

NTA and Monthly Update – January 2016

Company at a Glance

ASX Code	WMK
Fund Size	AU\$91.6m
Fund Strategy	Equity Market Neutral
Share Price	\$1.05
NTA Before Tax	\$1.07
Shares on Issue	84.1m
Dividend (FY15 Final)	2.5 cents
Dividend Yield (annualised)	4.8%

Net Tangible Asset (NTA) Backing

	Dec 15	Jan 16
NTA Before Tax	\$1.08	\$1.07
NTA After Tax	\$1.07	\$1.07

Gross Portfolio Structure

	Dec 15	Jan 16
Long Exposure	98.1%	93.7%
Short Exposure	-103.2%	-88.6%
Gross Exposure	201.2%	182.3
Cash	105.1%	95.0%

Month in Review

Fund returns were flat for January, in a month with two very distinct halves. Savage market falls early in the month were recouped in part, as shares rallied into month-end. This volatility will likely continue as global economies adjust to slowing industrial production and the transition to sustainable growth, led by the services sector. Also looming large in investors' minds are the risks arising from elevated leverage in many asset markets. Credit markets in particular look decidedly unhealthy.

Gains in the cyclical parts of the portfolio were offset by small losses in precious metals, banks and insurers. A net exposure to listed asset managers also added to performance. Pleasingly, our international portfolio continues to make an important contribution to Fund returns.

Defensive shares produced mixed results in the month. Capital flows away from the Healthcare sector saw several key names suffer falls, with hospital operators Healthscope and Ramsay among the weakest performers. Infrastructure has been one of the best performing sectors and weathered market volatility well again in January. M&A and industry consolidation in the global Telecomm sector has presented a number of opportunities. An investment in Verizon has been successful, while a new investment was initiated in Nokia, whose shares have retreated some 30-40% in recent months. We believe Nokia's planned acquisition of Alcatel-Lucent will hold significant benefits for Nokia, which are not reflected in the current share price.

Signs that the credit cycle is turning were evident again in January and bank shares suffered as a result. Deteriorating credit quality and increasing costs of wholesale funding are both significant headwinds for Australian banks. We have held a net short exposure to diversified financial shares for some time and this led to solid performance with most names suffering as global share markets sold-off.

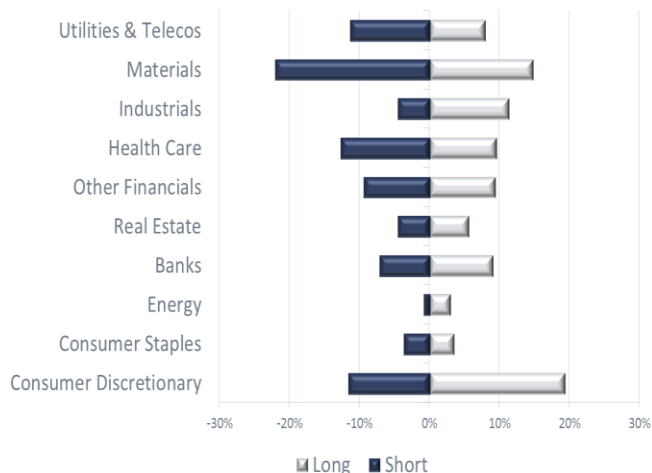
Cyclical shares were very weak for the month along with the broader share market. A position in Sedgman was closed following a takeover offer from Cimic Group, a large shareholder. An investment in Chinese online employment site Zhaopin made a strong contribution having also received a takeover offer. Anecdotal feedback from retailers reaffirmed the strength of the post-Christmas trading period, particularly for those businesses that are exposed to the housing cycle. We retain a small net positive exposure to the retail sector.

The beleaguered resource sector saw further falls in January, with the prices of iron ore and oil yet to find a floor. Short positions in two US oil producers contributed during the month, as did an investment in Orocobre, an Australian Lithium producer who has recently recapitalised and is now benefitting from a buoyant market for lithium.

