



## NTA and Monthly Update – September 2016

Company at a Glance		Net Tangible Asset (NTA) Backing		
ASX Code	WMK		Aug 16	Sep 16
Fund Size	AU\$93.4m	NTA Before Tax	\$1.04	\$1.08
Fund Strategy	Equity Market Neutral	NTA After Tax	\$1.04	\$1.07
Share Price	\$1.07	Dividend Declared	(\$0.03)	(\$0.03)
NTA Before Tax	\$1.08	NTA After Tax & Dividend (3¢)	\$1.01	\$1.04
Shares on Issue	87.1m	Gross Portfolio Structure		
Dividend (HY17 Interim)	3 cents	Long Exposure	117.8%	121.5%
Dividend Yield (annualised)	5.6%	Short Exposure	-120.8%	-120.5%
		Gross Exposure	238.6%	242.1%
		Cash	103.0%	99.0%

## Month in Review

The Fund performed very well in September, outperforming a lacklustre Australian Equity Market which managed to hold its ground despite continued concerns from investors over the ultimate intentions of Central Banks. With the apparent resolve of policy makers in the United States, Europe and Japan beginning to firm around normalising monetary conditions, sentiment continues to vacillate between optimism over signs of modest economic growth, particularly in North America and pessimism that the withdrawal of stimulus by central banks will tip already fragile economies into recession.

WMK's portfolio rose by 3.3% after all fees in September, as compared with the benchmark RBA Cash Rate which returned 0.1%. Performance came from both the long and short portfolios, with the Fund retaining a neutral position through the month. Investments in a handful of mining companies contributed with strong commodity prices, while precipitous falls in a number of core shorts also added to Fund returns. Performance was again skewed to the international portfolio, which continues to deliver gains.

Amongst the Defensive sectors, the Fund's healthcare exposures did well. The strategy here has been to take long exposures to high quality pharmaceutical companies such as *Ionis Pharmaceuticals* with diversified product suites and development options while taking short positions in companies such as *Novo Nordisk* whose earnings are at risk from increased competition and pricing pressures. A core short in the telecommunications sector was the stand-out performer in the month, validating our thesis that the NBN roll out would place pressure on margins in future.

Cyclical sectors have been amongst the best performers in recent months and continued their strong run in September. The technology sector has been a standout and the Fund's exposure in this sector has been focused on the semi-conductor space. The portfolio is positioned to capture the uplift in demand for analogue chips which are increasingly being used in cars and industrial machinery. At the same time, the fund is short selected digital chip manufacturers, with demand softening with a shift away from PC sales. A short position in *Lululemon* also performed well during the month with that company reporting weaker sales growth and falling foot-traffic in their stores. Increased competition in the athletic-wear category will continue to pose challenges for this specialty retailer.

The Fund's banking exposures made a solid contribution, in particular a short position in the *Royal Bank of Scotland* which is exposed to the softening UK residential property market. The Fund investment in the *Commonwealth Bank of Australia* performed well in September.

Market action was again focused on the resources and energy sectors in September. The oil price rallied in response to proposed output cuts from OPEC while demand for bulk commodities and industrial metals remains strong. Amongst the energy exposures, a short position in a domestic LNG producer performed well while the Fund's net long exposure to oil producers added value. An investment in Australian gold producer *Evolution mining* was also a stand out performer.

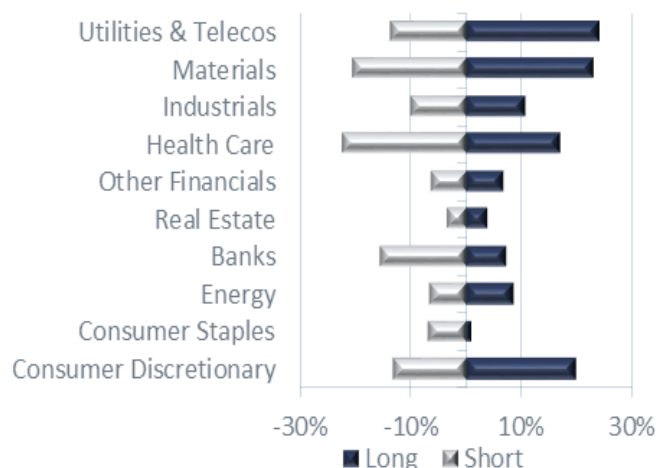


# WATERMARK

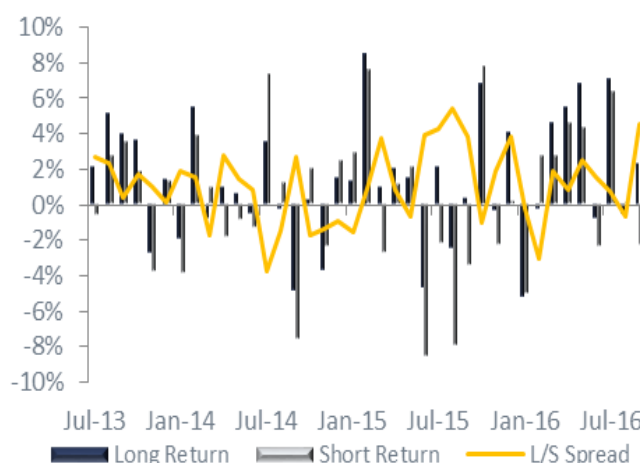
MARKET NEUTRAL FUND

WMK Performance					
	1 Mth	6 Mths	FYTD	1 Yr	S.I. (pa)
Portfolio Return (net)	3.3%	6.0%	2.6%	7.4%	8.7%
RBA Cash Rate	0.1%	0.9%	0.4%	1.9%	2.3%
<b>Outperformance (net)</b>	<b>3.2%</b>	<b>5.2%</b>	<b>2.2%</b>	<b>5.5%</b>	<b>6.5%</b>

## Sector Exposures

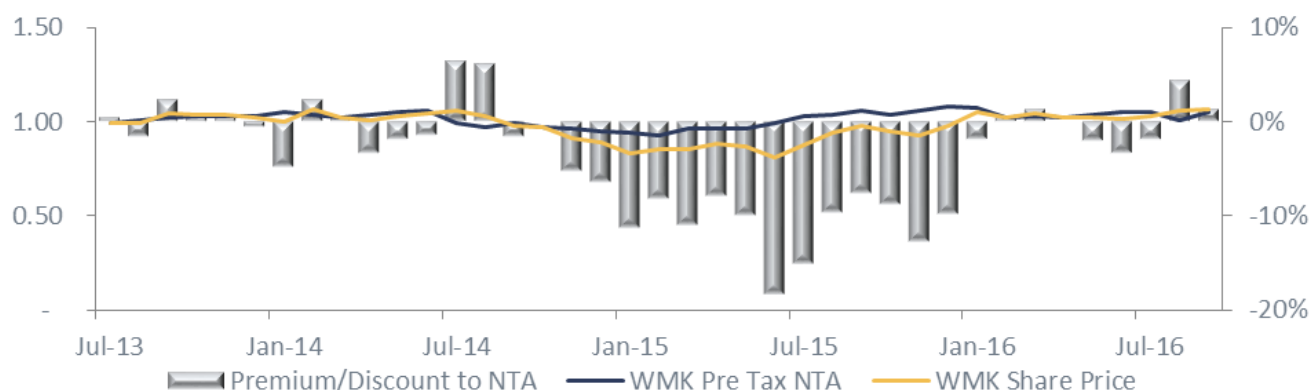


## Long Short Spread\*



\* 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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