

## Monthly Update – March 2018

### Fund at a Glance

Fund Size	AU\$258m
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

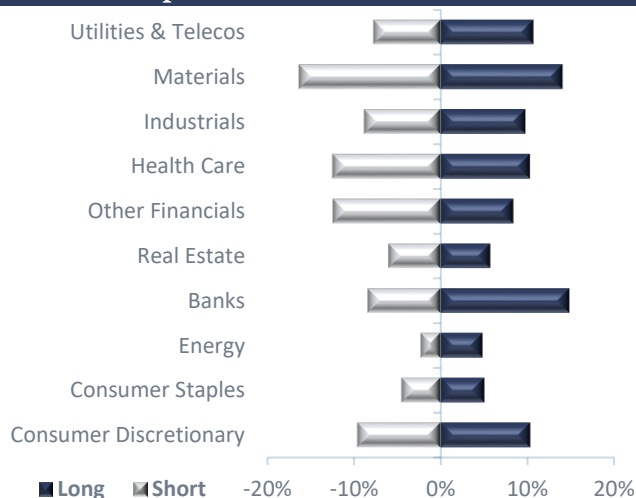
### Return Characteristics<sup>1</sup>

Positive Months	67%
Beta	-0.2%
Sharpe Ratio	1.3
Sortino Ratio	3.9
Standard Deviation (annualized)	6.7%
No. Long Positions	76
No. Short Positions	77
Gross Exposure	183%
International Exposure (% of Gross)	19.6%

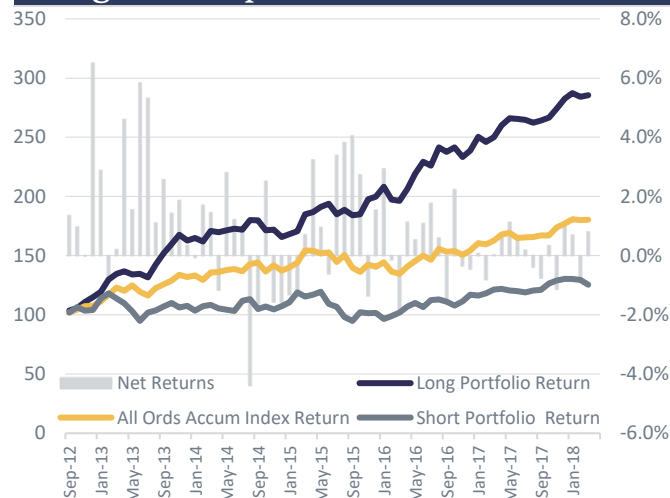
### Performance

	1 Mth	1 Yr	2 Yrs (pa)	3 Yrs (pa)	4 Yrs (pa)	5 Yrs (pa)	SI (pa)
WMNT (net return)	1.2%	2.8%	3.4%	7.9%	5.7%	9.1%	10.9%
RBA Cash Rate	0.1%	1.5%	1.6%	1.7%	1.9%	2.1%	2.2%
<b>Outperformance</b>	<b>1.1%</b>	<b>1.3%</b>	<b>1.8%</b>	<b>6.2%</b>	<b>3.8%</b>	<b>7.0%</b>	<b>8.7%</b>

### Sector Exposures



### Long/Short Spread<sup>2</sup>



### Gross Portfolio Structure

Investment Type	February 2018		March 2018	
	\$m	%	\$m	%
Listed Securities - Long	226.1	89.0	243.0	94.2
Listed Securities - Short	-212.1	-83.5	-228.8	-88.7
<b>Net Exposure</b>	<b>14.0</b>	<b>5.5</b>	<b>13.9</b>	<b>5.4</b>
Cash	240.0	94.5	244.1	94.6
<b>Capital</b>	<b>254</b>	<b>100</b>	<b>258</b>	<b>100</b>

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

<sup>2</sup> 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

Nervous investors in shares were provided with yet another reason to fret in March, with increasingly aggressive rhetoric between the US and China raising the prospect of a trade war between two economic superpowers. On top of continuing concerns about the impact of rising interest rates, building inflationary pressures across the global economy and fallout for the local banking system from the Royal Commission, investor sentiment was understandably pessimistic. Most major markets posted falls in the month, led by the Australian share market which fell 3.5%.

