WATERMARK GLOBAL LEADERS FUND

NTA and Monthly Update – June 2018

Company at a Glance

ASX Code	WGF
ASX Code Options	WGFO
Fund Size	AU$79.7m
Fund Strategy	Global Market Neutral
Share Price	$0.92
Shares on Issue	75.7m
Option Price	0.1 cents

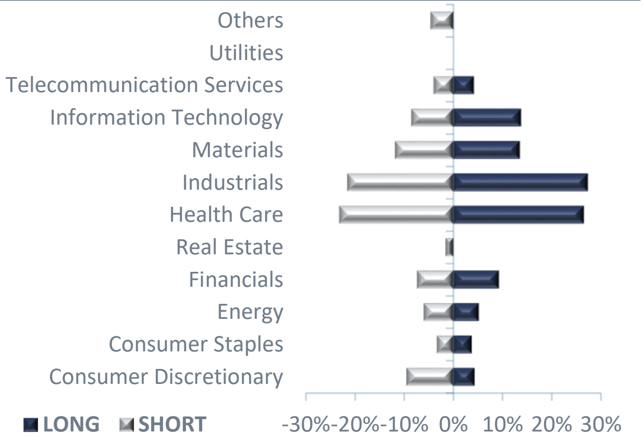
Net Tangible Asset (NTA) Backing

	May 18	Jun 18
NTA Before Tax	$1.10	$1.08
NTA After Tax	$1.08	$1.07
Gross Portfolio Structure		
Long Exposure	113.2%	108.2%
Short Exposure	-110.9%	-101.9%
Gross Exposure	224.1%	210.1%
Cash	97.7%	93.8%

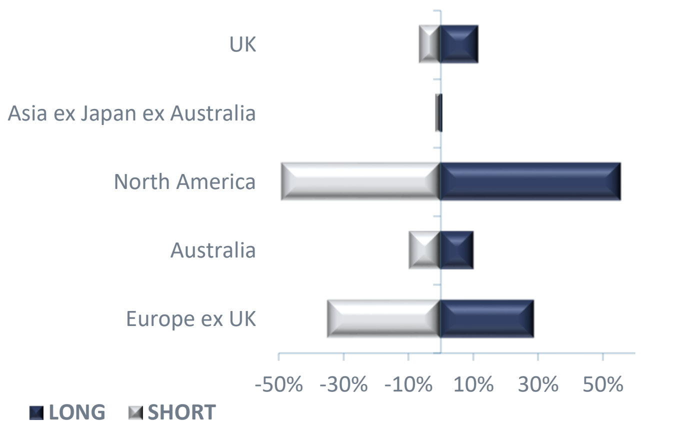
Performance

	1 Mth	3 Mths	6 Mths	Fin. YTD	1 Yr	2 Yrs (pa)	S.I.
Portfolio (net return)	-1.2%	0.6%	0.0%	-3.5%	-3.5%	-	-2.7%
RBA Cash Rate	0.1%	0.4%	0.7%	1.5%	1.5%	-	2.4%
Outperformance	-1.3%	0.2%	-0.7%	-5.0%	-5.0%	-	-5.1%

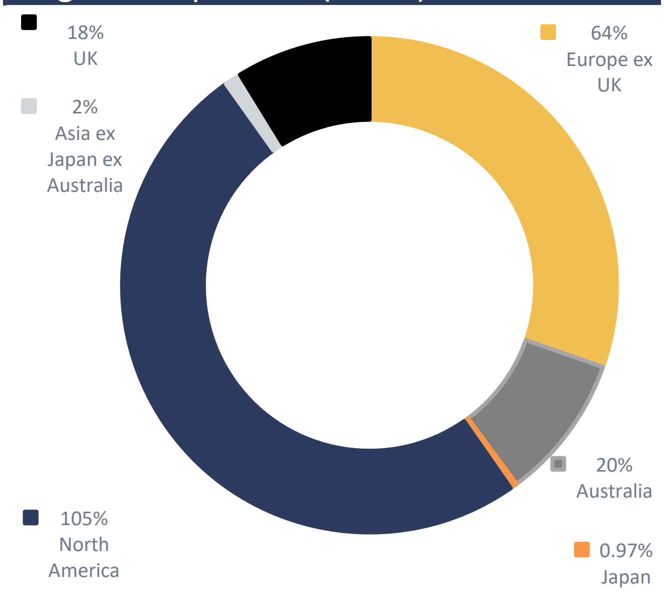
Sector Exposures



Regional Exposures (Net)



Regional Exposures (Gross)



Contributors/Detractors

Top 3 Contributors	
Foundation Medicine, Inc.	0.2%
Heron Therapeutics Inc	0.2%
Boston Scientific Corporation	0.2%
Top 3 Detractors	
OSRAM Licht AG	-0.5%
United States Oil Fund LP	-0.3%
Tesla Inc	-0.3%

Watermark Funds Management | ABN 98 106 302 505 | Level 23, 1 Farrer Place, Governor Philip Tower, Sydney NSW 2000
TEL: (02) 9252 0225 | **FAX:** (02) 9252 1220 | **EML:** info@wfunds.com.au | **WEB:** www.wfunds.com.au

Month in Review

Uncertainty over trade wars continued to impact market sentiment in June, with the US and China vacillating between cooperation and imposition of further tariffs. Developments looked somewhat positive at the start of the month as it seemed the two countries were making progress on agriculture and energy import agreements – with manufacturing and technology / IP transfer discussions also making headway. This progress was derailed later in the month, with the Trump administration announcing a 25% tariff on US$50bn of goods produced in China and plans for additional tariffs on a further US$200bn of goods.

