

Monthly Update – January 2018

Fund at a Glance

Fund Size	AU\$255m
Strategy FUM	AU\$298m
Fund Inception Date	August 2012
Fund Strategy	Equity Market Neutral
Application/Redemption	Daily
Management Fee	1.5%
Performance Fee	20%
Benchmark	RBA Cash Rate

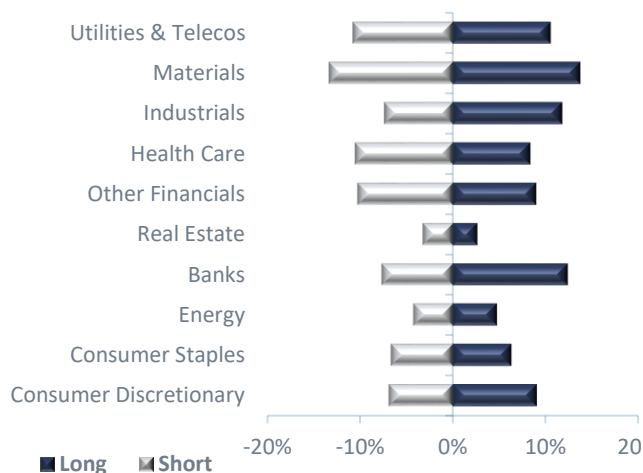
Return Characteristics¹

Positive Months	68%
Beta	-0.2%
Sharpe Ratio	1.3
Sortino Ratio	3.9
Standard Deviation (annualized)	6.8%
No. Long Positions	81
No. Short Positions	71
Gross Exposure	170%
International Exposure (% of Gross)	17%

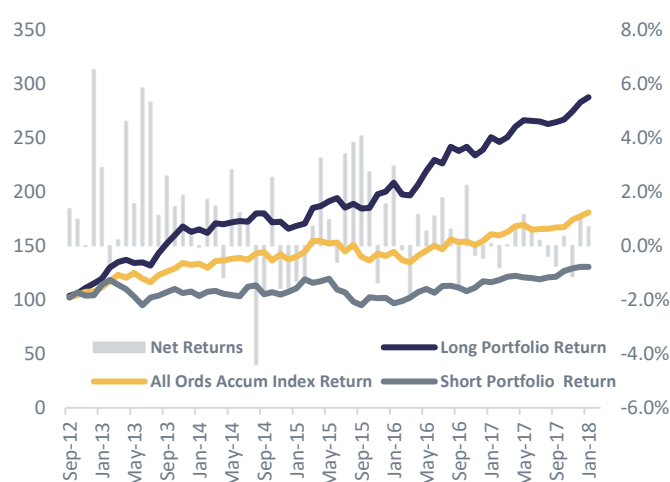
Performance

	1 Mth	1 Yr	2 Yrs (pa)	3 Yrs (pa)	4 Yrs (pa)	5 Yrs (pa)	SI (pa)
WMNT (net return)	-0.9%	1.6%	2.0%	8.6%	5.2%	9.7%	10.8%
RBA Cash Rate	0.1%	1.5%	1.6%	1.8%	2.0%	2.1%	2.2%
Outperformance	-1.0%	0.1%	0.4%	6.8%	3.2%	7.6%	8.6%

Sector Exposures



Long/Short Spread²



Gross Portfolio Structure

Investment Type	December 2017		January 2018	
	\$m	%	\$m	%
Listed Securities - Long	230.0	92.0	225.9	88.6
Listed Securities - Short	-210.5	-84.2	-208.3	-81.7
Net Exposure	19.5	7.8	17.6	6.9
Cash	230.5	92.2	237.4	93.1
Capital	250	100	255	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

January saw a marked divergence in performance between the Australian share market and international peers. Buoyed by synchronized global growth, ongoing preparedness of the ECB to leave stimulatory settings unchanged and strong economic data across developed Asia, global share markets posted another strong month of returns, lifting the MSCI AC World Index by 2% in AU\$ terms. The domestic share market on the other hand suffered a modest fall of -0.3%, weighed down by weakness in rate sensitive sectors such as banking, real estate, and utilities. Volatility picked up across most markets towards the end of the month, as looming inflation raised the spectre in the minds of investors of tightening measures from central banks.

