to ensure that:

- (1) Relevant, reliable and timely information is available to the Board to monitor the performance of the Company;
- (2) External reporting is consistent with committee members' information and knowledge and is adequate for shareholder needs;
- (3) Management processes support external reporting in a format which facilitates ease of understanding by shareholders and institutions;
- (4) The external audit arrangements are adequate to ensure the maintenance of an effective and efficient external audit. This involves:
 - (a) reviewing the terms of engagement, scope and auditor's independence;
 - (b) recommendations as to the appointment, removal and remuneration of an auditor; and
 - (c) reviewing the provision of non-audit services provided by the external auditor ensuring they do not adversely impact on audit independence;

The Board as a whole monitors the performance of the annual & half-yearly audit performed by the External Auditor. If the Board consider that the external auditor of the Company should be changed, a special resolution will be put to shareholder vote at the following Annual General Meeting. External audit engagement partners are required by legislation to rotate their appointment every five years. The external auditor is required to attend the Annual General Meeting and is available to answer shareholder questions.

For details on the number of meetings of the Audit Committee held during the year and the attendees at those meetings, refer to page 20 of the Directors' Report.

Principle 5: Make timely and balanced disclosures

The Company will operate under the continuous disclosure requirements of the ASX Listing Rules as set out in its Continuous Disclosure Policy. The Company will ensure that all information which may be expected to affect the value of the Company's securities or influence investment decisions is released to the market in order that all investors have equal and timely access to material information concerning the Company.

The Company Secretary has the responsibility for all communications with the ASX and ensuring that all relevant information is released to the market in a timely manner in consultation with the Board. The Company considers this to be a satisfactory protocol given the size and nature of the Company.

Watermark Funds Management Pty Limited is made aware of these obligations and are required to report any price sensitive information to the Company Secretary immediately when they become aware of it. The Company Secretary in consultation with the Board will decide whether the information should be disclosed to the ASX.

Where possible, all continuous disclosure releases to the ASX are approved by the Board, except the monthly net asset backing per share which is approved by White Outsourcing Pty Limited in consultation with Watermark Funds Management Pty Limited. Where time does not permit approval by the Board, the Chairman of the directors must approve the release.

Any information of a material nature affecting the Company is disclosed to the market through release to the ASX as soon as the Company becomes aware of such information, in accordance with the ASX Continuous Disclosure requirement.

All ASX releases are available on the Company's website (www.wfunds.com.au) via a direct link to the ASX website.

Principle 6: Respect the rights of shareholders

The Board aims to keep Shareholders informed of all major developments affecting the Company's activities and its state of affairs through announcements to the ASX, releases to the media and dispatch of financial reports. All such announcements are also available directly on the Company's website at www.wfunds.com.au or via a direct link to the ASX website. These include:

- (a) monthly net tangible asset backing announcements;
- (b) the half year, full year and annual reports;
- (c) the notice of annual general meeting, explanatory memorandum and the Chairman's address;

Principle 6: Respect the rights of shareholders (continued)

- (d) occasional ASX announcements made to comply with the Company's continuous disclosure requirements; and
- (e) occasional correspondence sent to Shareholders on matters of significance to the Company.

Shareholders are entitled to vote on significant matters impacting on the business, which include the election and remuneration of Directors, changes to the constitution and are able to receive the annual and interim financial statements if requested. Shareholders are strongly encouraged to attend and participate in the Annual General Meetings of Watermark Market Neutral Fund Limited, to lodge questions to be responded by the Board, and are able to appoint proxies.

Principle 7: Recognise and manage risk

Due to the size of the Company, the responsibility for the effectiveness of risk management and internal compliance and control will rest with the Board. The Board works closely with the Investment Manager and Administration Manager to manage operational, financial and compliance risks which could prevent the Company from achieving its objectives.

The Board undertakes following functions in relation to risk management and reporting:

- (a) Reviewing and overseeing the operation of systems of risk management ensuring that the significant risks facing the Company are identified, that appropriate control, monitoring and reporting mechanisms are in place and that risk is appropriately dealt with.
- (b) Monitoring and appraising financial performance including the approval of annual and half year financial reports and liaising with the Company's auditors.
- (c) Liaising with the Investment Manager and Administration Manager to identify and manage risk.
- (d) The Administration Manager is responsible for preparing the declaration pursuant to section 295A of the Corporations Act as the Company does not have a chief executive officer (or equivalent) or a chief financial officer (or equivalent). Accordingly, the Board will seek to procure that the Investment Manager and Administration Manager puts in place sound systems of risk management and internal controls and ensure that the systems are operating effectively in all material respects in relation to financial reporting risks.

Principle 8: Remunerate fairly and responsibly

ASX Recommendation 8.1 states the Board should establish a Remuneration Committee. The Board does not have and does not intend to establish such a committee because the formation of such a committee would be inefficient given the Company's size and nature. It would not serve to protect or enhance the interest of shareholders. The Board will deal with this issue as a whole. Should the size of the Company change the Company will consider establishing a separate remuneration committee.

Recommendation 8.3 states that the Company should "clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives". The Company does comply with this recommendation as detailed in the Remuneration report on page 20. Justin Braitling is considered an Executive Director on the basis that he is a director and a shareholder of Watermark Fund Management Pty Limited and due to his role of an investment manager in that entity, is integrally involved in the operation of the Company.

Non-executive directors are remunerated by way of director fees and superannuation contributions. The remuneration of all non-executive directors is disclosed in the Directors' report.

Principle 8 states externally managed entities should disclose a summary of any management agreement terms relating to management fees or the equivalent, including performance fees. Further details regarding the fees paid to the investment manager are located in note 21(b) Transactions with other related parties.

Directors' Report

The Directors present their report together with the financial report of Watermark Market Neutral Fund Limited ("the Company") for the period 28 May 2013 to 30 June 2014.

Directors

The following persons held office as Directors of Watermark Market Neutral Fund Limited during the financial period:

Matthew Kidman (Chairman) (appointed 28 May 2013)
 Justin Braithling (Non-Independent Director) (appointed 28 May 2013)
 John Abernethy (Independent Director) (appointed 7 June 2013)
 Stephen Van Eyk (Independent Director) (appointed 7 June 2013)
 Robert Ferguson (Independent Director) (appointed 7 June 2013)

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

Principal activities

During the period, the principal activities of the Company included making investments in listed companies.

There was no significant change in the nature of the activity of the Company during the period.

Dividends

Dividends paid to members were as follows:

	Dividend Rate	Total Amount	Date of Payment	% Franked
2014				
Ordinary shares - interim 2014	\$0.025	\$1,837,088	04/04/2014	100

In addition to the above dividends, since the end of the financial period the Directors have recommended the payment of a final ordinary dividend of \$2,162,406 (2.5 cents per fully paid share) to be paid on 20 October 2014 out of profits reserve at 30 June 2014.

Review of operations

The Company was registered with the Australian Securities and Investments Commission (ASIC) on 28 May 2013 and commenced operations on 16 July 2013.

The Board is particularly pleased with the strong performance of the Company since listing in July last year. A market neutral strategy gives investors access to a highly successful manager in Watermark without the market risks that typically accompany an investment in shares.

As the fund retains minimal net exposure to the share market, investors should avoid drawing comparisons with market performance. The performance of this fund will follow the security selection success of the manager exclusively and have little correlation with the broader share market.

The funds objective is to deliver steady, attractive returns for shareholders on a consistent basis irrespective of market movements. The fund profits to the extent the 'long' portfolio of shares the manager prefers outperform the 'short' portfolio of shares the manager dislikes. It is irrelevant how the share market performs.

Since listing in July our long portfolio has consistently outperformed our short portfolio, delivering steady positive returns for shareholders over the period.

