WATERMARK GLOBAL LEADERS FUND

NTA and Monthly Update – May 2017

Company at a Glance

ASX Code	WGF
ASX Code Options	WGFO
Fund Size	AU$89.6m
Fund Strategy	Global Market Neutral
Share Price	$1.05
Shares on Issue	82.8m
Option Price	1.8 cents

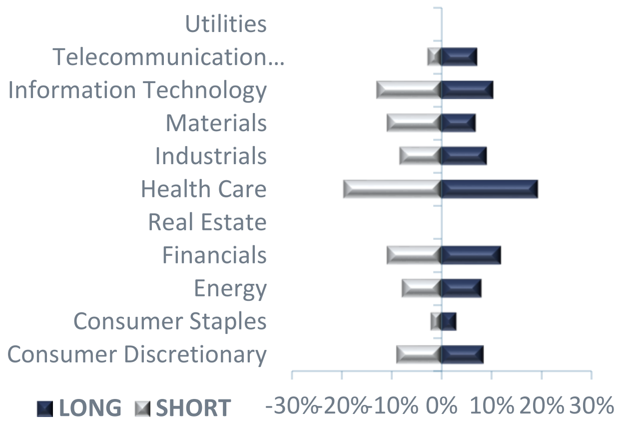
Net Tangible Asset (NTA) Backing

	Apr 17	May 17
NTA Before Tax	$1.08	$1.09
NTA After Tax	$1.08	$1.08
Gross Portfolio Structure		
Long Exposure	89.8%	84.0%
Short Exposure	-80.7%	-85.1%
Gross Exposure	170.5%	169.1%
Cash	90.9%	101.1%

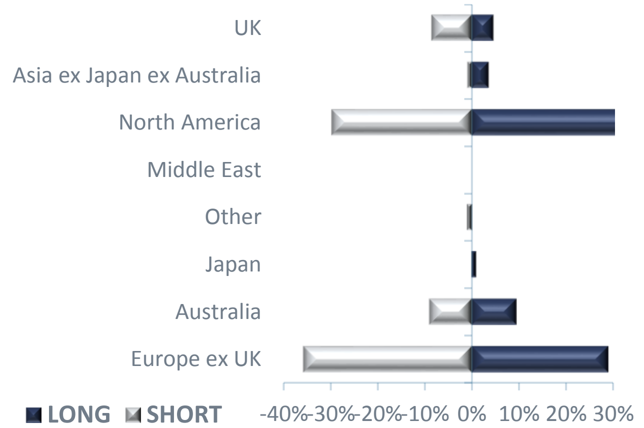
Performance

	1 Mth	3 Mths	6 Mths	Fin. YTD	1 Yr	2 Yrs (pa)	S.I (pa)
Portfolio (net return)	0.4%	0.9%	-	-	-	-	-
RBA Cash Rate	0.1%	0.4%	-	-	-	-	-
Outperformance	0.3%	0.5%	-	-	-	-	-

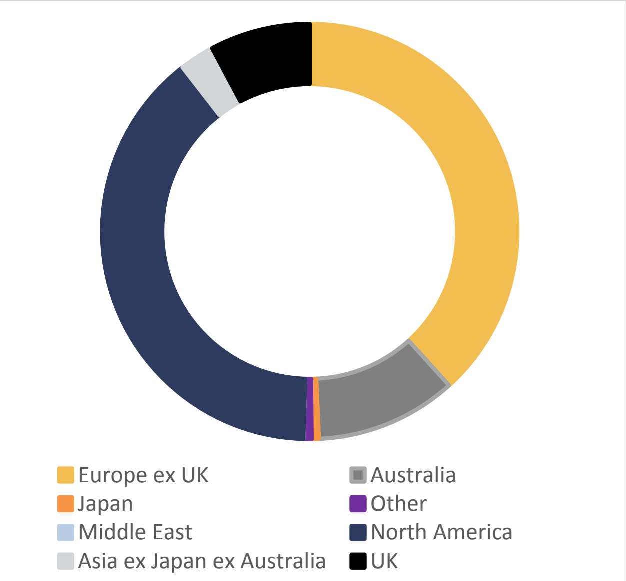
Sector Exposures



Regional Exposures (Net)



Regional Exposures (Gross)



Contributors/Detractors

Top 3 Contributors	
Ubisoft Entertainment SA	0.3%
Orange SA	0.2%
Roche Holding Ltd Genusssch.	0.2%
Top 3 Detractors	
Autodesk Inc.	-0.4%
Nevro Corp.	-0.4%
Griffols S.A. Class A	-0.3%

Month in Review

Global share markets continue to show resilience in the face of a range of geopolitical issues creating potential uncertainty for investors. Notwithstanding this resilience, investors are increasingly skittish over concerns that recent momentum in the global economy could be derailed. This was evidenced by the dramatic (but short-lived) spike in volatility during the month as markets digested the looming prospect of a Trump impeachment. While strong results from US and European companies through their respective reporting seasons were encouraging, this will undoubtedly provide cover for central banks to push ahead with tightening measures, providing further tests for markets in the months ahead.

