



NTA and Monthly Update – October 2017

Company at a Glance

ASX Code	WGF
ASX Code Options	WGFO
Fund Size	AU\$85.4m
Fund Strategy	Global Market Neutral
Share Price	\$0.94
Shares on Issue	82.5m
Option Price	0.4 cents

Net Tangible Asset (NTA) Backing

	Sep 17	Oct 17
NTA Before Tax	\$1.08	\$1.05
NTA After Tax	\$1.07	\$1.05

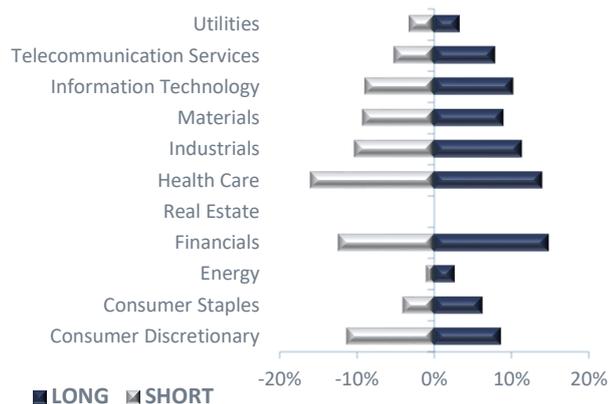
Gross Portfolio Structure

Long Exposure	114.6%	88.7%
Short Exposure	-106.9%	-82.0%
Gross Exposure	221.5%	170.7%
Cash	92.3%	93.3%

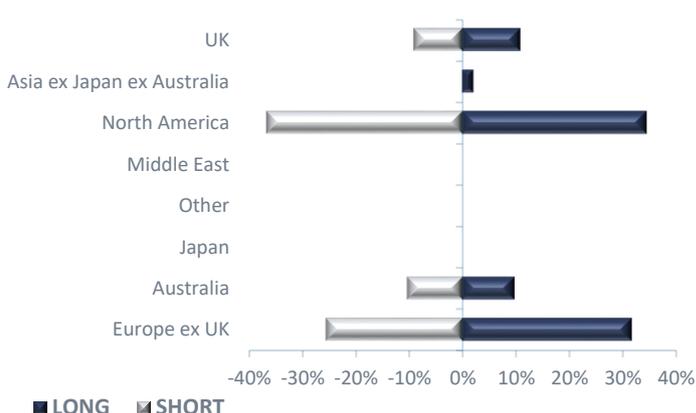
Performance

	1 Mth	3 Mths	6 Mths	Fin. YTD	1 Yr	2 Yrs (pa)	S.I.
Portfolio (net return)	-3.2%	-4.2%	-3.8%	-4.0%	-	-	-3.1%
RBA Cash Rate	0.1%	0.4%	0.8%	0.5%	-	-	1.4%
Outperformance	-3.3%	-4.6%	-4.6%	-4.5%	-	-	-4.5%

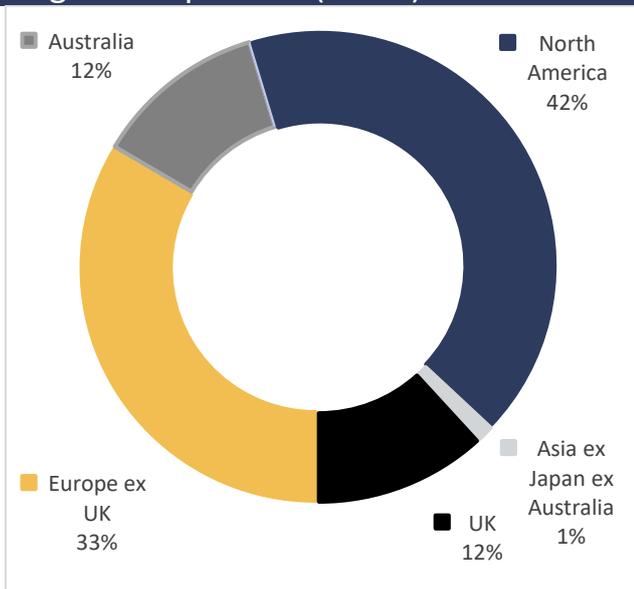
Sector Exposures



Regional Exposures (Net)