Investment operations over the period ended 30 June 2014 resulted in an operating profit before tax of \$8,776,575 and an operating profit after tax of \$6,656,726. Asset backing for each ordinary share at 30 June 2014 amounted to \$1.04 per share. Asset backing after tax on realised gains but before tax on unrealised gains was \$1.06 per share.

Review of operations (continued)

On 15 July 2013, the Company issued options to acquire ordinary shares in the Company at an exercise price of \$1.00 with an expiry date of 31 December 2014. During the period 3,825,210 options were exercised.

Further information on the operating and financial review of the Company is contained in the Chairman's Letter on page 1 and the Chief Investment Officer's Report on page 2 of the Annual Report.

Financial Position

The net asset value of the Company for the current financial period ended was \$88,034,515.

Significant changes in the state of affairs

Significant changes in the state of affairs of the Company during the financial period were as follows:

On 24 March 2014, the Company announced a Placement of up to \$10,710,000 via the issuance of 10,500,000 shares at an issue price of \$1.02. On 27 March 2014, the Company had successfully raised \$10,006,403 through the Placement of 9,810,199 ordinary shares to sophisticated and professional investors. The Placement was within the Company's capacity under ASX Listing rule 7.1 and did not require shareholder approval.

During the period 3,825,210 options were exercised.

There were no other significant changes in the state of affairs of the Company during the period ended 30 June 2014.

Matters subsequent to the end of the financial period

As a measure to preserve value for shareholders the board has announced the approval of an on market buy-back of up to 10% of the Company's capital which may be implemented at any time after the 27 August 2014.

Other than the dividend declared after year end, no other matter or circumstance has occurred subsequent to period end 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 in subsequent financial periods.

Likely developments and expected results of operations

The Company will continue to pursue its investment objectives for the long term benefit of the members. This will require continual review of the investment strategies that are currently in place and may require changes to these strategies to maximise returns.

Environmental regulation

The Company is not affected by any significant environmental regulation in respect of its operations.

To the extent that any environmental regulations may have an incidental impact on the Company's operations, the Directors of the Company are not aware of any breach by the Company of those regulations.

Information on directors

Matthew Kidman *Chairman* Age 45.

Experience and expertise

Matthew Kidman has over 20 years' experience in the finance industry. He spent four years as finance journalist at the Sydney Morning Herald, during which time he was appointed finance editor of the newspaper. In 1998 Matthew joined the funds management group Wilson Asset Management as a portfolio manager, his roles since then included positions as stock analyst, dealer, portfolio manager and senior executive of the management group. He was appointed to the board of WAM Capital Pty Limited in 1999.

Matthew holds a Bachelor of Economics and Bachelor of Laws degree and a Graduate Diploma in Applied Finance, all from Macquarie University.

Other current directorships

Matthew is the director of WAM Capital Pty Limited, WAM Research Pty Limited, WAM Active Limited, financial planning group Centrepont Alliance Limited, Incubator Capital Limited and Sandon Capital Investments Limited.

Former directorships in last 3 years

Matthew Kidman has not held any other directorships of listed companies within the last three years.

Special responsibilities

Chairman of the Board.

Interests in shares and options

Details of Matthew Kidman's interests in shares of the Company are included later in this report.

Interests in contracts

Matthew Kidman has no interests in contracts of the Company.

Information on directors (continued)

Justin Braitling Non-Independent Director Age 47.

Experience and expertise

Justin Braitling has over 20 years' experience in investing in Australian and international companies. He was an Investment Analyst and Portfolio Manager at Bankers Trust for 12 years from January 1991 to June 2002. He was a key member of the investment team at Bankers Trust that was consistently ranked in the top quartile of managers by InTech.

Other current directorships

Justin Braitling is the sole Director of the investment management company, Watermark Funds Management Pty Limited.

Justin Braitling has been a Director of Australian Leaders Fund Limited since October 2003 of which he became Chairman in February 2007.

Former directorships in last 3 years

Justin Braitling has not held any other directorships of listed companies within the last three years.

Special responsibilities

Investment Manager of the Company.

Interests in shares and options

Details of Justin Braitling's interests in shares of the Company are included later in this report.

Interests in contracts

Details of Justin Braitling's interests in contracts of the Company are included later in this report.

Information on directors (continued)

John Abernethy *Independent Director* Age 55.

Experience and expertise

John Abernethy has over 30 years' experience in funds management and corporate advisory. He holds a Bachelor of Commerce and Bachelor of Laws (BCom/LLB) from the University of New South Wales. He spent ten years at NRMA Investments as Head of Equities. In 1994 he joined Poynton Corporate Limited as an Executive Director before forming Clime Investment Management Limited in 1996.

Other current directorships

John Abernethy is the Chairman of Clime Capital Limited. He is a Director of Clime Investment Management Limited, Jasco Holdings Limited, WAM Research Limited (appointed May 2002), WAM Active Limited (appointed November 2007) and Australian Leaders Fund Limited.

Former directorships in last 3 years

John Abernethy has not held any other directorships of listed companies within the last three years.

Special responsibilities

Chairman of the Audit Committee

Interests in shares and options

John Abernethy has no interests in shares and options of the Company.

Interests in contracts

John Abernethy has no interests in contracts of the Company.

Information on directors (continued)

Stephen Van Eyk *Independent Director* Age 62.

Experience and expertise

Stephen has over 25 years' experience in the financial services industry, with over 15 years as Managing Director of research house van Eyk Research. Stephen was presented with the Lifetime Achievement Award at the 2013 Fund Manager awards.

Stephen holds a Commerce Degree from the UNSW and is a fellow of the Financial Services Institute.

Other current directorships

Stephen Van Eyk has not held any other directorships of listed companies outside the Company.

Former directorships in last 3 years

Stephen Van Eyk has not held any other directorships of listed companies within the last three years.

Special responsibilities

Member of the Audit Committee

Interests in shares and options

Details of Stephen Van Eyk's interests in shares of the Company are included later in this report.

Interests in contracts

Stephen Van Eyk has no interests in contracts of the Company.

Information on directors (continued)

Robert Ferguson *Independent Director* Age 69

Experience and expertise

Robert Ferguson's career spans over 30 years' in research, finance, investment management and property. Robert commenced employment in 1971 with Bankers Trust Australia Ltd and was its CEO between 1985 and 1999 and Chairman from 1999 to 2001. Robert has extensive experience in both executive and non-executive roles.

Robert holds a B.Ec (Hons) from the University of Sydney.

Other current directorships

Robert is the Chairman of GPT Management Holdings Limited; Non-Executive Chairman of IMF (Australia) Ltd; Non-Executive Chairman of Primary Health Care Limited; Non-Executive Director of MoneySwitch Limited, Director of the Lowy Institute and Chairman of SmartWard Holdings Pty Ltd.

Former directorships in last 3 years

Robert Ferguson has not held any other directorships of listed companies within the last three years.

Special responsibilities

Member of the Audit Committee

Interests in shares and options

Details of Robert Ferguson's interests in shares of the Company are included later in this report.

Interests in contracts

Robert Ferguson has no interests in contracts of the Company.

Company secretary

Peter Roberts has over 20 years' experience in the fields of chartered accountancy and specialised back office services to the financial services industry. Peter is a Director of White Outsourcing Pty Ltd and Company Secretary of Century Australia Investments Limited, Australian Leaders Fund Ltd, Steadfast Group Limited and Macquarie Premium Funding Pty Ltd.

Peter holds a Bachelor of Business and is a Member of the Institute of Chartered Accountants.