As a consequence, equity markets were choppy through the month as investors rotated capital across sectors in an attempt to position themselves for potential fallout from the escalating trade war. Despite this volatility, solid underlying global growth and an accelerating US economy has meant that capital has not rotated out of equities, in favour of more defensive assets such as bonds or precious metals with the S&P up +0.5% and Nasdaq +0.9%. Defensive sectors outperformed, with Real Estate, Utilities and Telecom up over 2% each, while more cyclical sectors such as Industrials, TMT and Financials were all in negative territory.

Looking towards Europe, we continue to see political division in many countries – in the UK as it deals with Brexit, amongst populist parties in Italy, a within a divided German coalition, which is grappling with a contentious immigration policy and the prospect of an automotive trade war between EU and the US. Leading indicators have moderated in Europe since the start of the year, although they seem to have stabilised at levels which still point to economic expansion. European equity markets were down in the month, with the DAX posting -2.4% and CAC -1.4%.

Economic data out of China softened throughout the month, with fixed infrastructure investment falling for the first time since 2012 and retail sales growth slowing. While overall GDP growth remains stable, trade war concerns and a slowdown in the aforementioned datapoints took the Shanghai and Hong Kong indices down by -8.0% and -5.0% respectively.

The ongoing protectionist drive from Trump and the risk of an escalating trade war with China continues to be a key concern for investors heading into 2H18, given the potential for it to derail the global economic recovery that we are currently seeing.

The WGF portfolio decreased in value by -1.2% post-fees, giving back some of the positive performance seen over the last 3 months. The Healthcare and Basic Industries portfolios made positive contributions in the month while Industrials and Consumer detracted from returns.

In the Consumer portfolio, the most notable performers were investments in global snacking company Mondelez. It has recovered from its sell-off in the previous month, which had been fuelled by concerns about the outlook for emerging market economies. Mondelez remains a compelling opportunity, with international growth opportunities but a valuation more in keeping with challenged North America-centric peers.

The Fund's long standing European pair, which reflected our preference for Heineken over Carlsberg, was closed during the month as it became clear that the difference in organic growth profiles for the two brewers will converge over the remainder of the year.

Across the global Healthcare sector, share prices were volatile as investors took profits on investments in the leaders (medical devices and life sciences), US pharmaceutical distributors were sold aggressively after Amazon acquired PillPack, providing it with a nationwide footprint in pharmaceuticals distribution in the US. Domestic healthcare shares continue to materially outperform international peers, although shares of Ramsay Healthcare declined further after the company unexpectedly announced it would miss its full year targets by a modest margin. It is clear the company is not immune to the domestic slowdown in procedure volumes despite management's previous commentary to the contrary. In light of these developments, we cut our investment in Ramsay Healthcare and await a better entry point.

The Financials portfolio contributed positively to returns during the period, benefitting from an investment in UK-based Clydesdale Bank (CYBG). Investors reacted positively to the June 18 announcement from the Boards of CYBG and Virgin Money that they had agreed on terms for an all-share offer to be made by CYBG for Virgin Money. In our view, the deal is strategically sensible and will materially increase the earnings power of the combined entity, representing 40% upside from current levels on our analysis.

Mining shares were weaker in June, with soft economic data from China pushing the price of copper down by 10%. The price of Oil rallied on threats of disruptions to supply, resulting from tougher sanctions on Iran. We exited our position in BHP Billiton as the shares had considerably outperformed their global peers and fully reflect the future value that could be created from the sale of its US shale business. We added South32 to the portfolio following their acquisition of Arizona Mining. This recently discovered asset offers exploration potential that could deliver a long life mine. Despite the acquisition cost, we expect the company can continue returning capital to shareholders. We initiated an investment in Santos after the company rejected Harbour Energy's takeover bid. With tightening global LNG markets, buoyant oil prices and high domestic gas prices, the company is well placed to add value through their undeveloped portfolio.

Industrials was one of the worst performing sectors in June, driven by trade war concerns and a continued moderation of indicators in Europe. This is despite positive company commentary and continued strong demand indicators coming out of the US. Many higher quality names underperformed, while we saw a clear short squeeze in others – particularly speculative names such as Tesla. An investment in Airbus was a notable contributor, offset by Osram, which fell on the announcement of on a profit warning.

There was also plenty of movement in the TMT sector. Media outperformed during the month as the fight between Disney and Comcast to take over Fox stepped up a gear, with the whole sector catching a bid. We also saw a run in certain shorted names such as JD and Snapchat, while more defensive companies underperformed. The semiconductor space was the big loser during the period, on the back of trade war escalation and concerns around the cycle.