



WATERMARK  
MARKET NEUTRAL FUND

# Watermark Market Neutral Fund Limited

ABN 45 163 980 498

## Annual Report 2015

YEAR ENDED 30 JUNE 2015

Watermark Market Neutral Fund Limited  
Level 6, 139 Macquarie Street NSW Sydney 2000

TEL (02) 9252 0225 FAX (02) 9252 1220  
info@wfunds.com.au | www.wfunds.com.au

**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 2, Level 6  
139 Macquarie Street  
Sydney NSW 2000  
Phone: (02) 9252 0225  
Fax: (02) 9252 1220  
Email: [info@wfunds.com.au](mailto:info@wfunds.com.au)

For inquiries regarding net asset backing (as advised each month to the Australian Securities Exchange) refer to [www.asx.com.au](http://www.asx.com.au) or call (02) 8262 2800.

**Share registrar**

Boardroom Pty Limited  
Level 12, 225 George Street  
Sydney NSW 2000  
Phone: (02) 9290 9600  
Fax: (02) 9279 0664

For inquiries 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

**Watermark Market Neutral Fund Limited** ABN 45 163 980 498  
**Annual Report - 30 June 2015**

**Contents**

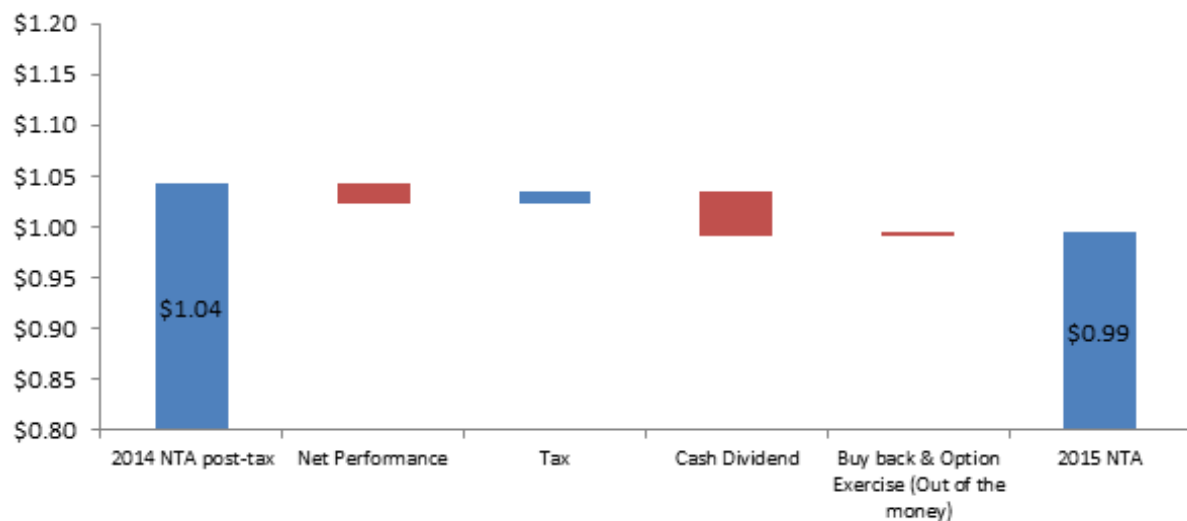
	Page
Chairman's Letter	1
Chief Investment Officer's Report	2
Company Profile	5
Investments at Market Value	7
Directors' Report	8
Auditor's Independence Declaration	20
Financial Statements	
Statement of Comprehensive Income	21
Statement of Financial Position	22
Statement of Changes in Equity	23
Statement of Cash Flows	24
Notes to the Financial Statements	25
Directors' Declaration	52
Independent Auditor's Report to the Members	53
Shareholder Information	55

## Chairman's Letter

The Watermark Market Neutral Fund (WMK) enjoyed a strong second half of FY15, with the gross value of the Company's portfolio increasing by 7%. This was a terrific turnaround from a disappointing first half result. This strong performance has continued into the 2016 financial year, with the portfolio performing strongly again in July despite a highly volatile Australian share market.

The Company's pre-tax net tangible asset backing (NTA) was \$0.99 per share as at 30 June 2015. The strong recent performance has enabled the board to increase the final dividend for FY15 to 2.5 cents per share, 50% franked. Shareholders will therefore receive 4.5 cents of dividends per share in respect of the 2015 financial year. It is the intention of the board to pay a consistent stream of dividends. We would also hope to increase the franking level of the dividend over time.

Figure 1. NTA Bridge



FY15 was very much a year of two halves. The portfolio performed below expectations in the 6 months to 31 December 2014 but rebounded in the second half. Before fees and costs, the value of the portfolio fell by 0.2% for the full year, having recovered 7.0% in the 6 months to 30 June 2015.

As has been discussed previously in correspondence with shareholders, WMK's investment strategy will invariably deliver performance that is very different to the broader share market. This was borne out in the 2nd half of FY15 when the fund produced a strong result while the All Ordinaries Accumulation index returned 3.3%. Given WMK's investment strategy, we believe the Company is well positioned to perform strongly whether the share market is rising or falling.

Periods of volatility create opportunities for active investment managers. In WMK's case, the opportunity set is doubled as value can be created when the prices of shares go up and go down. The return expectations for WMK's portfolio are higher therefore than a traditional long-only fund and your Investment Manager has demonstrated a long history of delivering attractive returns with substantially lower volatility than the share market. As we enter a period where the returns from shares are likely to be low, the Board and I are confident that the Company is well positioned to continue to grow its NTA and return an attractive income yield to shareholders via dividends.

We are excited about the future of the Company and the board looks forward to meeting with shareholders at the AGM in Sydney on the 24th of November.

Matthew Kidman  
Chairman

Dated at Sydney 27 August 2015

## Chief Investment Officer's Report

### Performance Review

After a challenging start to FY15, portfolio performance improved in the second half of the year and losses were largely recovered. The portfolio delivered a flat gross return of -0.2% for the 12 months to 30 June 2015, as compared with the benchmark RBA Cash Rate, which returned 2.4%. While we are never satisfied with portfolio returns that fall below our stated targets, we note that this is the first time since we first began recording the performance of our market neutral strategy in 2007, that we have not produced a positive gross return. Pleasingly, performance for the 6 months to 30 June 2015 was 7%, comfortably beating the benchmark which delivered return of 1.1%.

The poor returns in the first half were due to underperformance in the long portfolio, while the Company's short portfolio performed in line with the broader market.

As a fundamental investor with a bias towards value and quality, the Company has not owned many of the 'expensive defensives' that have been so strongly favoured by investors looking to supplement anaemic portfolio yields. This was one factor that contributed to weaker portfolio returns in the first half of FY15.

Investments in mining and energy also detracted from performance. Having closed short positions in FY14, the portfolio was left with a modest long exposure to a handful of small mining companies, positions that were supported by sound fundamentals and attractive prices. Unfortunately, as the rout in global commodity prices continued, several of these small positions moved against us and contributed to poor performance.

The portfolios are managed within tight risk controls which limit losses attributable to individual positions. As such, portfolio losses were modest and able to be recovered in the final months of FY15. The benefit of a fully hedged structure can be clearly seen when share markets are volatile. As shares globally were buffeted by problems in Europe and China, our portfolios were insulated and performed independently of these disruptive forces. It has been stock selection, guided by deep fundamental research that has driven returns in recent months. Volatility has provided an opportunity to build on existing positions and initiate new ones.

Importantly, security selection within our industrial share portfolio has been consistently profitable and contributed positively to portfolio returns again in FY15. The strategy performs best when the portfolios are populated with a diverse range of profitable investment ideas. While ideas were a little harder to come by in 2014, the last six months have proven more fruitful and the portfolio has benefitted from a range of new positions and investment themes.

### Portfolio Review

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; Resources; and Financial Services.

While shares in defensive industries provide some protection during a downturn in the economic cycle, they have historically been highly correlated to bond markets. As bond yields were falling in the first half of FY15, this sector continued to outperform. However, as with bond prices, defensive shares have become increasingly stretched through FY15, with investors prepared to pay higher prices for earnings certainty and yields.