Watermark Market Neutral Fund Limited
Directors' Report
For the period ended 30 June 2014
(continued)

Meetings of directors

The numbers of meetings of the Company's board of Directors and of each board committee held during the period ended 30 June 2014, and the numbers of meetings attended by each Director were:

	Directors' Meetings		Meetings of committees					
			Audit		Nomination		Remuneration	
	A	B	A	B	A	B	A	B
Matthew Kidman	8	8	1*	1	-	-	-	-
Justin Braitling	8	8	1*	1	-	-	-	-
John Abernethy	8	8	1	1	-	-	-	-
Stephen Van Eyk	8	8	1	1	-	-	-	-
Robert Ferguson	8	8	1	1	-	-	-	-

A = Number of meetings attended

B = Number of meetings held during the time the Director held office or was a member of the committee during the period

* Not a member of the relevant committee

Remuneration report (audited)

This report details the nature and amount of remuneration for each Director of Watermark Market Neutral Fund Limited in accordance with the *Corporations Act 2001*.

Fees and payments to Directors reflect the demands that are made on and the responsibilities of the Directors and are reviewed annually by the Board. The Company determines the remuneration levels and ensures they are competitively set to attract and retain appropriately qualified and experienced Directors.

Directors' base fees are set at a maximum of \$180,000 per annum. Directors do not receive bonuses nor are they issued options on securities. Directors' fees cover all main board activities and membership of committees. Under the ASX Listing Rules, the maximum fees paid to Directors may not be increased without approval from the Company at a general meeting. Directors will seek approval from time to time as appropriate.

Details of remuneration

The following tables show details of the remuneration received by the Directors of the Company for the current financial period.

Name	Short-term employee benefits	Post-employment benefits	Total \$
	Salary and fees \$	Superannuation \$	
2014			
Non-executive Directors			
Matthew Kidman	29,943	2,770	32,713
John Abernethy	29,190	2,700	31,890
Stephen Van Eyk	29,190	2,700	31,890
Robert Ferguson	29,190	2,700	31,890
Sub-total non-executive directors	117,513	10,870	128,383
Executive Director			
Justin Braitling	9,981	923	10,904
Other key management personnel			
Peter Roberts *	-	-	-
Total key management personnel compensation	127,494	11,793	139,287

Remuneration report (audited) (continued)

Details of remuneration (continued)

* Accounting and company secretarial duties are outsourced to White Outsourcing Pty Limited. Peter Roberts is a director of White Outsourcing Pty Limited which received fees net of reduced input tax credits of \$108,656 during the year for the services rendered pursuant to an Administrative Services Agreement entered into by the Company. Mr Roberts received no fees as an individual. White Outsourcing Pty Limited is remunerated in accordance with the Service Level Agreement dated 25 June 2013. The agreement has no fixed term.

Director Related Entity Remuneration

All transactions with related entities were made on normal commercial terms and conditions.

Justin Braitling is the sole Director and beneficial owner of Watermark Funds Management Pty Limited, the entity appointed to manage the investment portfolio of Watermark Market Neutral Fund Limited. In its capacity as manager, Watermark Funds Management Pty Limited was paid a management fee of 1%p.a. (plus GST) on the net value of the portfolio amounting to \$776,018. As at 30 June 2014, the balance payable to the manager was \$82,769.

In addition, Watermark Funds Management Pty Limited is to be paid, annually in arrears, a performance fee being 20% of:

- where the level of the Reserve Bank of Australia's cash-rate has increased over that period, the amount of the increase in the Value of the Portfolio exceeds this increase; or
- where the Reserve Bank of Australia's cash-rate has decreased over that period, the amount of the increase in the Value of the Portfolio.

No performance fee is payable in respect of any performance period where the portfolio has decreased in value over that period. If the portfolio underperforms the benchmark over a financial year that underperformance does not carry forward to the calculation of the performance fee in the following year.

For the period ended 30 June 2014, in its capacity as manager, Watermark Funds Management Pty Limited was paid a performance fee amounting to \$2,259,714.

These amounts are in addition to the above Directors remuneration.

No Director has received or become entitled to receive a benefit (other than those detailed above) by reason of a contract made by the Company or a related Company with the Director or with a firm of which he is a member or with a Company in which he has substantial financial interest.

Remuneration of Executives

Justin Braitling is considered an Executive Director on the basis that he is a director and a shareholder of Watermark Fund Management Pty Limited and due to his role of an investment manager in that entity, is integrally involved in the operation of the Company. Watermark Funds Management Pty Limited remunerates Justin Braitling as an employee and also provides day to day management of the Company and is remunerated as outlined above.

Remuneration report (audited) (continued)

Details of remuneration (continued)

Equity Instrument Disclosures Relating to Directors

As at 12 August 2014, the Company's Directors and their related parties held the following interests in the Company:

Ordinary Shares Held

2014

Director	Position	Balance at 28 May 2013	Acquisitions/ Options Exercised	Disposals	Balance at 12 August 2014
Matthew Kidman	Chairman	-	50,000	-	50,000
Justin Braitling	Non-Independent Director	-	300,001	-	300,001
Robert Ferguson	Independent Director	-	1,000,000	-	1,000,000
Stephen Van Eyk	Independent Director	-	48,780	-	48,780
John Abernethy	Independent Director	-	-	-	-
		-	1,398,781	-	1,398,781

Directors and Director related entities disposed of and acquired ordinary shares in the Company on the same terms and conditions available to other shareholders.

Options Held

2014

Director	Position	Balance at 28 May 2013	Options Acquired	Options Exercised	Balance at 12 August 2014
Matthew Kidman	Chairman	-	50,000	-	50,000
Justin Braitling	Non-Independent Director	-	200,000	(100,000)	100,000
Stephen Van Eyk	Independent Director	-	-	-	-
Robert Ferguson	Independent Director	-	1,000,000	-	1,000,000
John Abernethy	Independent Director	-	-	-	-
		-	1,250,000	(100,000)	1,150,000

Directors and Director related entities acquired options in the Company on the same terms and conditions available to other shareholders.

The Directors have not, during or since the end of the financial period, been granted options over unissued shares or interests in shares of the Company as part of their remuneration.

Insurance and indemnification of officers and auditors

During the financial period, the Company paid a premium in respect of a contract insuring the Directors of the Company, the Company Secretary and any related body corporate against liability incurred as such by a Director or Secretary to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

No indemnities have been given or insurance premiums paid during or since the end of the financial period, for any person who is or has been an auditor of the Company.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Proceedings on behalf of the company (continued)

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit services

The Board of Directors, in accordance with advice from the Audit & Risk Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the services disclosed in Note 19 did not compromise the external auditor's independence for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 24.

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



Matthew Kidman
Chairman

Sydney
12 August 2014

Moore Stephens Sydney

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**Auditor's Independence Declaration
to the Directors of Watermark Market Neutral Fund Limited**

As lead auditor for the audit of Watermark Market Neutral Fund Limited for the period ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

- a. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b. no contraventions of any applicable code of professional conduct in relation to the audit.

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



Moore Stephens Sydney
Chartered Accountants



Scott Whiddett
Partner

Dated in Sydney this Tuesday, 12 August 2014

Watermark Market Neutral Fund Limited
Statement of Comprehensive Income
For the period ended 30 June 2014

Statement of Comprehensive Income

		28 May 2013 to 30 June 2014
	Notes	\$
Investment income from ordinary activities		
Net realised gains/(losses) on investments		7,530,132
Net unrealised gains on investments		5,710,918
Dividends		1,930,010
Interest		3,153,834
Trust distributions		265,178
Other income		27,036
		<u>18,617,108</u>
Expenses		
Management fees		(776,018)
Performance fees		(2,259,714)
Brokerage expense		(1,093,704)
Short dividend expense		(3,106,473)
Interest expense		(1,272,026)
Stock loan fees		(724,680)
Accounting fees		(108,656)
Share registry fees		(39,308)
Legal fees		(2,239)
Directors' fees		(139,287)
ASX fees		(41,286)
Audit fees		(48,125)
Other expenses		(229,017)
		<u>(9,840,533)</u>
Profit/(loss) before income tax		8,776,575
Income tax (expense)/benefit	7	<u>(2,119,849)</u>
Profit/(loss) for the period		6,656,726
Other comprehensive income/(loss) for the period, net of tax		<u>-</u>
Total comprehensive income/(loss) for the period		<u>6,656,726</u>
		Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:		
Basic earnings per share	24	8.99
Diluted earnings per share	24	8.80

