



NTA and Monthly Update – August 2016

Company at a Glance		Net Tangible Asset (NTA) Backing		
ASX Code	WMK		Jul 16	Aug 16
Fund Size	AU\$89.8m	NTA Before Tax	\$1.05	\$1.04
Fund Strategy	Equity Market Neutral	NTA After Tax	\$1.05	\$1.04
Share Price	\$1.06	Dividend Declared	(\$0.00)	(\$0.03)
NTA Before Tax	\$1.04	NTA After Tax & Dividend (3¢)	\$1.05	\$1.01
Shares on Issue	87.1m	Gross Portfolio Structure		
Dividend (HY17 Interim)	3 cents	Long Exposure	115.2%	117.8%
Dividend Yield (annualised)	5.7%	Short Exposure	-120.3%	-120.8%
		Gross Exposure	235.5%	238.6%
		Cash	105.1%	103.0%

Month in Review

August was a disappointing month for the Fund, with strong performance from the international portfolio and solid profit results for some core positions offset by a handful of single-stock losses. The portfolio value fell by 0.9% after all fees. The Australian earnings reporting season produced a mixed bag of results, reflecting an overall theme of weak growth across most sectors. The residential property sector remains one of the few pockets of growth for the domestic economy, with companies exposed to this thematic producing solid profit results.

Amongst defensive sectors, healthcare shares made a strong contribution to returns in the month, with a number of short positions performing strongly. On balance, profit results in this sector were disappointing, with one-off income items and accounting irregularities often masking subdued operating conditions and weak underlying trends. A stand-out performer was the Fund's short position in *Novo-Nordisk* which downgraded its profit forecast in the face of increased pricing pressures for its flagship insulin product. In the gaming sector, we have switched a core investment in *Tabcorp* into *Tatts Group* reflecting the value of its dominant lottery business in this low growth environment.

Cyclical shares continue to struggle in the lethargic domestic economy, with trends in retail sales and household income growth weighing on corporate profits. A surprise earnings downgrade for *APN Outdoor* saw the company's shares fall 35%, materially detracting from returns in the month. We retain a positive view on the trends for outdoor advertisers and have used the recent weakness to add to our position. Notwithstanding the weak retail sales data, consumer confidence remains strong. Coupled with the strength in the residential property sector, retailers such as *JB Hi Fi* and *Harvey Norman* continue to perform well. The Fund is participating in this theme through an investment in *Super Retail Group*, although we remain circumspect on the prospects for retailers in the medium term.

Financial shares were another strong contributor, particularly from within the diversified financial and insurance sectors. In the international portfolio, an investment in the Dutch financial services company *ING Groep* was a standout performer while closer to home, an investment in *Flexigroup* performed well on a strong profit result. In the insurance sector, it was another international investment in *American International Group* which provided the strongest return, while a timely exit from an investment in *QBE Insurance Group* avoided a loss, which disappointed with its FY16 result.

There was significant variability within the commodities complex in August, with oil and bulk commodities performing well while the prices of copper and gold suffered falls. The fund has retained a largely balanced exposure to mining and energy shares in recent months, however a modest short exposure to iron ore producers weighed on performance given the recent strength in the sector. Uncertainty from investors around the acquisition of an interest in a new gold mine, saw shares in *Evolution Mining* underperform the broader sector, which also detracted from returns in the month.