Healthcare names were among the strongest contributors to performance through the year, with long positions in *CSL Limited* and *LifeHealthcare Group* as standouts. We made timely exits from *Sonic Healthcare* and *Primary Health Care* after both companies overshot our valuation targets. We are increasingly concerned about the impact to pathology margins from recent cuts to Medicare funding in pathology and inflation of the cost base due to continued growth in collection centre openings. We also saw the Federal Government's announced review of all Medicare-funded procedures, tests and treatments as a significant risk to future earnings in these names, along with the freeze in indexation of GP Medicare payments.

The year featured multiple IPO's, of which the majority outperformed the broader market. *Spruson & Ferguson* is an Australian intellectual property firm with a large office in Singapore and is benefitting from strong growth in Asia and a falling Australian Dollar. An investment in this company on IPO performed particularly well.

In telecommunications, we held a position in *Amcom Telecommunications* which merged via a scheme of arrangement with *Vocus Telecommunications*. We also held investments in both *TPG Telecom* and *iiNet*, with both companies increasing in value following their proposed merger. Further consolidation opportunities are limited so we have pared back our position in the industry.

In last year's annual report we wrote of our concerns regarding the major listed supermarkets. Our thesis is so far proving correct, with *Woolworths* (under pressure from *Aldi* and *Coles*), reporting negative sales growth towards the end of the year. *Metcash* has been hardest hit as its uncompetitive model is struggling to maintain relevance with price sensitive consumers. Going forward we expect the industry pain to continue as *Woolworths* invests further in lower prices to restore competitiveness.

Turning to cyclical sectors of the market, housing has been one clear exception to the bleak backdrop for the domestic economy. Direct beneficiaries of the strong housing cycle are companies supplying building materials, constructors and property developers. The retail sector has also enjoyed buoyant consumer confidence associated with rising property values. *Adelaide Brighton* and *Beacon Lighting* have both been very profitable positions for WMK in FY15 and direct beneficiaries of this thematic.

The Media sector saw divergent trends as advertising budgets continued to shift online. Australian companies only capture a small share of this growth. With a broader range of investment opportunities offshore, the portfolio has had a limited exposure to domestic media names. *iSentia Group* and *APN News and Media* were two positions that contributed to performance last year.

Weakness in global share markets later in the year saw many Financial Services names under pressure give ground after posting solid gains in 2014. An investment in *Henderson Group* contributed significantly to performance during the period, as they seek to build their global presence. Shares of the major banks were sold off heavily amid concerns around their ability to meet new APRA capital requirements. Portfolio positioning in respect of the major banks contributed strongly to performance, reflecting their relative vulnerabilities to regulatory change. We also exploited our ability to invest offshore, taking a position in *Wells Fargo*, a US super-regional offering better value than its Australian peers.

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 Company's exposure to the turnaround at the *Bank of Queensland* made an important contribution to performance.

The bear market for Resources continued in FY15, marked by precipitous falls in most commodities but particularly iron ore and oil. Shorts in these sectors made a strong contribution to performance, offset however by losses in *Tiger Resources* and *Base Resources*. The outlook for commodities remains poor with a slowing Chinese economy, continued oversupply and high inventory levels all capping prices. While mine closures will ultimately provide floors for commodity prices, substantial deflation across the industry is lowering cost support. We currently have a fully hedged Resources portfolio, selectively investing in companies with strong balance sheets capable of generating returns in this new environment. We have begun to build out our international exposure with new holdings including *Goldcorp Inc* and *Cameco Corp*.

## Market Outlook

The Australian share market is in trouble. Shares are fully valued and earnings growth is decelerating. At the same time the tailwind from lower interest rates is fading: while short-term rates may move lower, longer-dated bond yields have probably bottomed.

The resources sector is in a bear market which will continue for years to come; while we will see sharp rallies from time to time, these will be short-lived as the structural downtrend continues. Through time, commodity prices have tended to trade around cost support. While a number of commodities have already fallen back to these levels, as yet this has not played out in the share market, so in the medium term we would expect mining shares to move lower.

The Australian banks still have to raise more capital and this is dilutive for earnings. The credit cycle also appears to be turning, and with reserve releases abating non-performing loans will once again put pressure on profits. Banks target positive "jaws" where revenues grow faster than costs. In the most recent results however costs have been growing faster than revenues and profit growth has stalled.

While the Australian share market can best be described as mature with few growth sectors, the most important of these sectors - healthcare - is struggling with downgrades from almost all the major names as fiscal tightening bites and emerging market growth slows.

The re-rate of yield sectors in the market is also largely complete as interest rates are unlikely to fall much further.

Pervasive deflationary trends globally, a function of surplus capacity and sluggish demand, is the underlying cause of low interest rates and commodity prices. Investors have bid up shares as an alternate source of income while rates have fallen, in the belief that shares are more valuable in a low interest rate environment. The reality is quite different: since low rates are a reflection of weak demand, profit growth is likely to be much weaker in years ahead. We are seeing this already playing out in many sectors where prices are falling, volumes are weak and margins are under pressure.

In this deflationary environment, profit growth will be muted. With valuations full by historic standards, we believe shares will offer low returns at best in the medium term. If this proves correct then we are well positioned, as active management strategies like long/short investing can create significant value through security selection without the risks of being exposed to the share market. We would expect to deliver attractive returns for our investors in the medium term irrespective of the direction the market takes.

Justin Braitling  
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 Strategy

The Company's Investment Manager employs an equity market neutral strategy in managing the portfolio. A market neutral strategy aims to profit from the outperformance of a long portfolio over a short portfolio of shares. As the portfolios are roughly of equal value, the structure is fully hedged, minimising exposure to the changes in the broader share market. It provides the Company an opportunity to gain exposure to mispriced listed securities; as identified by the Investment Manager, without being fully exposed to the volatility and risks of the share market.

The value of Company's assets (longs) and its liabilities (shorts) move up and down together with movements in the share market, thereby minimising their impact on the portfolio. The Company profits to the extent that the long portfolio outperforms the short portfolio, irrespective of prevailing market direction. In this way, portfolio returns in a market neutral strategy will almost entirely reflect the Manager's success in choosing shares to buy and sell (short).

### 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 Universe

The universe from which investments can be selected comprises companies listed in Australia and on international exchanges. It is expected that at least 80% of the portfolio's gross exposure will be in Australian shares. While the primary focus is Australian shares, access to international shares provides the Manager with the opportunity to better express its investment ideas while developing deeper insights into Australian companies that compete in global markets.

## 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.

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 2015**

**Investments at Market Value**

**Consumer Durables & Apparel**

Adairs Ltd	1,091,036	1.42%
	<b>1,091,036</b>	<b>1.42%</b>

**Consumer Services**

Ardent Leisure Group	410,571	0.54%
Affinity Education Group Ltd.	546,577	0.71%
Crown Resorts Limited	1,238,922	1.62%
Intueri Education Group Ltd	1,228,894	1.60%
Navitas Limited	775,533	1.01%
Shine Corporate Ltd.	69,355	0.09%
	<b>4,269,851</b>	<b>5.57%</b>

**Media**

APN Outdoor Group Ltd.	958,548	1.25%
Fairfax Media Limited	1,177,109	1.54%
	<b>2,135,656</b>	<b>2.79%</b>

**Retailing**

Burson Group Ltd	1,155,697	1.51%
Kathmandu Holdings Limited	1,008,719	1.32%
Premier Investments Limited	724,901	0.95%
Super Retail Group Limited	1,297,560	1.69%
	<b>4,186,877</b>	<b>5.46%</b>

**Food Beverage & Tobacco**

Diageo plc	817,446	1.07%
Fonterra Shareholders Fund Units	1,044,207	1.36%
Tassal Group Limited	1,171,447	1.53%
	<b>3,033,101</b>	<b>3.96%</b>

**Energy**

BG Group plc	755,309	0.99%
Karoo Gas Australia Ltd	1,091,554	1.42%
Sundance Energy Australia Limited	659,681	0.86%
Woodside Petroleum Ltd	782,977	1.02%
Z Energy Ltd	1,153,856	1.51%
	<b>4,443,377</b>	<b>5.80%</b>