The Fund increased in value by 1.2% in March after all fees, outperforming the benchmark RBA Cash Rate which rose by 0.1%. Short positions were the major contributor to fund performance, while at a sector level, TMT and Basic Industries delivered the strongest returns.

Commodity prices moved lower in the month, with the price of iron ore down 20% on slow Chinese demand following its winter shutdown. With no net exposure in the metals and mining sector, the Fund benefitted from gains on investments in Lynas and Iluka, while shorts fell in line with the market, also adding to returns. The price of oil advanced in the month buoyed by geopolitical concerns and OPEC posturing. Energy shares however were sold-off, creating an interesting divergence between the price of oil and companies that produce it. As such, we have been adding exposure to oil companies such as Woodside Petroleum. Woodside shares have fallen following the company's acquisition of a 50% share in the Scarborough gas field. LNG markets continue to evolve and tighten. In our view Woodside's counter-cyclical play here will ultimately be rewarded.

Shorts in discretionary retailers were also notable contributors. Promotional activity remains high in Australia, in response to tepid consumer demand and online competition. This is putting pressure on retailers' margins. An investment in Tabcorp was a drag on performance, as rumours suggest tough conditions in the wagering market for the first two months of the year. We underestimated the level of shareholder frustration with the recent result and arguably re-established this position too soon, however we see the potential for attractive returns in the medium term.

Technology was another volatile sector in March, with several of the leading names coming under pressure. Domestically, contributions to performance were widespread, including shorts in the telecom sector and an investment in APN Outdoor which is enjoying a turnaround in operating performance.

Financial shares underperformed broad stock market indices in March on concerns over rising costs of bank funding, priced in US dollars. There are a variety of explanations for this, from increased issuance of US Government bonds to hoarding of offshore USD liquidity by US corporates. With a heavy reliance on wholesale funding markets offshore, Australian banks are particularly exposed to this thematic. Nevertheless, these risk indicators for the banking sector have stabilised and we gradually increased the Fund's net exposure to local banks through the month, seeing very little downside risk to valuations from here. Shorts in the local insurance sector were also strong performers in the month.

We continue to add to an investment in Ramsay Healthcare, where we expect an uplift in the company's spending on brownfields hospital developments will drive stronger results in the second half of FY18 and into the future. We also take comfort in management's decision to conduct an extra round of due diligence across all pipeline business cases, which supports the decision to lift expansionary spending. A new investment in GSK was initiated in March. GSK shares have underperformed for some time now; however, we expect the company's renewed focus on reinvigorating the pharmaceutical pipeline will improve returns moving forward.

## 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	0.80	1.23										1.17



Macquarie Wrap

BT Wrap

BT Panorama

Asgard

Netwealth

IOOF Pursuit

Mason Stevens

Powerwrap

Hub24

AMP North

## More Information

Rani Singh – Business Development Manager

02 8047 7744

0422 745 731

[singh@wfunds.com.au](mailto:singh@wfunds.com.au)

[www.wfunds.com.au](http://www.wfunds.com.au)

Link Fund Solutions – Unit Registry

[LFS\\_contact@linkgroup.com](mailto:LFS_contact@linkgroup.com)

<http://www.linkfundsolutions.com/>

Disclaimer: This document is issued by Watermark Funds Management Pty Ltd (ABN 98 106 302 505, AFSL 250897) in relation to the Watermark Market Neutral Trust (the Fund). Watermark Funds Management Ltd (Watermark) is a privately owned funds management business. Equity Trustees Limited (ABN 46 004 031 298, AFSL 240975) is the Responsible Entity for the Fund. 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 Watermark is the contracted Investment Manager. The information in this document has been prepared without taking account of your objectives, financial situation or needs. Before acting on the information or deciding whether to acquire or hold a product, consider its appropriateness and the relevant Product Disclosure Statement (PDS), which is available on Watermark's website; [wfunds.com.au](http://wfunds.com.au), or by phoning 02 92550225. Watermark receives management and performance fees in respect of the Fund, details of which are also set out in the PDS. Watermark, its affiliates and associates accept no liability for any inaccurate, incomplete or omitted information of any kind or any losses caused by using this information. All investments carry risks. There can be no assurance that any Watermark Fund will achieve its targeted rate of return and no guarantee against loss resulting from an investment in the Fund. Past fund performance is not indicative of future performance.