



WATERMARK

MARKET NEUTRAL FUND

NTA and Monthly Update – February 2018

Company at a Glance

ASX Code	WMK
Fund Size	AU\$81.5m
Fund Strategy	Equity Market Neutral
Share Price	\$0.82
Shares on Issue	87.0m
Dividend (HY18 Interim)	1 cent

Net Tangible Asset (NTA) Backing

	Jan 18	Feb 18
NTA Before Tax	\$0.94	\$0.95
NTA After Tax	\$0.96	\$0.96
Dividend Declared (1.0¢)	-	(\$0.01)
NTA After Tax \$ Dividend (1.0¢)	\$0.96	\$0.95

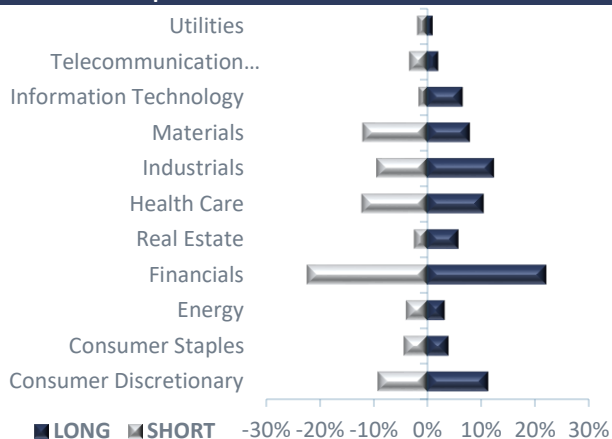
Gross Portfolio Structure

Long Exposure	94.3%	87.3%
Short Exposure	-87.9%	-83.4%
Gross Exposure	182.2%	170.7%
Cash	93.6%	96.1%

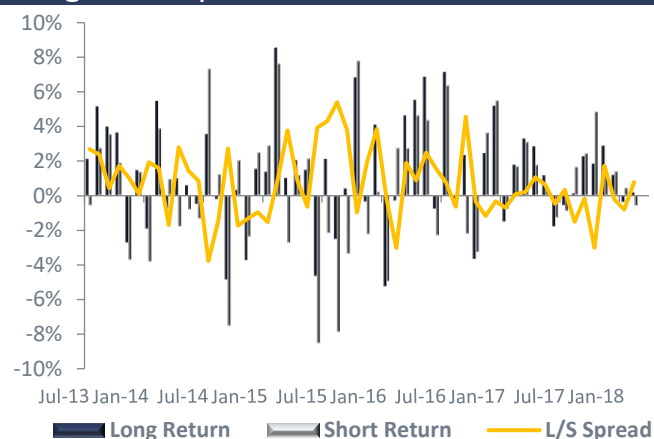
WMK Performance

	1 Mth	3 Mths	1 Yr	2 Yrs (pa)	3 Yrs (pa)	S.I. (pa)
Portfolio Return (net)	0.5%	-0.3%	-2.9%	0.9%	6.5%	4.8%
RBA Cash Rate	0.1%	0.4%	1.5%	1.6%	1.7%	2.0%
Outperformance (net)	0.4%	-0.7%	-4.4%	-0.7%	4.8%	2.8%

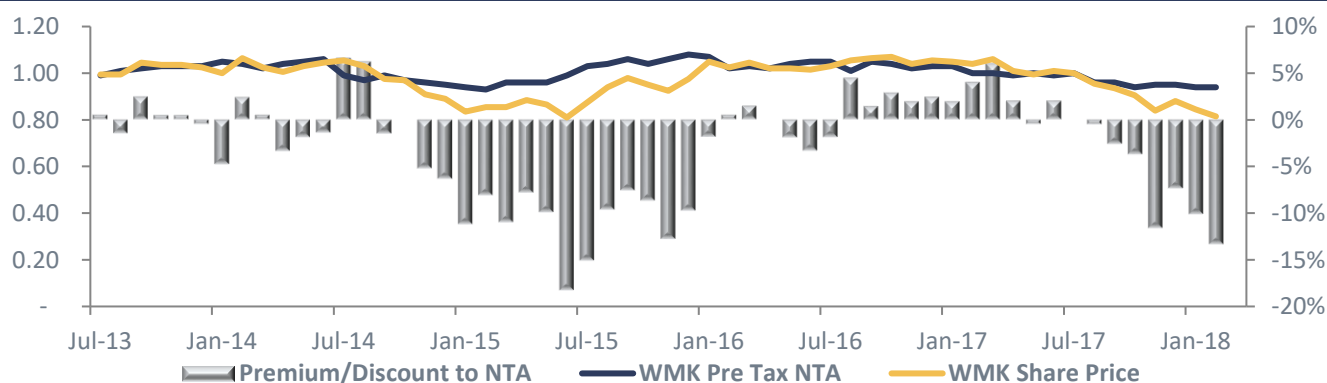
Sector Exposures



Long Short Spread



Premium/Discount to NTA History



Month in Review

February proved to be an eventful month for investors in shares, marked by a sharp spike in volatility over fears of looming interest rate rises. Major global market indices fell by as much as 8%, with rate sensitive sectors the hardest hit. The Australian share market proved more resilient than its global peers, recovering losses from early in the month to finish the month in positive territory on a total return basis.

The Fund delivered a 0.5% net return for the month, outperforming the benchmark which rose by 0.1%. Local companies dominated the news flow as they reported FY18 interim results and the domestic portfolio performed strongly through this busy reporting period. In the international portfolio, violent moves in global markets presented a major stress test for our hedges, which successfully insulated the Fund from the sort of drawdowns seen across broader global share markets.