**Banks**

Commonwealth Bank of Australia	2,424,928	3.16%
National Australia Bank Limited	5,814,161	7.59%
Westpac Banking Corporation	1,577,150	2.06%
Wells Fargo & Company	2,549,313	3.33%
	<b>12,365,552</b>	<b>16.13%</b>

**Diversified Financials**

Kina Securities Limited	1,051,264	1.37%
	<b>1,051,264</b>	<b>1.37%</b>

**Insurance**

AMP Limited	1,911,910	2.49%
	<b>1,911,910</b>	<b>2.49%</b>

**Real Estate**

Goodman Group	1,955,249	2.55%
	<b>1,955,249</b>	<b>2.55%</b>

**Health Care Equipment & Services**

LifeHealthcare Group Ltd.	1,428,858	1.86%
Virtus Health Ltd.	564,629	0.74%
EBOS Group Limited	2,025,944	2.64%
	<b>4,019,430</b>	<b>5.24%</b>

**Pharmaceuticals Biotechnology & Life Sciences**

CSL Limited	823,800	1.07%
Neuren Pharmaceuticals Limited	456,734	0.60%
	<b>1,280,534</b>	<b>1.67%</b>

**Capital Goods**

Austal Limited	867,504	1.13%
RCR Tomlinson Ltd	1,360,620	1.78%
Sedgman Limited	993,811	1.30%
	<b>3,221,935</b>	<b>4.20%</b>

**Commercial & Professional Services**

Downer EDI Limited	837,174	1.09%
IPH Ltd.	514,387	0.67%
Smartgroup Corporation Ltd	1,799,937	2.35%
Skilled Group Limited	359,101	0.47%
	<b>3,510,599</b>	<b>4.58%</b>

**Transportation**

Auckland International Airport Limited	360,671	0.47%
Aurizon Holdings Ltd.	947,434	1.24%
Qantas Airways Limited	1,944,708	2.54%
Transurban Group Ltd.	1,693,958	2.21%
	<b>4,946,771</b>	<b>6.45%</b>

**Software & Services**

Gentrack Group Ltd	727,945	0.95%
iSentia Group Limited	1,311,506	1.71%
MYOB Group Ltd.	2,083,938	2.72%
Touchcorp Ltd.	375,897	0.49%
Zhaopin Ltd Sponsored ADR Class A	896,186	1.17%
	<b>5,395,472</b>	<b>7.04%</b>

**Materials**

Adelaide Brighton Ltd	1,487,786	1.94%
Antofagasta plc	783,965	1.02%
Alacer Gold Corp.	1,689,337	2.20%
Base Resources Limited	408,244	0.53%
Cameco Corporation	791,401	1.03%
Evolution Mining Limited	612,281	0.80%
Goldcorp Inc.	2,002,405	2.61%
Incitec Pivot Limited	825,979	1.08%
Orocobre Limited	1,138,603	1.49%
Perseus Mining Limited	395,435	0.52%
Regis Resources Limited	826,114	1.08%
South32 Ltd.	1,745,953	2.28%
Sirius Resources NL	1,397,303	1.82%
Tahoe Resources Inc.	879,559	1.15%
Tiger Resources Limited	478,916	0.62%
	<b>15,463,282</b>	<b>20.17%</b>

**Utilities**

AGL Energy Limited	1,157,651	1.51%
Spark Infrastructure Group Ltd.	1,212,405	1.58%
	<b>2,370,056</b>	<b>3.09%</b>

**Total Long Portfolio**

	<b>76,651,953</b>	<b>100.00%</b>
--	-------------------	----------------

**Total Short Portfolio**

	<b>-72,373,875</b>	
--	--------------------	--

## Directors' Report

The Directors present their report together with the financial report of Watermark Market Neutral Fund Limited ("the Company") for the year 1 July 2014 to 30 June 2015. The previous corresponding period was 28 May 2013 to 30 June 2014.

### Directors

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

Matthew Kidman (Chairman)  
 Justin Braithling (Non-Independent Director)  
 John Abernethy (Independent Director)  
 Stephen Van Eyk (Independent Director)  
 Robert Ferguson (Independent Director)

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

### Principal activities

During the year, 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 year.

### Dividends

Dividends paid to members were as follows:

	<b>Dividend Rate</b>	<b>Total Amount</b>	<b>Date of Payment</b>	<b>% Franked</b>
<b>2015</b>				
Ordinary shares - interim 2015	\$0.020	\$1,747,948	14/04/2015	70
Ordinary shares - final 2014	\$0.025	\$2,183,325	20/10/2014	100
<b>2014</b>				
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 year the Directors have recommended the payment of a final ordinary dividend of 2.5 cents per fully paid share, 50% franked to be paid on 20 October 2015 out of profits reserve at 31 July 2015.

### Review of operations

The 2015 financial year was very much a year of two halves. The portfolio performed below expectations in the 6 months to 31 December 2014 but rebounded in the second half. Before fees and costs, the value of the portfolio fell by 0.2% for the full year, having recovered 7.0% in the 6 months to 30 June 2015.

Investment operations over the year ended 30 June 2015 resulted in an operating loss before tax of \$1,839,349 (2014: \$8,776,575 profit) and an operating loss after tax of \$753,232 (2014: \$6,656,726 profit). Asset backing before tax for each ordinary share at 30 June 2015 amounted to \$0.99 per share (2014: \$1.06 per share). Asset backing after tax on realised gains but before tax on unrealised gains was \$0.99 per share (2014: \$1.04 per share).

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.

### **Significant changes in the state of affairs**

On 15 July 2013, as part of IPO the Company issued options to acquire ordinary shares in the Company at an exercise price of \$1.00 with expiry 31 December 2014.

Since issue, a total of 6,808,381 options have been exercised and allotted for a total consideration of \$6,808,381. On 31 December 2014, 63,710,244 options expired.

As a measure to preserve value for shareholders the board announced on 12 August 2014 the approval of an on market buy-back of up to 10% of the Company's capital up to a maximum of 8,649,622 shares to be bought back in a 12 month period commencing 27 August 2014. As at 30 June 2015 3,505,642 shares had been bought back for a consideration of \$2,967,298.

On 19 May 2015, the Company announced an amendment to the performance fee arrangement with the entity's Investment Manager Watermark Funds Management Pty Limited. The change is to introduce a 'perpetual high water mark', which ensures that any previous portfolio losses are recovered before the Investment Manager is entitled to accrue a performance fee.

Other than the matters noted above, there were no other significant changes in the state of affairs of the Company during the year ended 30 June 2015.

### **Matters subsequent to the end of the financial period**

Other than the dividend declared after year end, no other matter or circumstance has occurred subsequent to year 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 years.

### **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.

### **Financial Position**

The net asset value of the Company for the current financial year ended was \$83,609,816 (2014: \$88,034,515).

### **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 46.

### ***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 48.

***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 56.

***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)**

**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 Primary Health Care Limited; Non-Executive Director of Tyro Payments Limited 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.

**Information on directors (continued)**

**Stephen Van Eyk** *Independent Director* Age 63.

***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.

***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 year ended 30 June 2015**  
(continued)

### Meetings of directors

The numbers of meetings of the Company's board of Directors and of each board committee held during the year ended 30 June 2015, 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	4	4	3*	3	-	-	-	-
Justin Braitling	4	4	3*	3	-	-	-	-
John Abernethy	4	4	3	3	-	-	-	-
Stephen Van Eyk	3	4	2	3	-	-	-	-
Robert Ferguson	4	4	3	3	-	-	-	-

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 year

\* 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 and previous financial year.

