

Monthly Update – July 2017

Fund at a Glance

Fund Size	AU\$202m
Strategy FUM	AU\$247m
Fund Inception Date	August 2012
Fund Strategy	Equity Market Neutral
Application/Redemption	Daily
Management Fee	1.5%
Performance Fee	20%
Benchmark	RBA Cash Rate

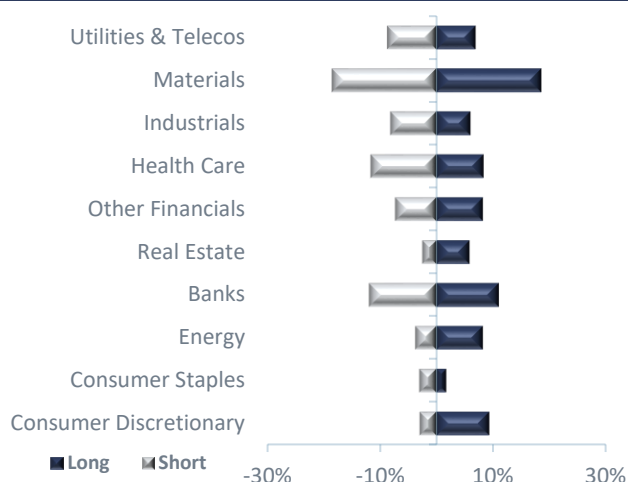
Return Characteristics¹

Positive Months	69.3%
Beta	-0.2%
Sharpe Ratio	1.4
Sortino Ratio	4.3
Standard Deviation (annualized)	7.0%
No. Long Positions	66
No. Short Positions	69
Gross Exposure	163%
International Exposure (% of Gross)	20%

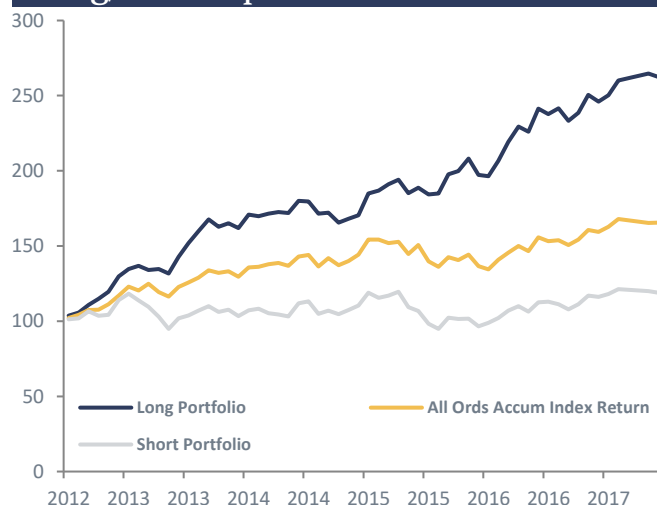
Performance

	1 Mth	6 Mths	Fin. YTD	1 Yr	2 Yrs (pa)	3 Yrs (pa)	S.I (pa)
WMNT (net return)	-0.4%	2.3%	-0.4%	1.5%	7.3%	7.1%	12.2%
RBA Cash Rate	0.1%	0.7%	0.1%	1.5%	1.7%	1.9%	2.3%
Outperformance	-0.5%	1.6%	-0.5%	0.0%	5.6%	5.2%	9.9%

Sector Exposures



Long/Short Spread²



Gross Portfolio Structure

Investment Type	June 2017		July 2017	
	\$m	%	\$m	%
Listed Securities - Long	160.4	79.4	171.2	84.6
Listed Securities - Short	161.4	-79.9	158.1	-78.1
Net Exposure	-1.0	-0.5	13	6.5
Cash	203	100.5	189	93.5
Capital	202	100	202	100

¹ Return Characteristics are for the period since inception. The Fund's inception date is August 2012.

² The Fund makes a profit where the long portfolio outperforms the short portfolio, after the payment of fees. Portfolio returns are before fees and costs.

Month in Review

In a continuation of themes from recent months, currency markets continue to be a key driver of equity market performance. It was a good month for global shares, with most major indices posting gains, particularly emerging market and commodity based economies, which are beneficiaries of a weaker US dollar. Investors the world over continue to dissect every syllable issued by central bankers for clues as to the timing and quantum of future rate rises, reading dovish tones into comments by the Governor of the US Fed, while finding hawkish inferences in the minutes of the RBA's July monetary policy meeting.

The Fund fell by 0.4% in July, led lower by a handful of Australian investments that underperformed in the month. International positions made a solid contribution, bucking the trend in buoyant global markets to deliver the majority of performance from the short side of the ledger. Strong performance in the healthcare and financials was offset by stock specific issues in consumer discretionary and industrials, while a rallying resource sector led to losses on core short positions in diversified miners.

Global healthcare shares were broadly flat in July, albeit with significant divergences in performance between subsectors and regions. Currency was a driver of regional dispersion with European healthcare shares falling on strength in the EUR and domestic healthcare shares down sharply after a rally in the Australian dollar. Macro themes also played a role in healthcare's underperformance, as investors continue to shift out of defensive shares in favour of more cyclical exposures. March quarter financial reporting saw most major healthcare companies deliver results in line with expectations, however management outlook and full year guidance statements were, on balance, more cautious in consideration of drug pricing pressures in the US.