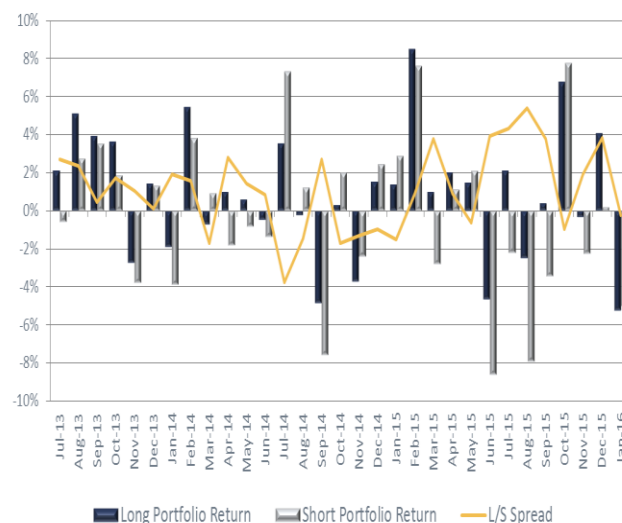
WMK Performance

	1 Mth	6 Mths	FYTD	1 Yr	S.I. (pa)
Portfolio Return (net)	-0.1%	9.2%	13.6%	22.0%	9.0%
RBA Cash Rate	0.2%	1.0%	1.2%	2.1%	2.4%
Outperformance (net)	-0.3%	8.2%	12.4%	19.9%	6.6%

Sector Exposures

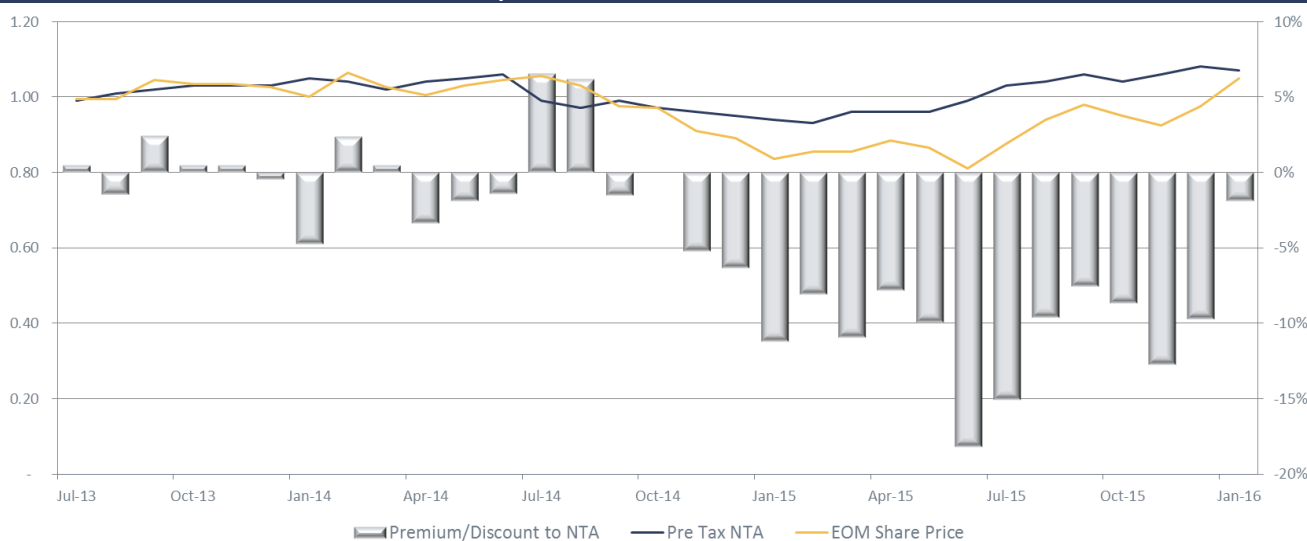


Long Short Spread*



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

Premium/Discount to NTA History



Dividend History

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

Disclaimer: This document is issued by Watermark Funds Management Pty Ltd (ABN 98 106 302 505, AFSL 250897) in relation to the Watermark Market Neutral Fund Ltd. The information provided is general information only. It does not constitute financial, tax or legal advice or an offer or solicitation to subscribe for units or shares in any fund of which the Manager is the contracted Investment Manager. The information in this document has been prepared without taking account of your objectives, financial situation or needs. Watermark Funds Management receives management and performance fees from the Watermark Funds. The manager, their affiliates and associates accept no liability for any inaccurate, incomplete or omitted information of any kind or any losses caused by using this information. All investments carry risks. There can be no assurance that any Watermark Fund will achieve its targeted rate of return and no guarantee against loss resulting from an investment in any Watermark Fund. Past fund performance is not indicative of future performance.