2015	Short-term employee benefits		Post-employment benefits	
	Salary and fees		Superannuation	Total
Name	\$		\$	\$
<b>Non-executive Directors</b>				
Matthew Kidman	27,397		2,603	30,000
John Abernethy	27,397		2,603	30,000
Stephen Van Eyk	27,397		2,603	30,000
Robert Ferguson	27,397		2,603	30,000
<b>Sub-total non-executive directors</b>	<b>109,588</b>		<b>10,412</b>	<b>120,000</b>
<b>Executive Director</b>				
Justin Braitling	9,132		868	10,000
<b>Other key management personnel</b>				
Peter Roberts *	-		-	-
<b>Total key management personnel compensation</b>	<b>118,720</b>		<b>11,280</b>	<b>130,000</b>

**Watermark Market Neutral Fund Limited**  
**Directors' Report**  
**For the year ended 30 June 2015**  
(continued)

**Remuneration report (audited) (continued)**

**Details of remuneration (continued)**

2014	Short-term employee benefits	Post-employment benefits	
Name	Salary and fees \$	Superannuation \$	Total \$
<b>Non-executive Directors</b>			
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
<b>Sub-total non-executive directors</b>	<b>117,513</b>	<b>10,870</b>	<b>128,383</b>
<b>Executive Director</b>			
Justin Braitling	9,981	923	10,904
<b>Other key management personnel</b>			
Peter Roberts *	-	-	-
<b>Total key management personnel compensation</b>	<b>127,494</b>	<b>11,793</b>	<b>139,287</b>

\* 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 \$113,127 during the year (2014: \$108,656) 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 \$861,539 (2014: \$776,018). As at 30 June 2015, the balance payable to the manager was \$73,247 (2014: \$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 year, 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 year, 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. On the 19 May 2015, the Company announced, if the portfolio underperforms the benchmark over a financial year that underperformance is to be recouped before any entitled performance fee can be accrued.

For the year ended 30 June 2015, in its capacity as manager, Watermark Funds Management Pty Limited was not paid a performance fee (2014: \$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 report (audited) (continued)

### Details of remuneration (continued)

#### 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.

#### Equity Instrument Disclosures Relating to Directors

As at 27 August 2015, the Company's Directors and their related parties held the following interests in the Company:

##### Ordinary Shares Held

#### 2015

Director	Position	Balance at 13 August 2014	Acquisitions/ Options Exercised	Disposals	Balance at 27 August 2015
Matthew Kidman	Chairman	50,000	-	-	50,000
Justin Braitling	Non-Independent Director	300,001	583,000	(200,000)	683,001
Robert Ferguson	Independent Director	1,000,000	-	-	1,000,000
Stephen Van Eyk	Independent Director	48,780	-	-	48,780
John Abernethy	Independent Director	-	-	-	-
		<b>1,398,781</b>	<b>583,333</b>	<b>(200,000)</b>	<b>1,781,781</b>

#### 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	-	-	-	-
		<b>-</b>	<b>1,398,781</b>	<b>-</b>	<b>1,398,781</b>

##### Options Held

#### 2015

Director	Position	Balance at 13 August 2014	Options Acquired	Options Expired	Balance at 27 August 2015
Matthew Kidman	Chairman	50,000	-	(50,000)	-
Justin Braitling	Non-Independent Director	100,000	-	(100,000)	-
Stephen Van Eyk	Independent Director	-	-	-	-
Robert Ferguson	Independent Director	1,000,000	-	(1,000,000)	-
John Abernethy	Independent Director	-	-	-	-
		<b>1,150,000</b>	<b>-</b>	<b>(1,150,000)</b>	<b>-</b>

## Remuneration report (audited) (continued)

### Details of remuneration (continued)

#### Equity Instrument Disclosures Relating to Directors (continued)

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 year, been granted options over unissued shares or interests in shares of the Company as part of their remuneration.

*End of remuneration report*

## Insurance and indemnification of officers and auditors

### (a) Insurance of officers

During the financial year, 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 year, for any person who is or has been an auditor of the Company.

### (b) Indemnity of auditors

No indemnities have been given or insurance premiums paid during or since the end of the financial year, 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.

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 20.

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



Matthew Kidman  
Chairman

Sydney  
27 August 2015

Level 15, 135 King Street  
Sydney NSW 2000

GPO Box 473  
Sydney, NSW 2001

T +61 (0)2 8236 7700

F +61 (0)2 9233 4636

[www.moorestephens.com.au](http://www.moorestephens.com.au)

**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 year ended 30 June 2015, 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**



**Scott Whiddett**  
Partner

Dated in Sydney this 27<sup>th</sup> August 2015

**Watermark Market Neutral Fund Limited**  
**Statement of Comprehensive Income**  
**For the year ended 30 June 2015**

**Statement of Comprehensive Income**

	Notes	Year ended 30 June 2015 \$	Period ended 30 June 2014 \$
<b>Investment income from ordinary activities</b>			
Net realised gains on investments		3,537,347	7,530,132
Net unrealised (losses)/gains on investments		(2,792,142)	5,710,918
Dividends		2,447,230	1,930,010
Interest		3,758,928	3,153,834
Trust distributions		217,028	265,178
Other income		85,413	27,036
Net foreign exchange gains		118,657	-
		<u>7,372,461</u>	<u>18,617,108</u>
<b>Expenses</b>			
Management fees	21(b)	(861,539)	(776,018)
Performance fees	21(b)	-	(2,259,714)
Brokerage expense		(1,170,174)	(1,093,704)
Short dividend expense		(3,388,001)	(3,106,473)
Interest expense		(2,091,147)	(1,272,026)
Stock loan fees		(1,028,235)	(724,680)
Accounting fees		(113,127)	(108,656)
Share registry fees		(65,448)	(39,308)
Legal fees		(13,600)	(2,239)
Directors' fees	18(a)	(130,000)	(139,287)
ASX fees		(53,093)	(54,285)
Audit fees	19	(48,546)	(48,125)
Other expenses		(248,900)	(216,018)
		<u>(9,211,810)</u>	<u>(9,840,533)</u>
<b>(Loss)/profit before income tax</b>		<b>(1,839,349)</b>	<b>8,776,575</b>
Income tax benefit/(expense)	7	1,086,117	(2,119,849)
<b>(Loss)/profit for the year/period</b>		<b>(753,232)</b>	<b>6,656,726</b>
<b>Other comprehensive income/(loss) for the year/period, net of tax</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive (loss)/income for the year/period</b>		<b>(753,232)</b>	<b>6,656,726</b>
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per share for (loss)/profit attributable to the ordinary equity holders of the Company:</b>			
Basic earnings per share	24	(0.87)	8.99
Diluted earnings per share	24	(0.87)	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 2015**

**Statement of Financial Position**

		At	
		30 June	30 June
	Notes	2015	2014
		\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	77,318,497	85,432,794
Trade and other receivables	9	8,193,429	10,569,474
Financial assets at fair value through profit or loss	10	76,651,953	100,925,008
Current tax assets		2,689,021	-
<b>Total current assets</b>		<u>164,852,900</u>	<u>196,927,276</u>
<b>Non-current assets</b>			
Deferred tax assets	11	378,155	468,314
<b>Total non-current assets</b>		<u>378,155</u>	<u>468,314</u>
<b>Total assets</b>		<u>165,231,055</u>	<u>197,395,590</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	12	9,047,727	10,823,362
Financial liabilities at fair value through profit or loss	13	72,373,875	96,895,399
Current tax liabilities		-	253,697
<b>Total current liabilities</b>		<u>81,421,602</u>	<u>107,972,458</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities	14	199,637	1,388,617
<b>Total non-current liabilities</b>		<u>199,637</u>	<u>1,388,617</u>
<b>Total liabilities</b>		<u>81,621,239</u>	<u>109,361,075</u>
<b>Net assets</b>		<u>83,609,816</u>	<u>88,034,515</u>
<b>EQUITY</b>			
Issued capital	15	83,474,683	83,214,877
Reserves	16(a)	888,365	4,819,638
Accumulated losses	16(b)	(753,232)	-
<b>Total equity</b>		<u>83,609,816</u>	<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 year ended 30 June 2015**