The Fund's Healthcare portfolio delivered solid returns, driven from the short side. We highlighted in the March edition of The Leading Edge, potential issues with AstraZeneca's clinical trial of a key oncology treatment for lung cancer. The trial read out in July and failed to show any benefit in respect of progression free survival, sending the shares tumbling 15%. An investment in Nevro performed well after the company pre-announced strong results underpinned by a robust recovery in sales in the June quarter, confirming our thesis that slowing sales in March were an anomaly. New investments in gene therapy company Spark Therapeutics and small molecule pharma company Galapagos were established in the period. We see commercialisation of gene therapies being closer to reality than the market expects and believe Galapagos' pipeline is underappreciated particularly following competitor mishaps (Lilly).

Technology shares recovered from weakness in the prior month, with most of the performance within the sector driven by company-specific earnings releases. On the whole, media shares were laggards, weighed down by emerging concerns around weakness in advertising spend, particularly from consumer companies pressured by anaemic growth and activist investors. The Fund's TMT portfolio was a modest detractor. An investment in Fairfax Media underperformed as both potential suitors failed to submit takeover bids by the deadline, while a core short in legacy software vendor IBM reaped further rewards, in response to a poor quality financial result featuring some creative accounting.

Leading indicators for the global economy remained positive in July supporting industrial shares. However, with investor expectations remaining high and valuations elevated by historical standards, industrial shares remain at risk of a pullback. This was seen towards month end, when many companies sold off on earnings reports, despite posting solid results. The Fund remains fully hedged, with investments in more resilient, higher quality companies, and companies benefitting from restructuring, balanced by short positions in more cyclical shares on high valuations, carrying risk of disappointment. Core shorts in the domestic transport sector were solid performers in this vein.

The automotive industry is currently out of favour with investors and is trading on depressed earnings multiples as a result. Given the value on offer, we recently initiated an investment in Volkswagen. With vehicle sales largely unaffected by the recent emissions scandal (the financial impact of which has been fully provisioned) and a portfolio of successful brands including Porsche, Audi and Scania, we see significant upside for the company as it rebuilds credibility with investors.

July was a comparatively quiet month for the financials portfolio, with no major surprises from global central banks. An investment in Dutch insurance company NN group performed well, with the company's shares upgraded from hold to buy by London-based analysts at Exane, BNP and Bernstein. A position in Westpac group also contributed positively to returns as details emerged that APRA's volume cap on interest only mortgages excluded refinancing of existing customers and would therefore be less disruptive to the bank's new business volumes. Asset managers are facing dual challenges of fund outflows and pressure on margins. A short in this part of the market was another key contributor.

The broader consumer sector, spanning staples and the more economically sensitive consumer discretionary shares was largely flat in both global and domestic markets in July. We initiated a new investment in the local slot machine manufacturer Aristocrat, following a currency driven sell-off in its shares. Positions in Lululemon (US apparel) and SkyCity Entertainment (NZ casino) were sold following strong recent performance. A short in a domestic beverage company was also closed out at a profit.

Consumer positions were a slight detractor to fund performance over the month of July. The main source of underperformance was our long position in O'Reilly Automotive (US auto parts retailer) where concerns around the potential impact of ecommerce on DIY customers was further magnified by a broader slow-down across the entire industry.

Mining shares surged in July as Chinese growth data announced through the month surpassed expectations. A weaker US dollar contributed to strength that saw iron ore up 15% for the month. Concerns around financial tightening have eased and expectations are now that the economy will remain strong through to the Congress meeting later in 2017.

Oil also benefitted from the weaker US dollar, however is struggling to break through a key technical level at just over USD\$50. Despite the strength in the oil price, energy shares lagged through the month with results from US shale producers disappointing investors. Question marks were raised over the durability of the Permian basin, as Pioneer Resources highlighted an increasing mix of gas from their wells. We initiated an investment in Anadarko Petroleum following recent underperformance, given the company has a privileged suite of assets across conventional/unconventional oil and gas basins. Losses on shorts in diversified mining companies were offset in part by gains on investments in BHP and Orica.



Monthly Net Performance (%)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2012	-	-	-	-	-	-	-	1.36	0.97	0.00	6.51	2.88	11.72
2013	-0.71	0.21	4.60	1.55	5.83	5.31	1.11	2.57	1.43	1.86	0.35	-0.06	24.05
2014	1.71	1.45	-1.17	2.80	1.21	0.84	-4.38	-1.77	2.52	-1.57	-1.58	-1.32	-1.26
2015	-1.18	0.70	3.23	0.96	-0.61	3.39	3.82	4.04	2.73	-1.36	1.53	2.93	20.19
2016	-0.14	-1.93	1.13	0.53	1.08	1.76	0.60	-1.46	2.23	-0.34	-0.46	0.07	3.03
2017	-0.81	0.02	0.76	1.13	0.61	0.19	-0.39						1.52



Macquarie Wrap

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