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 30 June 2014

Statement of Financial Position

	Notes	At 30 June 2014 \$
ASSETS		
Current assets		
Cash and cash equivalents	8	85,432,794
Trade and other receivables	9	10,569,474
Financial assets at fair value through profit or loss	10	100,925,008
Total current assets		<u>196,927,276</u>
Non-current assets		
Deferred tax assets	11	468,314
Total non-current assets		<u>468,314</u>
Total assets		<u>197,395,590</u>
LIABILITIES		
Current liabilities		
Trade and other payables	12	10,823,362
Financial liabilities at fair value through profit or loss	13	96,895,399
Current tax liabilities		253,697
Total current liabilities		<u>107,972,458</u>
Non-current liabilities		
Deferred tax liabilities	14	1,388,617
Total non-current liabilities		<u>1,388,617</u>
Total liabilities		<u>109,361,075</u>
Net assets		<u>88,034,515</u>
EQUITY		
Issued capital	15	83,214,877
Reserves	16(a)	4,819,638
Total equity		<u>88,034,515</u>

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 period ended 30 June 2014

Statement of Changes in Equity

		Issued Capital \$	Profits Reserves \$	Retained earnings \$	Total \$
Balance at 28 May 2013		-	-	-	-
Profit for the period		-	-	6,656,726	6,656,726
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	17	-	(1,837,088)	-	(1,837,088)
Shares issued under IPO		70,518,626	-	-	70,518,626
Shares issued on options exercised		3,825,210	-	-	3,825,210
Share placement share issued		10,006,403	-	-	10,006,403
Shares issued under dividend reinvestment plan		203,122	-	-	203,122
Costs of issued capital		(1,338,484)	-	-	(1,338,484)
Transfer to profits reserve		-	6,656,726	(6,656,726)	-
		<u>83,214,877</u>	<u>4,819,638</u>	<u>(6,656,726)</u>	<u>81,377,789</u>
Balance at 30 June 2014		83,214,877	4,819,638	-	88,034,515

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 period ended 30 June 2014

Statement of Cash Flows

	28 May 2013 to 30 June 2014
Notes	\$
Cash flows from operating activities	
Purchase of financial assets held at fair value through profit or loss	(221,955,335)
Proceeds from sale of financial assets held at fair value through profit or loss	133,796,038
Proceeds from short sale of financial liabilities held at fair value through profit or loss	207,769,624
Re-purchase of financial liabilities held at fair value through profit or loss	(112,639,419)
Interest received	2,707,269
Interest paid	(1,092,177)
Dividends and trust distributions received	1,979,657
Dividends paid on short stocks	(2,568,338)
Other income received	27,036
Income taxes paid	(372,213)
Investment management fees paid	(698,892)
Brokerage expense	(1,111,859)
Stock loan fees	(645,651)
Payments for other expenses	(567,100)
Net cash inflow from operating activities	23 <u>4,628,640</u>
Cash flows from financing activities	
Share issue transaction costs	(1,912,120)
Dividends paid	(1,633,965)
Share placement issued	10,006,403
Shares issued on options exercised	3,825,210
Shares issued	70,518,626
Net cash inflow from financing activities	<u>80,804,154</u>
Net increase in cash and cash equivalents	85,432,794
Cash and cash equivalents at the beginning of the period	8 <u>-</u>
Cash and cash equivalents at end of period	<u>85,432,794</u>

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

1 General information

Watermark Market Neutral Fund Limited (the "Company") is a listed public company domiciled in Australia. The address of Watermark Market Neutral Fund Limited's registered office is Suite 4, Level 5, 139 Macquarie Street, Sydney, NSW 2000. The Company is primarily involved in making investments, and deriving revenue and investment income from listed securities and unit trusts in Australia.

The Company was registered with the Australian Securities and Investments Commission (ASIC) on 28 May 2013 and commenced operations on 16 July 2013. The financial period is from 28 May 2013 to 30 June 2014. As this is the Company's first period of operations, there is no comparatives.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. The financial statements are for the entity Watermark Market Neutral Fund Limited.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Watermark Market Neutral Fund Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial statements were authorised for issue by the Board of Directors on 12 August 2014.

(i) Compliance with IFRS

The financial statements of the Watermark Market Neutral Fund Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time in their annual reporting period commencing 28 May 2013:

- AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13*

Change in accounting policy: fair value measurement

AASB 13 *Fair Value Measurement* aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Australian Accounting Standards. The standard does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other Australian Accounting Standards.

The Company has adopted AASB 13 *Fair Value Measurement* with effect from 28 May 2013. As a result, the Company has adopted a new definition of fair value, as set out below. The change had no material impact on the measurement of the Company's assets and liabilities. However the Company has included new disclosures in the financial statements which are required under AASB 13.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Company measures the fair value of an instrument using the quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) New and amended standards adopted by the Company (continued)

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value of neither a quoted price in an active market for identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instruments are initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

AASB 13 removes the requirement to use bid/ask prices for actively quoted financial instruments. Rather the most representative price within the bid/ask spread is used. Management has elected to use last traded price, consistent with its securities pricing policy.

Where last traded price is used by an entity, management has ensured at balance date that the last traded price falls within the bid/ask spread as at that date. Where it falls outside the bid/ask spread, an alternative basis most representative of fair value within the bid/ask spread will be used.

(iii) Historical cost convention

These financial statements have been prepared under the accruals basis and are based on historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through profit or loss.

(iv) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 5.

(b) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of rebates and amounts collected on behalf of third parties.

(i) Investment income

Profits and losses realised from the sale of investments and unrealised gains and losses on securities held at fair value are included in the Statement of Comprehensive Income in the period they are incurred in accordance with the policies described in Note 2(g).

(ii) Dividends and trust distributions

Dividends and trust distributions are recognised as revenue when the right to receive payment is established.

(iii) Interest income

Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.

(iv) Other income

The Company recognises other income when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2 Summary of significant accounting policies (continued)

(c) Income tax

The income tax expense/(income) for the period comprises current income tax expense/(income) and deferred tax expense/(income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities/(assets) are measured at the amounts expected to be paid to/(recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the period as well as unused tax losses.

Current and deferred income tax expense/(income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(d) Cash and cash equivalents

For the purpose of presentation in the Statement of Cash Flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

(e) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the period. Trades are recorded on trade date, and for equities normally settled within three business days. A provision for impairment of amounts due from brokers is recognised in the Statement of Comprehensive Income when there is objective evidence that the Company will not be able to collect all amounts due from the relevant broker. Indicators that the amount due from brokers is impaired include significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation and default in payments.

(f) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade and other receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly.

2 Summary of significant accounting policies (continued)

(g) Financial assets and liabilities

The Company's investments are classified as at fair value through profit or loss. They comprise:

Classification

(i) Financial assets and liabilities at fair value through profit or loss - held for trading

Financial assets are classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if they are expected to be settled within 12 months; otherwise they are classified as non-current.

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 classified as current financial liabilities at fair value through profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 9) and receivables in the Statement of Financial Position.

Recognition and derecognition

Purchases and sales of financial assets and liabilities at fair value through profit or loss are recognised on trade-date - the date on which the Company commits to purchase or sell the asset or liability. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Company measures its financial assets and liabilities at fair value excluding any transaction costs that are directly attributable to their acquisition.

Transaction costs of financial assets and financial liabilities at fair value through profit or loss are expensed in the Statement of Comprehensive Income.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Statement of Comprehensive Income.

When an investment is disposed, the cumulative gain or loss, net of tax thereon, is recognised as realised gains and losses from the sale of financial instruments in the Statement of Comprehensive Income.

Determination of Fair Value

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

The Company's accounting policy on fair value measurements is discussed in Note 4.