**Statement of Changes in Equity**

	Notes	Issued Capital \$	Profits Reserves \$	Retained earnings/ (Accumulated losses) \$	Total \$
<b>Balance at 28 May 2013</b>		-	-	-	-
Profit for the period		-	-	6,656,726	6,656,726
<b>Transactions with owners in their capacity as owners:</b>					
Dividends provided for or paid	17	-	(1,837,088)	-	(1,837,088)
Shares issued under IPO	15	70,518,626	-	-	70,518,626
Shares issued on options exercised	15	3,825,210	-	-	3,825,210
Share placement share issued	15	10,006,403	-	-	10,006,403
Shares issued under dividend reinvestment plan	15	203,122	-	-	203,122
Costs of issued capital	15(b)	(1,338,484)	-	-	(1,338,484)
Transfer to profits reserve	16(a)	-	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>
<b>Balance at 30 June 2014</b>		<b>83,214,877</b>	<b>4,819,638</b>	<b>-</b>	<b>88,034,515</b>
<b>Balance at 1 July 2014</b>		<u>83,214,877</u>	<u>4,819,638</u>	<u>-</u>	<u>88,034,515</u>
Loss for the year		-	-	(753,232)	(753,232)
<b>Transactions with owners in their capacity as owners:</b>					
Dividends provided for or paid	17	-	(3,931,273)	-	(3,931,273)
Shares issued on options exercised	15	2,983,171	-	-	2,983,171
On market buy back	15	(2,967,298)	-	-	(2,967,298)
Shares issued under dividend reinvestment plan	15	251,654	-	-	251,654
Costs of issued capital	15(b)	(7,721)	-	-	(7,721)
		<u>259,806</u>	<u>(3,931,273)</u>	<u>-</u>	<u>(3,671,467)</u>
<b>Balance at 30 June 2015</b>		<b>83,474,683</b>	<b>888,365</b>	<b>(753,232)</b>	<b>83,609,816</b>

*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 year ended 30 June 2015**

**Statement of Cash Flows**

	Year ended 30 June 2015	Period ended 30 June 2014
Notes	\$	\$
<b>Cash flows from operating activities</b>		
Purchase of financial assets held at fair value through profit or loss	(213,485,593)	(221,955,335)
Proceeds from sale of financial assets held at fair value through profit or loss	233,694,947	133,796,038
Proceeds from short sale of financial liabilities held at fair value through profit or loss	209,027,014	207,769,624
Re-purchase of financial liabilities held at fair value through profit or loss	(226,173,266)	(112,639,419)
Interest received	3,950,442	2,707,269
Interest paid	(2,150,878)	(1,092,177)
Dividends and trust distributions received	2,751,885	1,979,657
Dividends paid on short stocks	(3,475,294)	(2,568,338)
Underwriting income	81,990	-
Other income received	-	27,036
Income taxes paid	(2,952,113)	(372,213)
Investment management fees paid	(885,933)	(698,892)
Performance fees paid	(2,259,714)	-
Brokerage expense	(1,210,693)	(1,111,859)
Stock loan fees	(1,042,905)	(645,651)
Payments for other expenses	(658,374)	(567,100)
<b>Net cash (outflow)/inflow from operating activities</b>	23 <u>(4,788,485)</u>	<u>4,628,640</u>
<b>Cash flows from financing activities</b>		
Payments for shares bought back	(2,743,783)	-
Share issue transaction costs	(11,030)	(1,912,120)
Dividends paid	(3,672,827)	(1,633,965)
Share placement issued	-	10,006,403
Shares issued on options exercised	2,983,171	3,825,210
Shares issued	-	70,518,626
<b>Net cash (outflow)/inflow from financing activities</b>	<u>(3,444,469)</u>	<u>80,804,154</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	(8,232,954)	85,432,794
Cash and cash equivalents at the beginning of the year/period	85,432,794	-
Effects of exchange rate changes on cash and cash equivalents	118,657	-
<b>Cash and cash equivalents at end of the year/period</b>	8 <u>77,318,497</u>	<u>85,432,794</u>
<b>Non-cash investing and financing activities</b>		
Dividends reinvested	23(b) <u>251,654</u>	<u>203,122</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 Level 6, 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 statements of Watermark Market Neutral Fund Limited are for the year ended 30 June 2015. The Company's comparative period for profit and loss balances is from 28 May 2013 to 30 June 2014.

## 2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. 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 27 August 2015.

#### (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

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2014 that have a material impact on the Company.

A number of new or amended standards became applicable for the current reporting year, however, the Company did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

#### (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.

#### (v) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2015 reporting periods and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below.

## 2 Summary of significant accounting policies (continued)

### (a) Basis of preparation (continued)

Title of standard	Nature of change	Impact	Mandatory application date/ Date of adoption by the Company
AASB 9 <i>Financial Instruments</i>	AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the AASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard.	<p>Following the changes approved by the AASB in December 2014, the Company no longer expects any impact from the new classification, measurement and derecognition rules on the Company's financial assets and financial liabilities.</p> <p>There will also 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.</p> <p>The derecognition rules have not changed from the previous requirements, and the Company does not apply hedge accounting. The new standard also introduces expanded disclosure requirements and changes in presentation.</p> <p>The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses.</p> <p>The Company has not yet assessed how the impairment provisions would be affected by the new rules.</p>	<p>Must be applied for financial years commencing on or after 1 January 2018.</p> <p>Based on the transitional provisions in the completed IFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety.</p> <p>The Company has not yet decided when to adopt AASB 9.</p>

## 2 Summary of significant accounting policies (continued)

### (a) Basis of preparation (continued)

Title of standard	Nature of change	Impact	Mandatory application date/ Date of adoption by the Company
AASB 15 <i>Revenue from Contracts with Customers</i>	<p>The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts.</p> <p>The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards.</p> <p>The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (eg 1 July 2017), ie without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.</p>	<p>The Company's main sources of income are interest, dividends and distributions and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. As a consequence, the Directors do not expect the adoption of AASB 15 to have a significant impact on the Company's accounting policies or the amounts recognised in the financial statements.</p>	<p>Mandatory for financial years commencing on or after 1 January 2017.</p>

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

### (b) Foreign currency translation

#### *Functional and presentation currency*

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Australian dollars, which is Watermark Market Neutral Fund Limited's functional and presentation currency.

## 2 Summary of significant accounting policies (continued)

### (b) Foreign currency translation (continued)

#### (i) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss in the Statement of Comprehensive Income.

### (c) 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 year they are incurred in accordance with the policies described in Note 2(h).

#### (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.

### (d) Income tax

The income tax expense/(income) for the year 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 year 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.

## 2 Summary of significant accounting policies (continued)

### (d) Income tax (continued)

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.

### (e) 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.

### (f) 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 year. 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.

### (g) 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.

### (h) 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.

Dividends expense on short sales of securities, which have been classified at fair value through profit or loss, is recognised in the Statement of Comprehensive Income.

## 2 Summary of significant accounting policies (continued)

### (h) Financial assets and liabilities (continued)

#### (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) 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.

#### (i) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year 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.

#### (j) Finance costs

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

#### (k) 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.

## 2 Summary of significant accounting policies (continued)

### (l) Profits reserve

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

### (m) 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 pay fully franked dividends provided the Company has sufficient profit reserves and franking credits and to distribute the majority of franking credits received each year. 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.

From time to time the Board will offer a dividend reinvestment plan, although the DRP was suspended in respect of the interim dividend for the current reporting years.

### (n) 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 year and adjusted for bonus elements in ordinary shares issued during the year.

#### (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.

### (o) 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.

## 2 Summary of significant accounting policies (continued)

### (o) Goods and Services Tax (GST) (continued)

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.

### (p) Comparatives

Comparatives are for the period 28 May 2013, being the registration date, to 30 June 2014, whereas the current year balances are for the year ended 30 June 2015.

### (q) Operating segments

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

## 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, foreign exchange 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

##### Exposure

The Company is exposed to currency risk arising from its investments denominated other than the Australian dollars.

##### Sensitivity

The analysis is based on the assumption that the Australian dollar weakened and strengthened by 10% (2014:10%) against the foreign currencies to which the Company is exposed. The impact on post-tax loss for the year (2014: post-tax profit) would be \$37,430 lower/\$37,430 higher (2014: \$112,597 higher/ \$112,597 lower).

#### (ii) Price risk

##### Exposure

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.

### 3 Financial risk management (continued)

#### (a) Market risk (continued)

The table below analyses the Company's concentration of price risk by region.