The Fund posted a fall in the month of 0.9% after all fees. International long positions fared well in a rising market, while in aggregate, the international short portfolio underperformed the index, creating a positive spread. The domestic portfolio detracted from returns, with modest long biases in cyclically exposed sectors such as banking and industrials weighing on performance.

Mining companies consolidated after rallying in December. Our domestic positions in *BHP Billiton* and *Independence Group* performed well after announcing quarterly production numbers. Performance was mixed in the energy sector where commodity prices were softer. We increased our position in *Senex Energy*, which continues to hit milestones with its Surat Basin gas projects, supplying into an increasingly tight East Coast gas market.

APA Group and *Ausnet Services* both had large sell-offs in the month as prices of global bonds fell. We have been balanced in electricity generation and retail shares, with *AGL* and *Origin* both facing headwinds from increasing retail competition, while benefitting from tight wholesale markets.

Australian consumer shares were up strongly in January with discretionary companies significantly outperforming the more defensive staples names. We established a position in *Treasury Wine Estates* which has significant scope for price rises in Asia and an improved distribution model that makes acquisitions of premium wine brands a particularly attractive option.

Global consumer shares were also comfortably up over the month, a continuation of the momentum seen in response to US tax reform. The funds established a position in European luxury brand house *Moët Hennessy Louis Vuitton (LVMH)* when presented with the opportunity to buy the stock at a compelling discount to luxury peers.

Financials shares performed in line with global share market indices although in aggregate, the financials portfolio weighed on returns with an investment in UK consumer lending company *Provident Financial* being the key detractor. Despite publishing a quarterly trading update in December that was generally in line with market expectations, the shares fell almost 25% in the two subsequent trading sessions on speculation that an adverse finding from the FCA might require the company to raise equity. This issue has been known for some time and we believe the stock offers tremendous value even in the scenario where new equity is issued. A

domestic investment in *Netwealth* gave back some of the prior month's gains as the shares retraced following a 37% rise in December.

The Healthcare portfolio delivered solid returns in January, driven by strong performance of global long positions and domestic shorts. Australian healthcare shares were broadly weaker with the exception of *ResMed*, which reported solid December quarter results and *Sirtex*, which was bid for by US radiation oncology equipment leader *Varian Medical Systems Inc.*

Outlook commentary for 2018 from companies presenting at the annual JP Morgan Healthcare conference in early January was broadly positive, which buoyed global healthcare shares. Tax reform also drove significant upward revisions to earnings forecasts (lower tax rates) for companies with significant US earnings (e.g. US managed care providers, hospitals, and service providers) while companies with large offshore cash balances (medical device companies, pharma/biotech) rallied on the potential for capital management initiatives following repatriation of offshore cash hoards. Biotechnology shares rose sharply as M&A activity picked up (*Sanofi's* bid for haemophilia company *Bioverativ*) with further transactions expected given cash balances that should arrive in the near term. Takeover speculation benefitted out recent investment in *Spark Therapeutics*.

January was a quiet month for Australian TMT shares, while global names moved on quarterly results and continued response to US tax reform. In Australia we took advantage of the market's overreaction to news of the CEO's departure, to establish a position in *Domain*, with the company's shares moving to a discount to peer *REA Group* despite faster earnings growth forecasted. Detracting from performance were longs in *MYOB* and *TradeMe*, which fell despite no fundamental developments and a short in *Intel*. Key contributors included *Activision* and *Vivendi*.

Given the strength across much of the Industrial sector, January provided an opportunity to reduce the net long exposure in this part of the portfolio. This ensured that some protection was in place as market volatility increased towards the end of the month. Strongest contributions at a security level came from two investments in aerospace and defence: *Hexcel* and *Safran*. Detractors were shorts in lower quality business which were dragged up by the overall market rally, as well as a long position in *Maersk*, which sold-off as investors de-risked their positions ahead of the company's announcement of its profit results. The shares have rebounded some 4% since the numbers were reported.



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	-0.75	0.34	-1.14	1.00	0.69	1.65
2018	-0.86												-0.86



Macquarie Wrap

BT Wrap

BT Panorama

Asgard

Netwealth

IOOF Pursuit

Mason Stevens

Powerwrap

Hub24

AMP North

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