Under AASB 13, if an investment has a bid price and an ask price, the price within the bid-ask spread that is more representative of fair value in the circumstances shall be used to measure fair value. Accordingly, the Company uses the last sale price as a basis of measuring fair value.

2 Summary of significant accounting policies (continued)

(h) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(i) Finance costs

Finance costs are recognised as expenses in the year in which they are incurred using the effective interest rate method.

(j) Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(k) Profits reserve

A profits reserve has been created representing an amount allocated from retained earnings that is preserved for future dividend payments.

(l) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

In accordance with the *Corporations Act 2001*, the Company may pay a dividend where the Company's assets exceed its liabilities, the payment of the dividend is fair and reasonable to the Company's shareholders as a whole and the payment of the dividend does not materially prejudice the Company's ability to pay its creditors.

It is the Directors' policy to only pay fully franked dividends and to distribute the majority of franking credits received each period. Franking credits are generated by receiving fully franked dividends from shares held in the Company's investment portfolio, and from the payment of corporate tax on its other investment income, unfranked income and net realised gains.

(m) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the period and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2 Summary of significant accounting policies (continued)

(n) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Where applicable, the Company qualifies for Reduced Input Tax Credits (RITC) at a rate of at least 75%; hence fees for these services have been recognised in the Statement of Comprehensive Income net of the amount of GST recoverable from the taxation authority.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(o) Functional and presentation currency

The functional and presentation currency of the Company is Australian dollars.

(p) Operating segments

The Company operated in Australia only and the principal activity is investing.

(q) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods and have not yet been applied in the financial statements. The Company's assessment of the impact of these new standards and interpretations is set out below.

- (i) AASB 9 *Financial Instruments (2009 or 2010 version)*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9*, AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, AASB 2012-6 *Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures* and AASB 2013-9 *Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments* (effective from 1 January 2017)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. Since December 2013, it also sets out new rules for hedge accounting. The standard is not applicable until 1 January 2017 but is available for early adoption.

There will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities. The derecognition rules have been transferred from AASB 139 *Financial Instruments: Recognition and Measurement* and have not been changed. The Company has not yet decided when to adopt AASB 9.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3 Financial risk management

The Company's financial instruments consist mainly of deposits with banks, trading portfolios, trade and other receivables and trade and other payables.

The Company's activities expose it to a variety of financial risks: market risk (including interest rate risk and price risk), credit risk and liquidity risk. The Board of the Company has implemented a risk management framework to mitigate these risks.

(a) Market risk

The standard defines this as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

(i) Foreign exchange risk

The Company is not materially exposed to currency risk as majority of its investments are quoted in Australian dollars.

(ii) Price risk

The Company is exposed to equity securities price risk. This arises from investments held by the Company and classified in the Statement of Financial Position as financial assets and financial liabilities at fair value through profit or loss.

The Company seeks to manage and constrain market risk by diversification of the investment portfolio across multiple stocks and industry sectors. The portfolio is maintained by the Investment Manager within a range of parameters governing the levels of acceptable exposure to stocks and industry sectors. The relative weightings of the individual securities and relevant market sectors are reviewed normally weekly and risk can be managed by reducing exposure where necessary.

The Company's investment sectors as at 30 June 2014 and are as below:

Sector	2014 (%)
Information technology	4.53
Financials	18.91
Energy	8.77
Healthcare and biotechnology	10.90
Consumer staples	3.31
Industrials	15.21
Consumer discretionary	15.79
Utilities	1.93
Materials	19.92
Telecommunications services	0.73
Total	100.00

As at 30 June 2014 no individual securities represented over 5 per cent of the long or short investment portfolio.

The following table illustrates the effect on the Company's equity from possible changes in other market risk that were reasonably possible based on the risk the Company was exposed to at reporting date, assuming a flat tax rate of 30 per cent:

3 Financial risk management (continued)

(a) Market risk (continued)

(ii) Price risk (continued)

	Impact on post-tax profit 2014 \$
Decrease 5%	(141,036)
Increase 5%	141,036
Decrease 10%	(282,073)
Increase 10%	282,073

Post-tax profit for the period would decrease as a result of losses on equity securities classified as at fair value through profit or loss.

At balance date, the net portfolio position was \$4,029,609 long therefore there is a small price risk impact on post-tax profit.

(iii) Cash flow and fair value interest rate risk

The Company's interest bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis.

The table below summarises the Company's exposure to interest rate risks. It includes the Company's assets and liabilities at fair values, categorised by the earlier of contractual repricing or maturity dates.

At 30 June 2014

	Floating interest rate \$	Non- interesting bearing \$	Total \$
Financial assets			
Cash and cash equivalents (i)	85,432,794	-	85,432,794
Trade and other receivables	-	10,569,474	10,569,474
Financial assets held at fair value through profit or loss	-	100,925,008	100,925,008
	<u>85,432,794</u>	<u>111,494,482</u>	<u>196,927,276</u>
Financial liabilities			
Trade and other payables	-	(10,823,363)	(10,823,363)
Financial liabilities held at fair value through profit or loss	-	(96,895,399)	(96,895,399)
Current tax liabilities	-	(253,697)	(253,697)
	<u>-</u>	<u>(107,972,459)</u>	<u>(107,972,459)</u>
Net exposure to interest rate risk	<u>85,432,794</u>	<u>3,522,023</u>	<u>88,954,817</u>

(i) The weighted average interest rate of the Company's cash and cash equivalents at 30 June 2014 is 2.61% pa.

Sensitivity

At 30 June 2014, if interest rates had increased by 75 basis points or decreased by 75 basis points from the period end rates with all other variables held constant, post-tax profit for the period would have been \$448,522 higher/\$448,522 lower, mainly as a result of higher/lower interest income from cash and cash equivalents.

3 Financial risk management (continued)

(b) Credit risk

The standard defines this as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Under the arrangements which the Company has entered into to facilitate stock borrowing for covered short selling, borrowed stock is collateralised by the long stock portfolio. If the stock borrowing counterparty became insolvent, it is possible that the Company may not recover all of the collateral that the Fund gave to the counterparty. The collateral on securities sold short is set at 100% of the borrowed stock.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Statement of Financial Position and Notes to the Financial Statements.

Credit risk is managed as noted in Note 8 with respect to cash and cash equivalents, Note 9 for trade and other receivables and Note 10 for financial assets at fair value through profit or loss. None of these assets are over-due or considered to be impaired.

(c) Liquidity risk

The standard defines this as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Investment Manager monitors its cash-flow requirements daily in relation to the investing account taking into account upcoming dividends, tax payments and investing activity.

The Company's inward cash flows depend upon the level of dividend and distribution revenue received. Should these decrease by a material amount, the Company would amend its outward cash flows accordingly. As the Company's major cash outflows are the purchase of securities and dividends paid to shareholders, the level of both of these is managed by the Board and Investment Manager.

The assets of the Company are largely in the form of readily tradeable securities which can be sold on-market if necessary.

Maturities of financial liabilities

The tables below analyse the Company's non-derivative financial liabilities into relevant maturity groupings based on their contractual maturities at period end date.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Contractual maturities of financial liabilities	Less than 1 month \$	More than 1 month \$	Total contractual undiscounted cash flows \$
At 30 June 2014			
Non-derivatives			
Trade and other payables	10,823,362	-	10,823,362
Financial liabilities at fair value through profit or loss	96,895,399	-	96,895,399
Current tax liabilities	-	253,697	253,697
Total non-derivatives	107,718,761	253,697	107,972,458

4 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)

(a) Fair value hierarchy

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy (consistent with the hierarchy applied to financial assets and financial liabilities):

- (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 or indirectly (level 2), and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

(i) Recognised fair value measurements

The following table presents the Company's assets and liabilities measured and recognised at fair value at 30 June 2014.