	2015 (%)	2014 (%)
Domestic	87.50	64.68
International	12.50	35.32
	<u>100.00</u>	<u>100.00</u>

The Company's investment sectors as at 30 June 2015 and 30 June 2014 are as below:

Sector	2015 (%)	2014 (%)
Information technology	86.79	108.93
Financials	64.77	(18.59)
Energy	12.12	89.87
Healthcare and biotechnology	(72.66)	13.66
Consumer staples	(22.52)	(82.68)
Industrials	(2.13)	31.11
Consumer discretionary	137.81	39.02
Utilities	10.79	(78.24)
Materials	(114.97)	(4.32)
Telecommunications services	-	1.24
<b>Total</b>	<u>100.00</u>	<u>100.00</u>

As at 30 June 2015 two securities represented over 5% of the long or short investment portfolio. As at 30 June 2014 no securities represented over 5 per cent of the long or short investment portfolio.

#### *Sensitivity*

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:

	Impact on post-tax (loss)/profit 2015 \$	2014 \$
Decrease 5%	149,733	(141,036)
Increase 5%	(149,733)	141,036
Decrease 10%	299,466	(282,073)
Increase 10%	(299,466)	282,073

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

At balance date, the net portfolio position was \$4,278,078 long (2014: \$4,029,609 long) therefore there is a small price risk impact on post-tax loss (2014: post-tax profit).

### 3 Financial risk management (continued)

#### (a) Market risk (continued)

##### (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 2015

	Floating interest rate \$	Non- interest bearing \$	Total \$
<b>Financial assets</b>			
Cash and cash equivalents	77,318,497	-	77,318,497
Trade and other receivables	-	8,193,429	8,193,429
Financial assets held at fair value through profit or loss	-	76,651,953	76,651,953
Current tax assets	-	2,689,021	2,689,021
	<u>77,318,497</u>	<u>87,534,403</u>	<u>164,852,900</u>
<b>Financial liabilities</b>			
Trade and other payables	-	(9,047,727)	(9,047,727)
Financial liabilities held at fair value through profit or loss	-	(72,373,875)	(72,373,875)
	-	<u>(81,421,602)</u>	<u>(81,421,602)</u>
Net exposure to interest rate risk	<u>77,318,497</u>	<u>6,112,801</u>	<u>83,431,298</u>

#### At 30 June 2014

	Floating interest rate \$	Non- interest bearing \$	Total \$
<b>Financial assets</b>			
Cash and cash equivalents	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>
<b>Financial liabilities</b>			
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>(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>

### 3 Financial risk management (continued)

#### (a) Market risk (continued)

##### *Sensitivity*

At 30 June 2015, if interest rates had increased by 75 or decreased by 75 basis points from the year end rates with all other variables held constant, post-tax loss for the year would have been \$405,922 lower/\$405,922 higher (2014 changes of 75 bps/75 bps: \$448,522 higher/\$448,522 lower on post-tax profit), mainly as a result of higher/lower interest income from cash and cash equivalents.

#### (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 year 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.

### 3 Financial risk management (continued)

#### (c) Liquidity risk (continued)

Contractual maturities of financial liabilities	Less than 1 month	More than 1 month	Total contractual undiscounted cash flows
At 30 June 2015	\$	\$	\$
<b>Non-derivatives</b>			
Trade and other payables	9,047,727	-	9,047,727
Financial liabilities at fair value through profit or loss	72,373,875	-	72,373,875
Total non-derivatives	81,421,602	-	81,421,602

Contractual maturities of financial liabilities	Less than 1 month	More than 1 month	Total contractual undiscounted cash flows
At 30 June 2014	\$	\$	\$
<b>Non-derivatives</b>			
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:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

#### 4 Fair value measurements (continued)

##### (a) Fair value hierarchy (continued)

###### (i) Recognised fair value measurements

The following table presents the Company's assets and liabilities measured and recognised at fair value at year end.

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>At 30 June 2015</b>				
<b>Financial assets</b>				
Equity securities	75,600,689	-	-	75,600,689
Unlisted equity securities	-	1,051,264	-	1,051,264
<b>Total financial assets</b>	<b>75,600,689</b>	<b>1,051,264</b>	<b>-</b>	<b>76,651,953</b>
<b>Financial liabilities</b>				
Equity securities sold short	72,332,724	-	-	72,332,724
Unlisted equity securities	-	41,151	-	41,151
<b>Total financial liabilities</b>	<b>72,332,724</b>	<b>41,151</b>	<b>-</b>	<b>72,373,875</b>
<b>At 30 June 2014</b>				
<b>Financial assets</b>				
Equity securities	99,060,889	-	-	99,060,889
Unlisted equity securities	-	1,864,109	-	1,864,109
<b>Total financial assets</b>	<b>99,060,889</b>	<b>1,864,109</b>	<b>-</b>	<b>100,924,998</b>
<b>Financial liabilities</b>				
Equity securities sold short	96,895,399	-	-	96,895,399
<b>Total financial liabilities</b>	<b>96,895,399</b>	<b>-</b>	<b>-</b>	<b>96,895,399</b>

Included within Level 1 of the hierarchy are listed investments. The fair value of these financial assets and liabilities have been based on the last sale prices at the end of the reporting year, 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 year. These investments have not listed on the Australian Securities Exchange as at year end 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 transfers between levels 1 and 2 for recurring fair value measurements during the year, relating to the listing of the unlisted equity securities as at year end. There were no transfers in and out of level 3.

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

### (a) Significant 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.

### (b) 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 and trust distribution income, interest income and from the sale of its trading portfolio.

## 7 Income tax (benefit)/expense

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

	Year ended 30 June 2015 \$	Period ended 30 June 2014 \$
Deferred tax on temporary differences	(1,188,154)	1,379,212
Tax on permanent differences	92,642	740,637
Adjustments for current tax of prior periods	9,395	-
	<u>(1,086,117)</u>	<u>2,119,849</u>
<i>Income tax (benefit)/expense is attributable to:</i>		
(Loss)/profit from continuing operations	<u>(1,086,117)</u>	<u>2,119,849</u>

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

	Year ended 30 June 2015 \$	Period ended 30 June 2014 \$
(Loss)/profit from continuing operations before income tax (benefit)/expense	(1,839,349)	8,776,575
Tax at the Australian tax rate of 30.0%	(551,805)	2,632,973
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Franking credits on dividends received	(679,201)	(560,612)
Foreign tax credits on dividends received	(12,668)	(13,422)
Imputation credit gross up	203,760	168,184
Over-provision in prior year	9,395	-
Realised gain/loss not subject to tax	(83,356)	(71,143)
Franked dividends not subject to tax	23,958	(40,157)
Foreign tax gross up on dividend income	3,800	4,026
Income tax (benefit)/expense	<u>(1,086,117)</u>	<u>2,119,849</u>

The applicable weighted average effective tax rates are as follows: (59.05)% 24.15%

## 7 Income tax (benefit)/expense (continued)

### (c) Amounts recognised directly in equity

Notes	Year ended 30 June 2015 \$	Period ended 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	11, 14 <u>346,828</u>	<u>458,909</u>

## 8 Current assets - Cash and cash equivalents

	30 June 2015 \$	At 30 June 2014 \$
<b>Current assets</b>		
Cash at bank	24,318,497	29,688,772
Term Deposits	53,000,000	55,744,022
	<u>77,318,497</u>	<u>85,432,794</u>

### (a) Reconciliation to cash flow statement

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

	30 June 2015 \$	At 30 June 2014 \$
Balances as above	<u>77,318,497</u>	<u>85,432,794</u>

### (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
Australia and New Zealand Banking Group Ltd	AA-
UBS AG Investment Bank	A
National Australia Bank	AA-

## 9 Current assets - Trade and other receivables

	At 30 June 2015 \$	30 June 2014 \$
Net other receivables	-	266
Dividends and distributions receivable	127,673	215,531
Interest receivable	255,051	446,565
GST receivable	83,322	189,853
Unsettled trades	7,727,383	9,717,259
	<b>8,193,429</b>	<b>10,569,474</b>

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 2015 \$	30 June 2014 \$
Australian listed equity securities	75,600,689	99,060,899
Other unlisted equity securities	1,051,264	1,864,109
<b>Total securities</b>	<b>76,651,953</b>	<b>100,925,008</b>

The market values of all investments as at 30 June 2015 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 year was 3,509 (2014: 1,879). Each investment transaction may involve multiple contract notes.

