



Monthly Update – May 2018

Fund at a Glance

Fund Size	AU\$263m
Strategy FUM	AU\$333m
Fund Inception Date	August 2012
Fund Strategy	Equity Market Neutral
Application/Redemption	Daily
Management Fee	1.5%
Performance Fee	20%
Benchmark	RBA Cash Rate

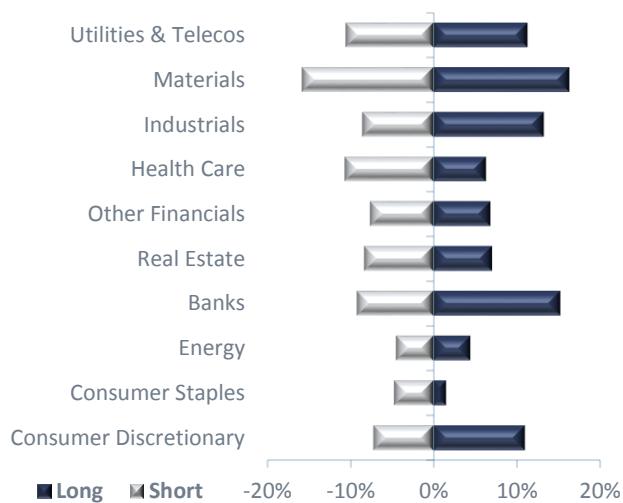
Return Characteristics¹

Positive Months	69%
Beta	-0.2%
Sharpe Ratio	1.3
Sortino Ratio	3.9
Standard Deviation (annualized)	6.6%
No. Long Positions	78
No. Short Positions	79
Gross Exposure	181%
International Exposure (% of Gross)	17.8%

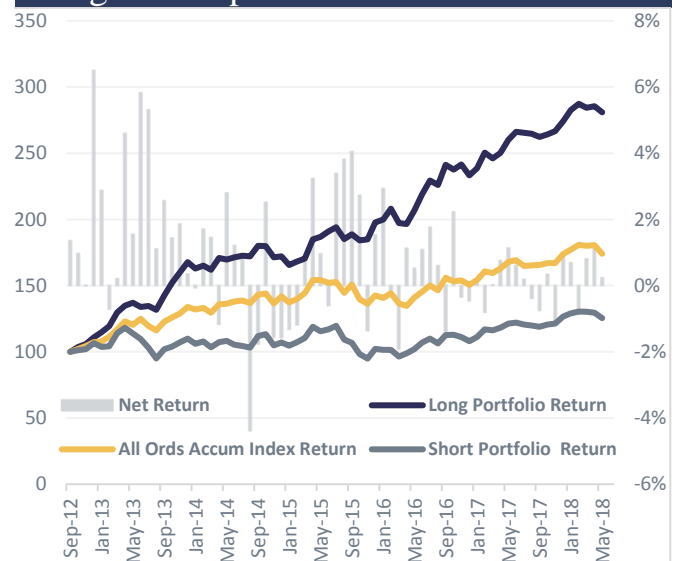
Performance

	1 Mth	1 Yr	2 Yrs (pa)	3 Yrs (pa)	4 Yrs (pa)	5 Yrs (pa)	SI (pa)
WMNT (net return)	0.0%	1.3%	2.7%	7.9%	4.7%	7.6%	10.6%
RBA Cash Rate	0.1%	1.5%	1.5%	1.7%	1.9%	2.0%	2.2%
Outperformance	-0.1%	-0.2%	1.2%	6.2%	2.8%	5.6%	8.4%

Sector Exposures



Long/Short Spread²



Gross Portfolio Structure

Investment Type	April 2018		May 2018	
	\$m	%	\$m	%
Listed Securities - Long	261.6	100.6	245.4	93.3
Listed Securities - Short	-238.2	-91.6	-229.6	-87.3
Net Exposure	23.4	9.0	16.0	6.1
Cash	236.6	91.0	247	93.9
Capital	260	100	263	100

Month in Review

After a strong start to the month, the Australian share market gave ground in the second half of May, as geopolitical issues weighed on investor sentiment. An increasingly protectionist Trump administration opened up new fronts in its trade war, which now extends beyond China, to allies in Canada, Mexico and the EU. Not to be outdone for political drama, the nascent coalition government in Italy fell apart, raising the spectre of further instability for a fragile EU. News from the domestic economy was benign, with little to report out of the Federal Budget and continued cooling in east coast property prices likely to present headwinds for consumer confidence, providing cover for the RBA to keep rates on hold.

Fund performance in the month followed the same trend as the underlying market, with early gains eroded in the final week of May. The Fund was flat in the month, as compared with a benchmark return of 0.1%. Stock specific issues with a number of key positions were the major detractors in what would otherwise have been a solid month, which saw particularly strong contributions from the Consumer and Basic Industry portfolios.

In the Consumer sector, investments in *Aristocrat Leisure* and *Bapcor* were the stand out performers, with the former posting a strong interim profit result, while the latter continues to perform well as company management executes its strategy of divesting non-core business divisions. *Bapcor* also stands to benefit from *Wesfarmers'* decision to sell *Kmart Tyre & Auto*, as a logical buyer of this business. A new position in *Breville* was established in the month, on expectations that increased investment in product development and marketing will lead to further growth for this high-quality consumer company.

Healthcare was the best performing sector in the domestic market and materially outperformed its international peers. The Fund benefitted from an investment in *CSL*, however weakness in the share price of *Ramsay Healthcare*, which fell in sympathy with *Healthscope*, offset these gains. Challenges remain for global pharma companies and the Fund remains net short this part of the market.

The Fund's TMT portfolio saw strong returns from international exposures in May, while the domestic portfolio was flat. An upgrade in guidance from *APN Outdoor*, provided support for our thesis that outdoor media will continue to gain share in the ad market. Disappointingly, the largest detractor from performance was an investment in *MYOB*. We view the company's decision not to pursue its acquisition of *Reckon* in preference for further development in its current product as strategically sound, and *MYOB* is already reaping the rewards, with better than expected subscriber growth in recent years.

The Financials portfolio was a detractor from returns in the month given the Fund's modest net long exposure to Australian banks and an investment in the beleaguered *AMP*. *Clydesdale Bank* (CYBG) also traded lower in the month on weaker than expected 1Q18 earnings. Having had confirmation from CYBG management that this was a one-off hit to pre-tax profits, we added to the position, given the bank continues to trade well and stands to benefit significantly from its proposed merger with *Virgin Money*.

Despite no significant change in the prices of hard commodities, the Resources sector performed well. Stable Chinese economic data continues to provide a constructive backdrop for a sector that is exhibiting capital discipline. The oil price was buoyed by President Trump's decision to withdraw from the Iran nuclear deal, posing further risk to global supply. This helped our position in *BHP Billiton*, which is in the process of selling its US onshore business. The Fund also benefitted from an investment in small cap gold miner *Aurelia Metals*. After recently acquiring the *Peak* gold mine from Canadian company *New Gold*, *Aurelia* upgraded production forecasts. We expect mine life extensions will increase the value of this shrewd purchase.

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	12.14
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	26.57
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	-1.51
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	21.92
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	1.62
2018	-0.86	0.80	1.23	0.23	-0.01								1.39



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

www.wfunds.com.au

Link Fund Solutions – Unit Registry

LFS_contact@linkgroup.com

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

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.

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, 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.