At 30 June 2014	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets				
Equity securities	99,060,899	-	-	99,060,899
Unlisted equity securities	-	1,864,109	-	1,864,109
Total financial assets	99,060,899	1,864,109	-	100,925,008
Financial liabilities				
Equity securities sold short	96,895,399	-	-	96,895,399
Total financial liabilities	96,895,399	-	-	96,895,399

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

The majority of the investments included in Level 2 of the hierarchy include amounts in relation to Initial Public Offerings and Placements in which the Company has subscribed to during the period. These investments have not listed on the Australian Securities Exchange as at 30 June 2014 and therefore represent investments in an inactive market. In valuing these unlisted investments, included in Level 2 of the hierarchy, the fair value has been determined using the valuation technique of the subscription price and the amount of securities subscribed for by the Company under the relevant offers.

There were no transfers between levels for recurring fair value measurements during the period.

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 are assumed to approximate their fair values due to their short-term nature.

5 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

6 Segment information

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

7 Income tax expense/(benefit)

(a) Income tax expense/(benefit) through profit or loss

	28 May 2013 to 30 June 2014 \$
Deferred tax on temporary differences	1,379,212
Tax on permanent differences	740,637
	<u>2,119,849</u>
<i>Income tax expense/(benefit) is attributable to:</i>	
Profit from continuing operations	<u>2,119,849</u>

(b) Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable

	28 May 2013 to 30 June 2014 \$
Profit/(loss) from continuing operations before income tax expense/(benefit)	8,776,575
Tax at the Australian tax rate of 30.0%	2,632,973
Tax effect of amounts which are not deductible (taxable)	
in calculating taxable income:	
Franking credits on dividends received	(560,612)
Foreign tax credits on dividends received	(13,422)
Imputation credit gross up	168,184
Realised gain/loss not subject to tax	(71,143)
Franked dividends not subject to tax	(40,157)
Foreign tax gross up on dividend income	4,026
Income tax expense/(benefit)	<u>2,119,849</u>

The applicable weighted average effective tax rates are as follows: 24.15%

7 Income tax expense/(benefit) (continued)

(c) Amounts recognised directly in equity

28 May 2013 to
30 June 2014
\$

Aggregate deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:

Net deferred tax - debited (credited) directly to equity	458,909
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8 Current assets - Cash and cash equivalents

At
30 June
2014
\$

Cash at bank	29,688,772
Term Deposits	55,744,022
	85,432,794

(a) Reconciliation to cash at the end of the period

The above figures are reconciled to cash at the end of the financial period as shown in the Statement of Cash Flows as follows:

At
30 June
2014
\$

Balances as above	85,432,794
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(b) Risk exposure

The Company's exposure to interest rate risk is discussed in Note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

Cash investments are made with the following financial institutions:

	Standard & Poor's Rating
UBS AG Investment Bank	A
National Australia Bank	AA-

9 Current assets - Trade and other receivables

	At 30 June 2014 \$
Net other receivables	266
Dividends and distributions receivable	215,531
Interest receivable	446,565
GST receivable	189,853
Due from brokers	9,717,259
	<u>10,569,474</u>

Receivables are non-interest bearing and unsecured.

Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

10 Current assets - Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are all held for trading and include the following:

	At 30 June 2014 \$
Australian listed equity securities	99,060,899
Other unlisted equity securities	1,864,109
Total securities	<u>100,925,008</u>

The market values of all investments as at 30 June 2014 are disclosed on page 7 of the Annual Report.
Listed securities are readily saleable with no fixed terms.

Changes in fair values of financial assets at fair value through profit or loss are recorded in investment income in the Statement of Comprehensive Income.

(a) Investment transactions

The total number of contract notes that were issued for transactions in securities during the financial period was 1,879. Each investment transaction may involve multiple contract notes.

The total brokerage paid on these contract notes was \$1,923,341.

(b) Risk exposure and fair value measurements

Information about the Company's exposure to price risk and about the methods and assumptions used in determining fair value is provided in Note 3.

11 Non-current assets - Deferred tax assets

	At 30 June 2014 \$
The balance comprises temporary differences attributable to:	
Capitalised share issue costs	458,909
Accrued expenses	9,405
	<u>468,314</u>
Movements:	At
Opening balance	-
Charged/credited:	
- to profit or loss	9,405
- directly to equity	458,909
Closing balance	<u>468,314</u>

12 Current liabilities - Trade and other payables

	At 30 June 2014 \$
Management fees payable	82,769
Performance fees payable	2,425,059
Due to brokers	7,476,727
Interest payable	179,848
Other payables	658,959
	<u>10,823,362</u>

Trade and other payables are unsecured and are usually paid within 30 days of recognition.

The carrying amounts of trade and other payables are assumed to be the same as their fair values, due to their short-term nature.

13 Current liabilities - Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are all held for trading and include the following:

	At 30 June 2014 \$
Equity securities sold short	<u>96,895,399</u>

When the Company sells securities it does not possess, it has to cover this short position by acquiring securities at a later date and is therefore exposed to price risk of those securities sold short. The sales agreement is usually settled by delivering borrowed securities. However, the Company is required to return those borrowed securities at a later date.

14 Non-current liabilities - Deferred tax liabilities

	At 30 June 2014 \$
The balance comprises temporary differences attributable to:	
Net unrealised gains on investments	1,385,164
Other temporary differences	<u>3,453</u>
	<u>1,388,617</u>
Movements:	At
Opening balance	-
Charged/credited:	
- profit or loss	<u>1,388,617</u>
Closing balance	<u>1,388,617</u>

15 Issued capital

(a) Share capital

	30 June 2014 Shares	30 June 2014 \$
Ordinary shares	<u>84,356,386</u>	<u>83,214,877</u>

15 Issued capital (continued)

(b) Movements in ordinary share capital

Date	Details	Number of shares	\$
28 May 2013	Opening balance	-	-
	Share issued under IPO for \$1.00 per share	(d) 70,518,626	70,518,626
	Options exercised for \$1.00 per share	(e) 3,825,210	3,825,210
	Share placement shares issued for \$1.02 per share	(f) 9,810,199	10,006,403
	DRP shares issued for dividend payment for \$1.0039 per share	(g) 202,351	203,122
	Cost of issued capital	-	(1,338,484)
30 June 2014	Closing balance	84,356,386	83,214,877

(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) Shares under IPO

The Company issued a replacement Prospectus on 14 June 2013 for the offer of up to 120,000,000 fully paid ordinary shares at an office price of \$1.00 per share to raise up to \$120,000,000, together with 1 option to acquire 1 ordinary share exercisable at \$1.00 per option on or before 31 December 2014. On the 15 July 2013, the Company issued 70,518,626 fully paid ordinary shares under this initial public offering at \$1.00 per share.

(e) Option Issue

As part of IPO the Company issued options to acquire ordinary shares in the Company at an exercise price of \$1.00.

The options can be exercised at any time on or before 31 December 2014. The options give the shareholders the right but not the obligation to subscribe for shares in WMK at \$1.00 per share. The options can be exercised in full or in part. The options are currently trading on the ASX under the code WMKO.

(f) Share placement

On 24 March 2014, the Company announced a Placement of up to \$10,710,000 via the issuance of 10,500,000 shares at an issue price of \$1.02. On 27 March 2014, the Company, successfully raised \$10,000,000 through the Placement of 9,810,199 ordinary shares to sophisticated and professional investors. The Placement was within the Company's capacity under ASX Listing rule 7.1 and did not require shareholder approval.

(g) Dividend reinvestment plan

The Company has established a dividend reinvestment plan 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 3% discount to the market price.

15 Issued capital (continued)

(h) Capital risk management

The Company's policy is to maintain a strong capital base so as to maintain investor and market confidence. The overall strategy remains unchanged.

To achieve this the Board of Directors monitor the monthly NTA results, investment performance, the Company's Indirect Cost Ratio and share price movements.

The Board is focused on maximising returns to shareholders with active capital management a key objective of the Company.