The total brokerage paid on these contract notes was \$2,700,128 (2014: \$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 Deferred tax assets

	30 June 2015 \$	At 30 June 2014 \$
<b>The balance comprises temporary differences attributable to:</b>		
Tax losses	22,746	-
Capitalised share issue costs	346,828	458,909
Accrued expenses	8,581	9,405
	<b>378,155</b>	<b>468,314</b>
<b>Movements</b>		<b>Total \$</b>
<b>At 1 July 2013</b>		-
(Charged)/credited		
- to profit or loss		9,405
- directly to equity		458,909
<b>At 30 June 2014</b>		<b>468,314</b>
<b>At 1 July 2014</b>		468,314
(Charged)/credited		
- to profit or loss		21,922
- directly to equity		(112,081)
<b>At 30 June 2015</b>		<b>378,155</b>

## 12 Current liabilities - Trade and other payables

	30 June 2015 \$	At 30 June 2014 \$
Management fees payable	73,247	82,769
Performance fees payable	-	2,425,059
Unsettled trades	8,053,216	7,476,727
Interest payable	120,117	179,848
Other payables	801,147	658,959
	<b>9,047,727</b>	<b>10,823,362</b>

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 2015 \$	30 June 2014 \$
Equity securities sold short	72,332,724	96,895,399
Other unlisted equity securities sold short	41,151	-
	<u>72,373,875</u>	<u>96,895,399</u>

A short sale occurs when the Investment Manager borrows a security and sells the security on market to a third party, generating cash proceeds. The Investment Manager will reacquire the same security and return it to the lender to close the transaction. In doing so, the Company is exposed to price risk of those securities sold short.

### 14 Deferred tax liabilities

	At 30 June 2015 \$	30 June 2014 \$
<b>The balance comprises temporary differences attributable to:</b>		
Net unrealised gains on investments	196,469	1,385,164
Other temporary differences	3,168	3,453
	<u>199,637</u>	<u>1,388,617</u>

Movements	Total \$
<b>At 1 July 2013</b>	-
Charged/(credited) - profit or loss	1,388,617
<b>At 30 June 2014</b>	<u>1,388,617</u>
<b>At 1 July 2014</b>	1,388,617
Charged/(credited) - profit or loss	(1,188,980)
<b>At 30 June 2015</b>	<u>199,637</u>

## 15 Issued capital

### (a) Share capital

	Notes	30 June 2015 Shares	30 June 2014 Shares	30 June 2015 \$	30 June 2014 \$
Ordinary shares	15(b)	<b>84,104,755</b>	84,356,386	<b>83,474,683</b>	83,214,877

### (b) Movements in ordinary share capital

Details	Notes	Number of shares	\$
Opening balance 28 May 2013		-	-
Share issued under IPO for \$1.00 per share	15(d)	70,518,626	70,518,626
Options exercised for \$1.00 per share	15(f)	3,825,210	3,825,210
Share placement shares issued for \$1.02 per share	15(g)	9,810,199	10,006,403
DRP shares issued for dividend payment for \$1.0039 per share	15(e)	202,351	203,122
Cost of issued capital		-	(1,338,484)
Closing balance 30 June 2014		84,356,386	83,214,877
Opening balance 1 July 2014		84,356,386	83,214,877
Options exercised for \$1.00 per share	15(f)	2,983,171	2,983,171
On-market buy back 12 August 2014	15(h)	(3,505,642)	(2,967,298)
DRP shares issued for dividend payment for \$0.9292 per share	15(e)	270,840	251,654
Cost of issued capital		-	(7,721)
Closing balance 30 June 2015		84,104,755	83,474,683

### (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) 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 discount to the market price. The discount is determined from time to time and is capped at 3%.

## **15 Issued capital (continued)**

### **(f) Option Issue**

On 15 July 2013, as part of IPO the Company issued options to acquire ordinary shares in the Company at an exercise price of \$1.00 with expiry 31 December 2014.

Since issue total 6,808,381 options have been exercised and allotted for a total consideration of \$6,808,381. On 31 December 2014, 63,710,244 options expired.

### **(g) 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 \$10,006,403 through the Placement of 9,810,199 ordinary shares to sophisticated and professional investors. On 28 November 2014, the Company successfully obtain shareholder approval under ASX Listing rule 7.4.

### **(h) Share buy-back**

The Company announced a 12 months on-market share buy-back program on 12 August 2014. Since its commencement on 27 August 2014, the Company had brought 3,505,642 shares at an average price of \$0.8464.

### **(i) Capital risk management**

The Board of Directors will actively manage the capital of the Company. The overriding intention is to deliver value to shareholders.

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

At listing the Board issued a bonus option for every share allotted, with strike price of \$1.00 and an expiry date of 31 December 2014. The reason behind this option was to compensate those who participated in the float for the costs associated with raising the funds.

In April 2014 the Company undertook a capital raising through the placement of 9,810,199 shares at \$1.02 a share to raise \$10 million. The placement was done in response to demand from investors.

The Board has introduced an on market share buy back the aim of the buy-back is to add value to the remaining shares on issue and increase the NTA of the Company.

## **16 Reserves and retained earnings/(accumulated losses)**

### **(a) Reserves**

	<b>30 June 2015 \$</b>	<b>At 30 June 2014 \$</b>
Profits reserve	<b>888,365</b>	4,819,638

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

## 16 Reserves and retained earnings/(accumulated losses) (continued)

### (a) Reserves (continued)

		At 30 June 2015 \$	30 June 2014 \$
	Notes		
<b>Movements:</b>			
Opening balance		4,819,638	-
Transfer from retained earnings		-	6,656,726
Dividends paid	17	(3,931,273)	(1,837,088)
Closing balance		<u>888,365</u>	<u>4,819,638</u>

### (b) Retained earnings/(accumulated losses)

Movements in retained earnings/(accumulated losses) were as follows:

	At 30 June 2015 \$	30 June 2014 \$
Opening balance	-	-
Net (loss)/profit for the year/period	(753,232)	6,656,726
Transfer (to) profits reserve	-	(6,656,726)
Closing balance	<u>(753,232)</u>	<u>-</u>

## 17 Dividends

### (a) Dividend rate

Dividends paid and the applicable franking rates are noted in the table below.

	Dividend Rate	Total Amount	Date of Payment	% Franked
<b>2015</b>				
Ordinary shares - interim 2015	\$0.020	\$1,747,948	14/04/2015	70
Ordinary shares - final 2014	\$0.025	\$2,183,325	20/10/2014	100
<b>Total</b>		<b>\$3,931,273</b>		
<b>2014</b>				
Ordinary shares - interim 2014	\$0.025	\$1,837,088	04/04/2014	100
<b>Total</b>		<b>\$1,837,088</b>		

## 17 Dividends (continued)

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

Year ended 30 June 2015	Period ended 30 June 2014
\$	\$

In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend of 2.5 cents per fully paid ordinary share (2014: 2.5 cents), 50% franked (2014: 100% franked) based on tax paid at 30%. The aggregate amount of the proposed dividend with an ex date of 6 October 2015 and a record date of 8 October 2015, expected to be paid on 20 October 2015 out of the profits reserve at 31 July 2015, but not recognised as a liability at year end, is

<u>2,102,619</u>	<u>2,162,406</u>
------------------	------------------

### (c) Dividend franking account

The franked portions of the final dividends recommended after 30 June 2015 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ended 30 June 2016.

Year ended 30 June 2015	Period ended 30 June 2014
\$	\$

Opening balance of franking account	145,502	-
Franking credits on dividends received	710,872	603,152
Tax paid during the year	2,952,113	372,213
Franking credits on ordinary dividends paid	(1,460,095)	(787,323)
Franking credits lost under 45 day rule	(31,671)	(42,540)
Closing balance of franking account	<u>2,316,721</u>	<u>145,502</u>

Adjustments for tax payable/refundable in respect of the current year's losses (2014: profits) and the receipt of dividends	(2,665,878)	311,065
Adjusted franking account balance	<u>(349,157)</u>	<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 year	(450,561)	(926,745)
Franking credits available/(shortfall) for subsequent reporting years based on a tax rate of 30.0%	<u>(799,718)</u>	<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

	Year ended 30 June 2015 \$	Period ended 30 June 2014 \$
Short-term employee benefits	118,721	127,494
Post-employment benefits	11,279	11,793
	<u>130,000</u>	<u>139,287</u>

Detailed remuneration disclosures are provided in the remuneration report on pages 15 to 18.