In the Financials portfolio, an investment in Steadfast Group weighed on returns as the company guided to lower forecast earnings. Swedbank performed well in response to news that apartment prices in Sweden had stabilised in January and February. We added to the Fund's long exposure in domestic real estate shares, with relative valuations in this part of the market now as appealing as they have been since the GFC.

We successfully navigated through a mixed bag of results in the domestic TMT sector, which has seen a resurgence in recent months for traditional media companies. While structural changes in the industry will continue to see advertising budgets shift to digital formats, concerns over brand safety and measurability in digital media has prompted investors to re-visit traditional operators such as newspapers and the free-to-air broadcasters. Investments in Fairfax Media and Nine Entertainment performed well in the month as a result.

In Healthcare, positive performance in the domestic portfolio was offset by weaker returns from international exposures. Investments in CSL and Cochlear were standout performers, buoyed by continued momentum in earnings growth. A core investment in Ramsay Healthcare was trimmed into the result and the shares sold-off on expectations that the company will miss its FY18 earnings guidance. We used weakness post the result to re-establish the position, with an expectation that an uplift in Ramsay's brownfields hospital developments will drive stronger results in the second half. The key detractor in the international portfolio was an investment in Celgene, which fell on news of an adverse FDA ruling for the Company's Ozanimod product, for treatment of multiple sclerosis.

Commodity prices were mostly lower in February, with earnings results and capital management the primary drivers of share prices for mining companies. An investment in Iluka Resources made a solid contribution, on the announcement that strong performance from its zircon and rutile divisions had allowed the company to pay down debt and increase its dividend. We have initiated an investment in Lynas Corporation. After years of difficulties, the company has successfully increased production, lowered costs and undertaken extensive work to stabilise its balance sheet. Lynas holds a privileged position in the rare earths sector as a major supplier to Japan.

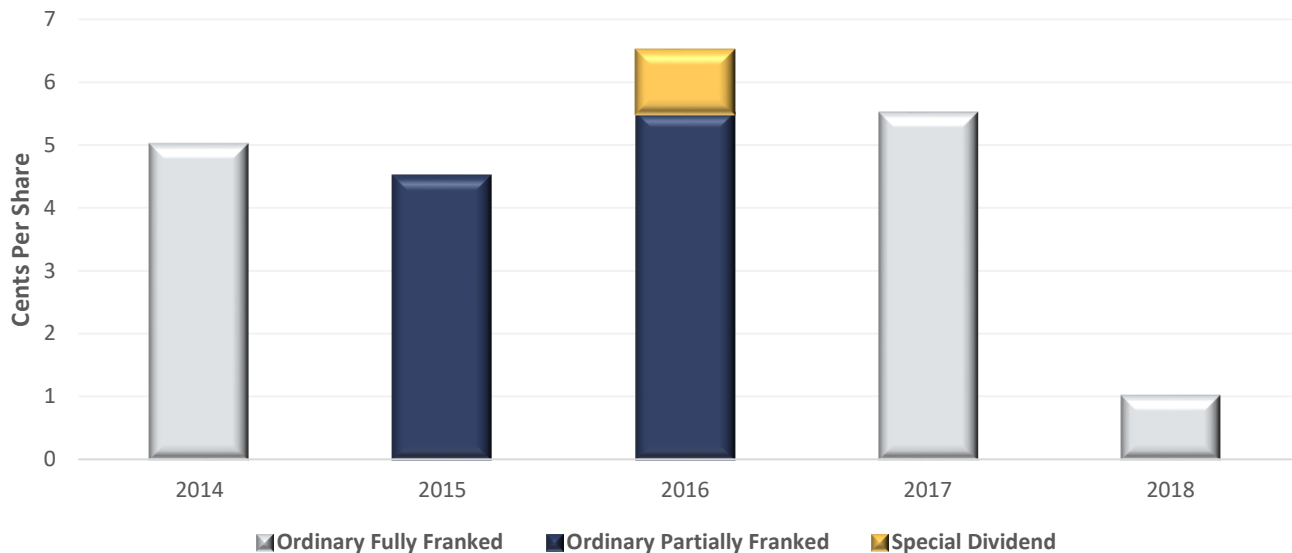
Results in the domestic Industrials portfolio were mixed through the month. An investment in Qantas performed well after the company delivered a strong first-half result. Damage done in recent years during its battle with Virgin has now been repaired through reductions in domestic capacity and strengthening prices. Transformational changes in its international business have also created a far more sustainable franchise than was the case in previous cycles. A weaker result from Boral on the other hand presented an opportunity to join the register at an attractive price. The company is well-positioned to benefit from ongoing investments in infrastructure and the successful acquisition of US firm, Headwaters Inc.

After posting gains in the prior month, consumer shares - both discretionary and staples - were down in February. Despite this weakness across the sector, the Fund's domestic consumer positions fared well, reporting solid first-half results. Overreaction by the market to perceived weakness in reported numbers often presents opportunities, and we took such an opportunity to re-establish a position in Tabcorp, with an expectation that underwhelming performance from its wagering division will be temporary and that the newly acquired lottery division will perform well.



Dividend History

The Board is committed to paying a consistent stream of franked dividends to shareholders, provided the Company has sufficient profit reserves and franking credits and that it is within prudent business practices. Dividends are paid on a six-monthly basis. A Dividend Reinvestment Plan is available to shareholders. Please contact Boardroom Limited for details on how to participate – 02 9290 9600; callcentre@boardroomlimited.com.au



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