The Company is not subject to any externally imposed capital requirements.

16 Reserves and retained earnings

(a) Reserves

	At 30 June 2014 \$
Profits reserve	<u>4,819,638</u>

This reserve details an amount preserved for future dividend payments as outlined in accounting policy Note 2(k).

	At 30 June 2014 \$
Notes	
Movements:	
Opening balance	-
Transfer from retained earnings	6,656,726
Dividends paid	17 <u>(1,837,088)</u>
Closing balance	<u>4,819,638</u>

(b) Retained earnings

Movements in retained earnings were as follows:

	At 30 June 2014 \$
Opening balance	-
Net profit/(loss) for the period	6,656,726
Transfer (to) profits reserve	<u>(6,656,726)</u>
Closing balance	<u>-</u>

17 Dividends

(a) Dividend rate

Dividends paid fully franked at 30% tax rate

	Dividend Rate	Total Amount	Date of Payment	% Franked
2014				
Ordinary shares - interim 2014	\$0.025	\$1,837,088	04/04/2014	100

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

**28 May 2013 to
30 June 2014
\$**

In addition to the above dividends, since period end the Directors have recommended the payment of a final dividend of 2.5 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend with an ex date of 6 October 2014 and a record date of 8 October 2014, expected to be paid on 20 October 2014 out of the profits reserve at 30 June 2014, but not recognised as a liability at period end, is

2,162,406

(c) Dividend franking account

The franked portions of the final dividends recommended after 30 June 2014 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the period ended 30 June 2015.

**28 May 2013 to
30 June 2014
\$**

Opening balance of franking account	-
Franking credits on dividends received	603,152
Tax paid during the period	372,213
Franking credits on ordinary dividends paid	(787,323)
Franking credits lost under 45 day rule	(42,540)
Closing balance of franking account	<u>145,502</u>
Adjustments for tax payable/refundable in respect of the current period's profits and the receipt of dividends	<u>311,065</u>
Adjusted franking account balance	<u>456,567</u>
Impact on the franking account of dividends proposed or declared before the financial report authorised for issue but not recognised as a distribution to equity holders during the period	<u>(926,745)</u>
Franking credits available for subsequent reporting periods based on a tax rate of 30.0%	<u>(470,178)</u>

The Company's ability to continue to pay franked dividends is dependent upon the receipt of franked dividends from investments and the payment of tax.

18 Key management personnel disclosures

(a) Key management personnel compensation

	28 May 2013 to 30 June 2014 \$
Short-term employee benefits	127,494
Post-employment benefits	11,793
	<u>139,287</u>

Detailed remuneration disclosures are provided in the remuneration report on pages 20 to 22.

(b) Equity instrument disclosures relating to key management personnel

(i) Option holdings

The numbers of options over ordinary shares in the Company that were held during the financial period by each Director of Watermark Market Neutral Fund Limited and other key management personnel of the Company, including their personally related parties, are set out below.

2014 Name	Balance at start of the period	Granted	Exercised	Balance at 30 June 2014
Directors of Watermark Market Neutral Fund Limited				
Matthew Kidman	-	50,000	-	50,000
Justin Braithling	-	200,000	-	200,000
John Abernethy	-	-	-	-
Stephen Van Eyk	-	-	-	-
Robert Ferguson	-	1,000,000	-	1,000,000
	<u>-</u>	<u>1,250,000</u>	<u>-</u>	<u>1,250,000</u>

(ii) Share holdings

The numbers of shares in the Company held during the financial period by each Director of Watermark Market Neutral Fund Limited and other key management personnel of the Company, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2014 Name	Balance at the start of the period	Net movement	Balance at 30 June 2014
Directors of Watermark Market Neutral Fund Limited			
Ordinary shares			
Matthew Kidman	-	50,000	50,000
Justin Braithling	-	200,001	200,001
John Abernethy	-	-	-
Stephen Van Eyk	-	48,780	48,780
Robert Ferguson	-	1,000,000	1,000,000
	<u>-</u>	<u>1,298,781</u>	<u>1,298,781</u>

19 Remuneration of auditors

During the period the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms:

Moore Stephens Sydney

	28 May 2013 to 30 June 2014 \$
<i>Audit and other assurance services</i>	
Audit and review of financial statements	36,204
Other assurance services	
Other assurance	39,743
Total remuneration for audit and other assurance services	<u>75,947</u>
<i>Taxation services</i>	
Tax compliance services	13,310
Total remuneration of Moore Stephens Sydney	<u>89,257</u>

The Company's Audit Committee oversees the relationship with the Company's External Auditors. The Audit Committee reviews the scope of the audit and the proposed fee. It also reviews the cost and scope of other audit-related tax compliance services provided by the audit firm, to ensure that they do not compromise independence.

20 Contingencies

The Company had no contingent liabilities at 30 June 2014.

21 Related party transactions

(a) Key management personnel

Disclosures relating to key management personnel are set out in Note 18.

(b) Transactions with other related parties

All transactions with related entities were made on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Justin Braitling is a Director and owner of Watermark Funds Management Pty Limited, the entity appointed to manage the investment portfolio of Watermark Market Neutral Fund Limited. In its capacity as manager, Watermark Funds Management Pty Limited was paid a management fee of 1% p.a. (plus GST) on the net value of the portfolio amounting to \$776,018.

As at 30 June 2014, the balance payable to the Investment Manager was \$82,769.

In addition, Watermark Funds Management Pty Limited is to be paid, annually in arrears, a performance fee being 20% of:

- where the level of the Reserve Bank of Australia's cash-rate has increased over that period, the amount by which the Value of the Portfolio exceeds this increase; or
- where the Reserve Bank of Australia's cash-rate has decreased over that period, the amount of the increase in the Value of the Portfolio.

No performance fee is payable in respect of any performance period where the portfolio has decreased in value over that period. If the portfolio underperforms the Reserve Bank of Australia's cash-rate over a financial year that underperformance does not carry forward to the calculation of the performance fee in the following year.

For the period ended 30 June 2014 in its capacity as manager, Watermark Funds Management Pty Limited was paid a performance fee amounting to \$2,259,714.

No Director has received or become entitled to receive a benefit (other than those detailed above) by reason of a contract made by the Company or a related Company with the Director or with a firm of which he is a member or with a Company in which he has substantial financial interest.

22 Events occurring after the reporting period

As a measure to preserve value for shareholders the board has announced the approval of an on market buy-back of up to 10% of the Company's capital which may be implemented at any time after the 27 August 2014.

Other than the dividend declared after period end, no other matter or circumstance has occurred subsequent to period end 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 in subsequent financial periods.

23 Reconciliation of profit after income tax to net cash inflow from operating activities

	28 May 2013 to 30 June 2014 \$
Profit/(loss) for the period	6,656,726
Fair value (gains)/losses on financial assets at fair value through profit or loss	(6,270,142)
Change in operating assets and liabilities:	
(Increase)/decrease in trade and other receivables	(852,214)
(Increase)/decrease in deferred tax assets	105,322
Increase/(decrease) in trade and other payables	3,346,634
Increase/(decrease) in provision for income taxes payable	253,697
Increase in deferred tax liabilities	1,388,617
Net cash (outflow)/inflow from operating activities	<u>4,628,640</u>

Non-cash financing activities

Dividends reinvested	<u>203,122</u>
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24 Earnings per share

(a) Basic earnings per share

	28 May 2013 to 30 June 2014 Cents
Basic earnings per share attributable to the ordinary equity holders of the Company	<u>8.99</u>

(b) Diluted earnings per share

	28 May 2013 to 30 June 2014 Cents
Diluted earnings per share attributable to the ordinary equity holders of the Company	<u>8.80</u>

Options granted are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive.