The Fund delivered a 0.4% return for the month after all fees. Contributors to performance were broad based across a range of sectors, led by TMT and Basic Industries. These were offset in part by weaker performance in the Consumer and Healthcare portfolios.

May was another strong month for global consumer staples shares while the more economically sensitive consumer discretionary shares were largely flat. New positions were established in US companies Walgreens Boots Alliance (pharmacies) and O'Reilly Automotive (aftermarket parts). Consumer positions detracted from performance overall, particularly a short position in electronics retailer Best Buy, which saw improvement in video game console and mobile phone sales which more than offset our thesis around declining profitability from high definition TVs. A core investment in Heineken continues to perform well.

Technology shares continued to perform strongly in the month. Internet names recovered sharply after concerns eased around brand safety and measurability (YouTube video ads being displayed among extremist content). Similarly, semiconductor shares struggled for the first few weeks of May as US auto sales (one of the larger end markets) showed signs of weakness and Chinese smartphone shipments continued to slow, before recovering these losses rapidly. The European telco sector, which has struggled with regulatory pressures and anaemic growth for many years now, surged 10% in the month as opportunities for consolidation in some key markets again took centre stage. US media shares had a rocky month as the cable providers' results demonstrated a clear acceleration in cord-cutting, while broadcast networks across the US and Europe guided towards a weaker ad market.

Performance in this sector was solid. Positions in French telcos benefitted from the market-wide uplift following the French election while Nokia and Intuit also reported strong results. A short position in Autodesk detracted from returns, with the company reporting better than expected subscription growth.

A decelerating Chinese economy is weighing on demand for commodities, leading to further softening in the prices of bulk commodities and base metals. We are short the mining sector on the basis that this trend will continue through the second half of 2017. Shorts in a range of Australian diversified miners and bulk commodity producers provided strong returns as a result.

The price of oil rallied early in the month in anticipation of an extended OPEC agreement, only to fall sharply once the agreement was announced. US shale continues to provide a swing factor for oil supply, with increases in production whenever the oil price rallies. We retain a neutral exposure in the energy sector, expecting continued near-term volatility in the oil price. An investment in Royal Dutch Shell was a standout performer, offsetting losses on short positions in Repsol and Total.

Shares of global pharma companies found some support in May as rhetoric around drug pricing softened in the US. European pharma companies continued to rally with the broader market and are playing catch-up with US peers. Core investments in Merck and Roche were positive contributors. We remain concerned that drug pricing pressures are a structural headwind for global pharma companies and that the worst is yet to come, particularly as Pharmacy Benefit Managers have come under scrutiny around drug rebating practices. Specialty and generic pharmaceuticals were notable underperformers with several large players reporting double digit declines in the prices of generic drugs. Aggregation of distributors and pharmacy chains in the US has exacerbated these pricing pressures. In our view, the sector needs to see increased M&A, accelerated generic drug approvals from the FDA and reduced pricing pressure to justify a re-rating. While some of these factors are beginning to appear, it remains early days. A sharp pullback in NEVRO shares provided an attractive buying opportunity after a softer than expected quarterly result. We believe lower sales volumes were a temporary issue and are confident revenues will bounce back next quarter.

The Fund has a modest exposure to the big 4 Australian banks, which were the weakest performers in the local market in May. Longstanding concerns around deteriorating credit quality and the Banks' prospects for future earnings growth were compounded by the announcement in the Federal Budget of the proposed banks levy leading to falls across the sector. Investments in Europe fared much better in the month, with Italian bank UNiCredit benefitting from an improved capital position and balance-sheet remediation, while Dutch insurer NN Group also performed well. An investment in the newly merged Janus Henderson Group was a standout performer, with the improved size and liquidity of the merged entity making it investible to a broader range of institutional investors.

Following a series of meetings with US financial institutions, we initiated a new long position in consumer finance company Synchrony Financial, as we believe credit quality in the US will remain generally robust despite some deterioration in parts of auto and unsecured card lending.