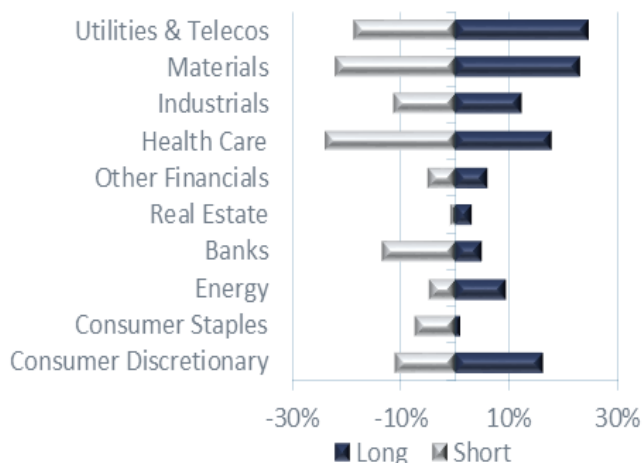
WATERMARK

MARKET NEUTRAL FUND

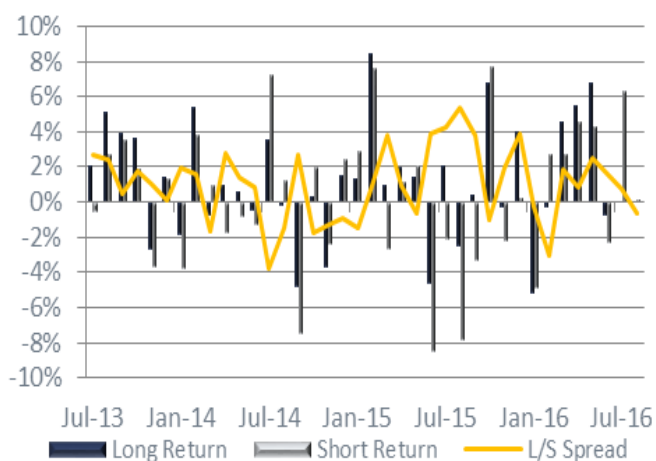
WMK Performance

	1 Mth	6 Mths	FYTD	1 Yr	S.I. (pa)
Portfolio Return (net)	-0.9%	3.9%	-0.7%	6.7%	7.8%
RBA Cash Rate	0.1%	0.9%	0.3%	1.9%	2.3%
Outperformance (net)	-1.0%	3.0%	-1.0%	4.8%	5.6%

Sector Exposures

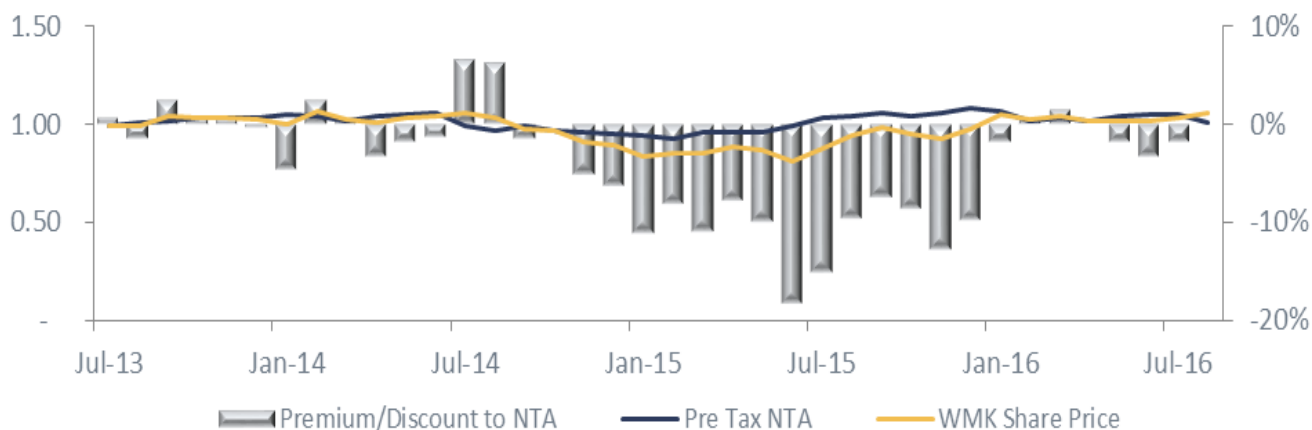


Long Short Spread*



* 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.

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