24 Earnings per share (continued)

(c) Weighted average number of shares used as denominator

	2014 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	<u>74,080,177</u>
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	<u>75,665,958</u>

Watermark Market Neutral Fund Limited
Directors' Declaration
30 June 2014

In the opinion of the directors of Watermark Market Neutral Fund Limited:

- (a) the financial statements and notes set out on pages 25 to 51 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards, 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 30 June 2014 and of its performance for the period ended on that date, and
- (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.
- (c) Note 2(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board, and
- (d) On behalf of the managers of Watermark Funds Management Pty Limited, and Peter Roberts as persons who performs the Chief Executive and Chief Finance Officer functions respectively for the purposes of this Act have each declared that:
 - (i) the financial records of the Company for the financial period have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - (ii) the financial statements and notes for the financial period comply with the Accounting Standards; and
 - (iii) the financial statements and notes for the financial period give a true and fair view.

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



Matthew Kidman
Chairman

Sydney
12 August 2014

Moore Stephens Sydney

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**Independent Auditor's Report
To the Members of Watermark Market Neutral Fund Limited
A.B.N. 45 163 980 498**

Report on the Financial Report

We have audited the accompanying financial report of Watermark Market Neutral Fund Limited (the "Company"), which comprises the statement of financial position as at 30 June 2014, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the period then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the Company are responsible for the preparation and fair presentation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state that, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards (IFRS).

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Auditor's Opinion

In our opinion:

- a) the financial report of Watermark Market Neutral Fund Limited is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the Company's financial position as at 30 June 2014 and of its performance for the period ended on that date; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 20 to 22 of the directors' report for the period ended 30 June 2014. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the remuneration report of Watermark Market Neutral Fund Limited for the period ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report for the period ended 30 June 2014 included on Watermark Market Neutral Fund Limited's website. The Company's directors are responsible for the integrity of Watermark Market Neutral Fund Limited's website. We have not been engaged to report on the integrity of Watermark Market Neutral Fund Limited's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.



Moore Stephens Sydney
Chartered Accountants



Scott Whiddett
Partner

Dated in Sydney Tuesday, 12 August 2014

Watermark Market Neutral Fund Limited
Shareholder information
30 June 2014

The Shareholder information set out below was applicable as at **18 July 2014**.

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report, is listed below.

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

Holding	Class of equity security		
	Ordinary shares		
	No. of Shareholders	Shares	Percentage
1 - 1000	29	15,347	0.02
1,001 - 5,000	156	578,431	0.68
5,001 - 10,000	272	2,483,200	2.91
10,001 - 100,000	1,253	47,220,035	55.31
100,001 and over	133	35,078,213	41.09
	1,843	85,375,226	100.00

There were 10 holders of less than a marketable parcel of ordinary shares.

Analysis of numbers of option holders by size of holding:

Holding	Class of equity security		
	Options		
	No. of Shareholders	Shares	Percentage
1 - 1000	2	950	0.00
1,001 - 5,000	120	491,800	0.75
5,001 - 10,000	196	1,893,400	2.88
10,001 - 100,000	791	33,029,966	50.29
100,001 and over	111	30,258,459	46.07
	1,220	65,674,575	100.00

B. Equity security holders

Twenty largest quoted equity security holders

Name	Ordinary shares	
	Number held	Percentage of issued shares
Avanteos Investments Limited <Clearview S/P A/C>	3,078,000	3.61
LIC Investments Pty Ltd <Lic Investments Unit A/C>	1,250,000	1.46
Mr Robert Ferguson & Ms Jennifer Ferguson & Ms Rachel Ferguson <Torryburn Super Fund A/C>	1,000,000	1.17
Mr Victor John Plummer	1,000,000	1.17
UBS Wealth Management Australia Nominees Pty Ltd	955,000	1.12
Map Capital Pty Ltd <Richmond Tce Cap Arf A/C>	925,000	1.08
Penson Holdings Pty Ltd	700,000	0.82
Mr James Austin Thurlby & Mrs Nancy Elizabeth Thurlby <Jet Retirement Plan A/C>	666,187	0.78
Australian Executor Trustees Limited	653,137	0.77
Netherfield Nominees Pty Ltd <Louise Christie S/F A/C>	600,000	0.70
Mrs Jean Plummer	600,000	0.70
Mr Willem Lasschuit & Mrs Rhonda Lasschuit <Lasschuit Inc Smsf A/C>	571,058	0.67
Abbawood Nominees Pty Ltd <Abbott Family S/F No 1 A/C>	550,000	0.64
Horton Pty Limited	545,098	0.64
Bond Street Custodians Limited <Rxn - V17471 A/C>	500,000	0.59
Mr Stuart Bruce James & Mrs Gillian Doreen James <S B James Super Fund A/C>	500,000	0.59
Richjeca Pty Ltd <Richjeca A/C>	495,098	0.58
Mr Geoffrey Ronald Walton & Mr Ronald Arthur Walton <Walton's Wood Prd S/F A/C>	495,000	0.58
Abbawood Nominees Pty Limited <Abbott Family Account>	400,000	0.47
Mr John Rabong & Ms Ruth Gillian Speirs <Wattles Nest Super Fund A/C>	400,000	0.47
	15,883,578	18.61

B. Equity security holders (continued)

Twenty largest quoted option holders

	Options	
	Number on issue	Percentage of options
Avanteos Investments Limited <Clearview S/P A/C>	2,053,000	3.13
Mr Robert Ferguson & Ms Jennifer Ferguson & Ms Rachel Ferguson <Torryburn Super Fund A/C>	1,000,000	1.52
Neville Ward Super Pty Limited <The Nw Ward Super Fund A/C>	1,000,000	1.52
Mr Peter Michael Antaw & Mrs Victoria Mary Antaw <Petavic Super Fund A/C>	900,000	1.37
Mr Christopher Charles Indermaur	844,200	1.29
Mr Peter John Flaherty & Mrs Diana Kay Flaherty <Chatsworth Invest S/F A/C>	690,000	1.05
Mr Geoffrey Laurence Cahif & Mrs Marion Cahif <Cahif Super Fund A/C>	684,668	1.04
Mr Phil Bernard Smith	553,763	0.84
Mr Geoffrey Ronald Walton & Mr Ronald Arthur Walton <Walton's Wood Prd S/F A/C>	545,000	0.83
Clara Jago Pty Ltd <Clara Super Fund A/C>	500,000	0.76
Mr Stuart Bruce James & Mrs Gillian Doreen James <S B James Super Fund A/C>	500,000	0.76
Penson Holdings Pty Ltd	500,000	0.76
Ruby Superannuation Pty Limited <Dirk De Bevere S/F A/C>	494,481	0.75
UBS Wealth Management Australia Nominees Pty Ltd	470,000	0.72
Ms Elaine Trevilian	445,103	0.68
Tsp Pty Ltd <J B Newnham Family A/C>	414,000	0.63
Mr John Rabong & Ms Ruth Gillian Speirs <Wattles Nest Super Fund A/C>	400,000	0.61
Mr Ronald Arthur Walton <The Ra & Be Walton Fam A/C>	360,000	0.55
Mr Michael Paul Wedgwood & Mrs Janet Josephine Wedgwood <The Jansi Super Fund A/C>	350,000	0.53
Mr Robert Ewan McGregor & Mrs Susan Margaret McGregor <Mcgregor Super Fund A/C>	320,000	0.49
Mr Nicholas Carrack Ryan & Mrs Louise Mary Ryan <Nc Ryan Super Fund A/C>	320,000	0.49
	<u>13,344,215</u>	<u>20.32</u>

C. Substantial holders

There are no substantial shareholders.

D. Voting rights

The voting rights attaching to each class of equity securities are set out below:

Each share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

E. Stock Exchange Listing

Quotation has been granted for all of the ordinary shares and options of the Company on all Member Exchanges of the ASX Limited.

F. Unquoted Securities

There are no unquoted shares.

G. Securities Subject to Voluntary Escrow

There are no securities subject to voluntary escrow.