### (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 year 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.

2015 Name	Balance at start of the year	Granted	Forfeited	Balance at 30 June 2015
<b>Directors of Watermark Market Neutral Fund Limited</b>				
Matthew Kidman	50,000	-	(50,000)	-
Justin Braitling	200,000	-	(200,000)	-
John Abernethy	-	-	-	-
Stephen Van Eyk	-	-	-	-
Robert Ferguson	1,000,000	-	(1,000,000)	-
	<u>1,250,000</u>	-	<u>(1,250,000)</u>	<u>-</u>

2014 Name	Balance at start of the year	Granted	Exercised	Balance at 30 June 2014
<b>Directors of Watermark Market Neutral Fund Limited</b>				
Matthew Kidman	-	50,000	-	50,000
Justin Braitling	-	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>

## 18 Key management personnel disclosures (continued)

### (b) Equity instrument disclosures relating to key management personnel (continued)

#### (ii) Share holdings

The numbers of shares in the Company held during the financial year 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.

2015 Name	Balance at the start of the year	Net movement	Balance at 30 June 2015
<b>Directors of Watermark Market Neutral Fund Limited</b>			
<b>Ordinary shares</b>			
Matthew Kidman	50,000	-	50,000
Justin Braitling	200,001	483,000	683,001
John Abernethy	-	-	-
Stephen Van Eyk	48,780	-	48,780
Robert Ferguson	1,000,000	-	1,000,000
	1,298,781	483,000	1,781,781

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

## 19 Remuneration of auditors

During the year 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

#### (i) Audit and other assurance services

	Year ended 30 June 2015 \$	Period ended 30 June 2014 \$
<i>Audit and other assurance services</i>		
Audit and review of financial statements	38,866	36,204
Other assurance services		
Other assurance	-	39,743
Total remuneration for audit and other assurance services	38,866	75,947
<i>Taxation services</i>		
Tax compliance services	9,680	13,310
Total remuneration of Moore Stephens Sydney	48,546	89,257

## 19 Remuneration of auditors (continued)

### Financial report (continued)

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 2015 (2014: nil).

## 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 Braithling 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 \$861,539 (2014: \$776,018).

As at 30 June 2015, the balance payable to the Investment Manager was \$73,247 (2014: \$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 year, 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 year, 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. On the 19 May 2015, the Company announced, if the portfolio underperforms the benchmark over a financial year that underperformance is to be recouped before any entitled performance fee can be accrued.

For the year ended 30 June 2015 in its capacity as manager, Watermark Funds Management Pty Limited was not paid a performance fee (2014: \$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

Other than the dividend declared after year end, no other matter or circumstance has occurred subsequent to year 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 years.

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

(a)

	Year ended 30 June 2015 \$	Period ended 30 June 2014 \$
(Loss)/profit for the year	(753,232)	6,656,726
Fair value (gains) on financial assets at fair value through profit or loss	(248,470)	(6,270,142)
Net exchange differences	(118,657)	-
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	2,376,046	(852,214)
Increase in other current assets	(2,689,021)	-
Decrease in deferred tax assets	93,468	105,322
(Decrease)/increase in trade and other payables	(2,005,942)	3,346,634
(Decrease)/increase in provision for income taxes payable	(253,697)	253,697
(Decrease)/increase in deferred tax liabilities	(1,188,980)	1,388,617
Net cash (outflow)/inflow from operating activities	(4,788,485)	4,628,640

### (b) Non-cash financing activities

Dividends reinvested	251,654	203,122
----------------------	---------	---------

## 24 Earnings per share

### (a) Basic earnings per share

	Year ended 30 June 2015 Cents	Period ended 30 June 2014 Cents
Basic earnings per share attributable to the ordinary equity holders of the Company	(0.87)	8.99

### (b) Diluted earnings per share

	Year ended 30 June 2015 Cents	Period ended 30 June 2014 Cents
Diluted earnings per share attributable to the ordinary equity holders of the Company	(0.87)	8.80

Diluted earnings per share is the same as basic earnings per share. As at 30 June 2015, the Company had no securities outstanding which have the potential to convert to ordinary shares and dilute the basic earnings per share.

## 24 Earnings per share (continued)

### (c) Weighted average number of shares used as denominator

	2015 Number	2014 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	<u>86,922,158</u>	<u>74,080,177</u>
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	<u>86,922,158</u>	<u>75,665,958</u>

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

- (a) the financial statements and notes set out on pages 21 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 2015 and of its performance for the year 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 year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
  - (ii) the financial statements and notes for the financial year comply with the Accounting Standards; and
  - (iii) the financial statements and notes for the financial year give a true and fair view.

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



Matthew Kidman  
Chairman

Sydney  
27 August 2015

Level 15, 135 King Street  
Sydney NSW 2000

GPO Box 473  
Sydney, NSW 2001

T +61 (0)2 8236 7700

F +61 (0)2 9233 4636

[www.moorestephens.com.au](http://www.moorestephens.com.au)

## 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 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year 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 controls 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 1, 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 controls 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 controls. 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 2015 and of its performance for the year 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 1.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 15 to 18 of the directors' report for the year ended 30 June 2015. 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 year ended 30 June 2015 complies with section 300A of the *Corporations Act 2001*.



**Moore Stephens Sydney**



**Scott Whiddett**  
Partner

Dated in Sydney this 27<sup>th</sup> August 2015

The Shareholder information set out below was applicable as at **18 August 2015**.

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:

<b>Holding</b>	<b>Class of equity security</b>		
	<b>Ordinary shares</b>		
	<b>No. of Shareholders</b>	<b>Shares</b>	<b>Percentage</b>
1 - 1000	29	14,006	0.02
1,001 - 5,000	157	553,771	0.66
5,001 - 10,000	243	2,132,839	2.53
10,001 - 100,000	1,198	45,172,770	53.71
100,001 and over	137	36,231,369	43.08
	<b>1,764</b>	<b>84,104,755</b>	<b>100.00</b>

There were 16 holders of less than a marketable parcel of ordinary shares.

#### **B. Equity security holders**

*Twenty largest quoted equity security holders*

<b>Name</b>	<b>Ordinary shares</b>	
	<b>Number held</b>	<b>Percentage of issued shares</b>
Avanteos Investments Limited <Clearview S/P A/C>	1,786,000	2.12
HSBC Custody Nominees (Australia) Limited	1,324,018	1.57
BNP Paribas Noms Pty Ltd <DRP>	1,249,124	1.49
LIC Investments Pty Ltd <LIC Investments Unit A/C>	1,200,000	1.43
Mr Robert Ferguson & Ms Jennifer Ferguson & Ms Rachel Ferguson <Torryburn Super Fund A/C>	1,000,000	1.19
Map Capital Pty Ltd <Richmond TCE Cap ARF A/C>	800,000	0.95
UBS Wealth Management Australia Nominees Pty Ltd	772,000	0.92
Abbawood Nominees Pty Ltd <Abbott Family S/F No 1 A/C>	770,000	0.92
Custodial Services Limited <Beneficiaries Holding A/C>	725,000	0.86
Penson Holdings Pty Ltd	700,000	0.83
Brayhope Pty Ltd <Jet Retirement Plan A/C>	684,111	0.81
Mr Willem Lasschuit & Mrs Rhonda Lasschuit <Lasschuit Inc SMSF A/C>	631,058	0.75
Horton Pty Ltd	545,098	0.65
Bond Street Custodians Limited <RXN - V17471 A/C>	500,000	0.59
C M Copeland Pty Ltd	472,232	0.56
Zanacorp Financial Group Pty Ltd	450,000	0.54
Eliza Braitling Foundation Pty Limited	438,000	0.52
Manatee Pty Ltd <Longwave Super Fund A/C>	418,703	0.50
Sam Robert Fletcher <Fassway Investments A/C>	415,000	0.49
Richjeca Pty Ltd <Richjeca A/C>	400,000	0.48
Wattles Nest Pty Ltd <Wattles Nest Super Fund A/C>	400,000	0.48
	<b>15,680,344</b>	<b>18.65</b>

#### **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.