Regional Exposures (Gross)



Contributors/Detractors

Top 3 Contributors	
Fortinet, Inc.	0.3%
Volkswagen AG	0.3%
Royal Dutch Shell	0.2%
Top 3 Detractors	
Celgene Corporation	-0.7%
Intel Corporation	-0.6%
STMicroelectronics NV	-0.4%

Month in Review

October was another strong month for global share markets, as investors responded positively to further signs that the global economy is growing, and that central banks are likely to remain dovish. The US reporting season also provided some upside surprise, with the tech giants surging again, buoyed by prospects that tax reform in the US is on the agenda for early 2018.

In Europe, investors looked through rising political tensions in Spain to focus on rapidly improving economic conditions and a booming industrial sector. While this was a tailwind for European share markets in the month, it has given the ECB cover to continue with its withdrawal of stimulus through quantitative easing.

It was a difficult month for the fund, which posted a fall of 3.2% after fees. This was due to several surprise results from international positions through the busy US reporting season. As this cycle completes, we are witnessing moves across asset markets that are highly unusual and not supported by fundamentals. Shorts again proved the most difficult to manage in a 'risk-on' month for share markets. We take some comfort from the fact the sharp falls in fund performance have historically been a precursor to stronger performance, as fundamentals prevail over unwarranted greed or fear.

There was little news flow for global financial shares from politicians or central bankers. A Long position in CBA was the stand out performer in the sector, offset by broad based gains across the short book and weaker performance from a long position in Swedbank, which fell on concerns over falling local house prices. We believe the Swedish economy is currently exhibiting very strong momentum, notwithstanding the fact that house prices appear to have peaked in most major cities. We therefore think it premature to expect a housing-led slowdown.

The Consumer Discretionary sector was amongst the strongest performing sectors in October while performance in the consumer sector more broadly was mixed. Investments in Heineken and Pernod Ricard continue to perform well, along with shorts in companies supplying packaged goods to a highly competitive North American grocery market.

The Fund suffered modest losses in the Industrial portfolio, again concentrated around short positions that moved higher with a buoyant market. A speculative takeover bid for Rockwell Automation was also a key detractor.

TMT was another challenging sector in the month. Strength in the Global technology sector was the lead story again and while valuations across the sector look stretched, investors continue to be enthralled by the potential for new applications from AI, and new product launches such as the iPhone X. With a modest net short exposure to semiconductor manufacturers, the Fund suffered heavy losses as this sector rallied strongly, recovering recent underperformance relative to other parts of the tech sector. An investment in IT security vendor - Fortinet made a positive contribution in the month.

Poor performance in the Healthcare sector was the largest contributor to negative returns, with investments in Celgene and Merck suffering precipitous falls as jittery investors reacted to negative news flow and earnings downgrades. As we have seen through recent Australian reporting seasons, investors have been quick to de-rate companies that are priced for perfection if there is any hint of risk to earnings or should they fail to meet lofty expectations for future growth. While these short-term price movements have been a significant detractor from returns, detailed re-examination of the investment thesis supporting each position suggests substantial embedded value going forward.

Basic Industries shares provided benign results in the month. A stronger oil price saw energy names rally strongly while mining shares were mixed, as commodity markets digested news from the nineteenth National Party Congress in China. We retain our neutral position across the commodity complex, however shorts in iron ore producers and lower quality diversified miners performed well. An investment in Fletcher Building fell on news of losses in its construction division, while a core position in BHP Billiton continued to add value.

Disclaimer: This document is issued by Watermark Funds Management Pty Ltd (ABN 98 106 302 505, AFSL 250897) in relation to the Watermark Global Leaders Fund Ltd. The information provided is general information only. It does not constitute financial, tax or legal advice or an offer or solicitation to subscribe for units or shares in any fund of which the Manager is the contracted Investment Manager. The information in this document has been prepared without taking account of your objectives, financial situation or needs. Watermark Funds Management receives management and performance fees from the Watermark Fund.