WATERMARK
GLOBAL LEADERS FUND

NTA and Monthly Update – March 2018

Company at a Glance

ASX Code	WGF
ASX Code Options	WGFO
Fund Size	AU$81.5m
Fund Strategy	Global Market Neutral
Share Price	$0.89
Shares on Issue	78.3m
Option Price	0.2 cents

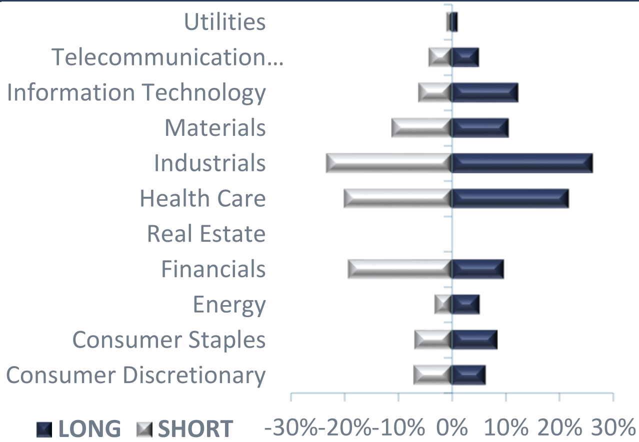
Net Tangible Asset (NTA) Backing

	Feb 18	Mar 18
NTA Before Tax	$1.05	$1.07
NTA After Tax	$1.05	$1.06
Gross Portfolio Structure		
Long Exposure	85.9%	106.5%
Short Exposure	-88.0%	-103.0%
Gross Exposure	173.9%	209.5%
Cash	102.2%	96.5%

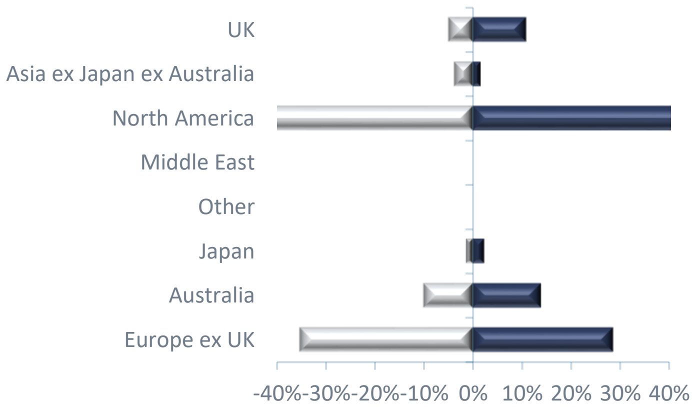
Performance

	1 Mth	3 Mths	6 Mths	Fin. YTD	1 Yr	2 Yrs (pa)	S.I.
Portfolio (net return)	0.8%	-0.6%	-3.3%	-4.1%	-3.5%	-	-3.2%
RBA Cash Rate	0.1%	0.4%	0.8%	1.1%	1.5%	-	2.0%
Outperformance	0.7%	-1.0%	-4.1%	-5.2%	-5.0%	-	-5.2%

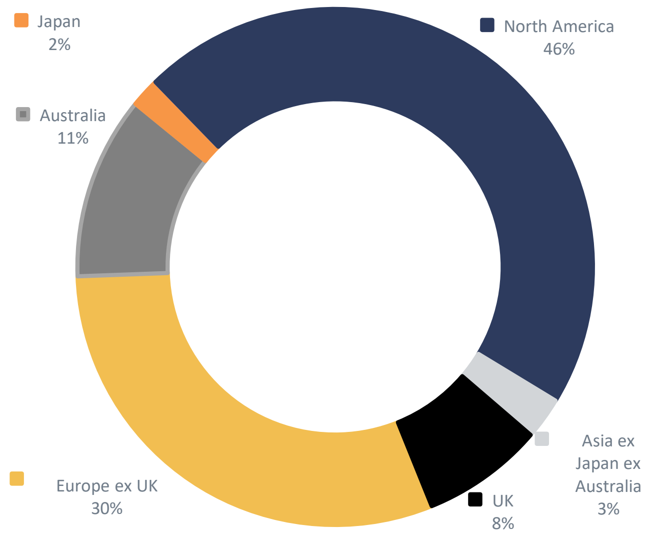
Sector Exposures



Regional Exposures (Net)



Regional Exposures (Gross)



Contributors/Detractors

Top 3 Contributors	
Siemens Healthineers AG	0.4%
Rio Tinto Limited	0.3%
WPP Plc	0.2%
Top 3 Detractors	
Continental Resources, Inc.	-0.3%
W.W. Grainger, Inc.	-0.2%
Fortescue Metals Group Ltd	-0.1%

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% followed by the MSCI World down by 0.80%.

The portfolio increased in value by 0.8% after all fees in the month, bucking the prevailing trend in global share markets. Positive contributions came from both sides of the book, reflecting particularly strong security selection in the long portfolio. At a sector level, the strongest results were in TMT and Basic Industries.

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 Exxon-Mobil. Exxon shares suffered a fall recently after the company flagged a sharp rise in capex at a time when their industry peers are cutting costs. In our view, Exxon's counter-cyclical move to invest in high returning projects will ultimately be rewarded.

An investment in European brewer Heineken continues to perform well, with the company managing to sustain solid growth at a time when many of its peers in the consumer staples sector are struggling. An investment in Melco Resorts and Entertainment is set to benefit from the opening of the Morpheus tower at the City of Dreams property this summer. Despite the good returns to date, we believe Melco remains the most undervalued of the Macau casinos by a significant margin.

Despite some volatility, most of the positions in the industrial portfolio moved broadly in tandem with the exception of certain aerospace names, that gave up some of their February gains. This was due largely to a resilient EUR and global trade war concerns weighing on the shares. We used the volatility to scale positions in companies that we see as winners over the coming years, including Airbus, Weir and Zebra. On the short side, we increased exposures to companies such as Kone, that remain on expensive PE multiples despite recent downgrades to forecast earnings. In Europe, defensive/quality vs value multiples have moved significantly over the last few months and the PE premium for quality industrial stocks is now approaching the highest level since 2016. Clearly, investors have sought protection from the cyclical momentum seen in 2017 and have rotated into quality throughout the first quarter of 2018. Although we maintain a balanced approach, this rotation has presented some interesting opportunities at the value end of the spectrum.

Technology was another volatile sector in March, with several of the leading names coming under pressure. The Fund benefitted from core shorts in European broadcasters and advertising agencies, particularly WPP, which reported disappointing results and guidance during the month. The negative impacts of February's short squeeze in the media sector also reversed in March, adding to returns. In Telecom, a short in Swisscom performed well, with the aggressive entry of Salt as a new competitor in the Swiss broadband market.

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.