WATERMARK GLOBAL LEADERS FUND

NTA and Monthly Update – July 2018

Company at a Glance

ASX Code	WGF
ASX Code Options	WGFO
Fund Size	AU$79.3m
Fund Strategy	Global Market Neutral
Share Price	$0.90
Shares on Issue	75.2m
Option Price	0.1 cents

Net Tangible Asset (NTA) Backing

	Jun 18	Jul 18
NTA Before Tax	$1.08	$1.08
NTA After Tax	$1.07	$1.07

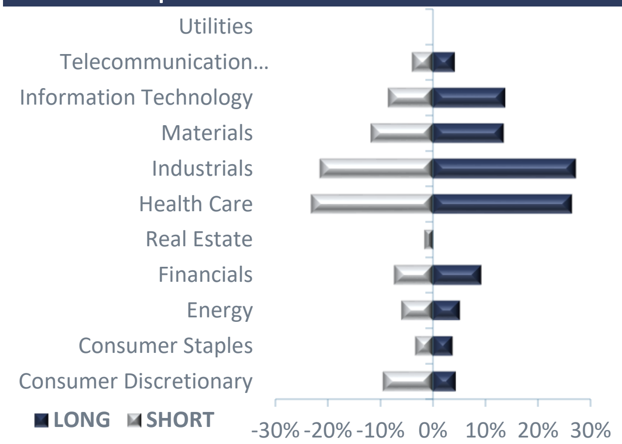
Gross Portfolio Structure

	Jun 18	Jul 18
Long Exposure	108.2%	95.5%
Short Exposure	-101.9%	-91.4%
Gross Exposure	210.1%	186.9%
Cash	93.8%	95.9%

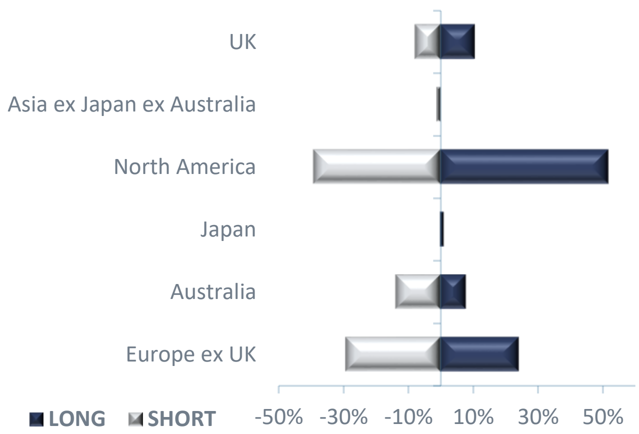
Performance

	1 Mth	3 Mths	6 Mths	Fin. YTD	1 Yr	2 Yrs (pa)	S.I.
Portfolio (net return)	-0.2%	-0.6%	0.5%	-0.2%	-4.0%	-	-1.8%
RBA Cash Rate	0.1%	0.4%	0.7%	0.1%	1.5%	-	1.6%
Outperformance	-0.3%	-1.0%	-0.2%	-0.3%	-5.5%	-	-3.4%

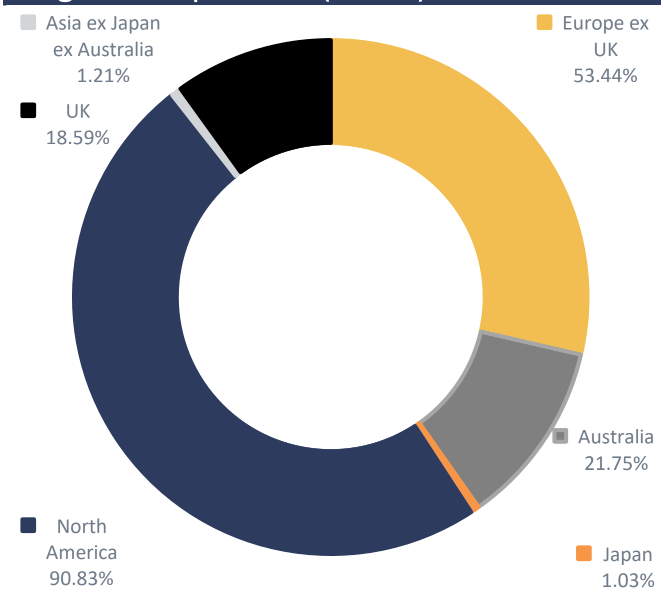
Sector Exposures



Regional Exposures (Net)



Regional Exposures (Gross)



Contributors/Detractors

Top 3 Contributors	
Sandfire Resources NL	0.3%
Novartis AG	0.3%
Epiroc AB	0.2%
Top 3 Detractors	
Broadcom Inc.	-0.3%
Knight-Swift Transportation Holdings Inc.	-0.3%
Check Point Software Technologies	-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

Despite a strong start to July, a result of positioning around solid earnings announcements, performance waned later in the month as the momentum trade in the TMT sector unwound, impacting core holdings in *Alphabet* and *Microsoft*. The Fund finished the month with a small loss after fees.

Most global markets fared well, despite ongoing uncertainty around the impact of trade tariffs. The US president once again threatened to impose tariffs on all Chinese goods imported into the US (c$500bn) despite warnings from numerous corporates and the US Federal Reserve that trade restrictions could have an adverse effect on domestic investment activity. Nevertheless, the US economy continues to see the strongest growth in over a decade.

In Europe, politics were front and centre yet again, with the resignation of the Brexit and Foreign Secretaries in the UK creating chaos in the British cabinet. Despite the political turmoil, there appears little overall support for a hard Brexit in Parliament, and markets so far seem to be shaking this uncertainty, with the FTSE100 faring relatively well in the period.

Share markets in mainland Europe also saw a bounce, with the DAX up +4.1% and the CAC posting +3.5%. This came largely in the back half of the month after the release of a constructive joint statement on EU-US trade issues by Donald Trump and the President of the European Commission, which noted how the two sides would try to work towards a 0% tariff framework for most products and services outside of automobiles.

Industrial shares were flat in July, with gains on positive earnings results from investments in *Alfa Laval*, *Airbus* and *CSX*, offset by an unwind across the sector in the last couple of days of the month. We trimmed position sizes in a few of our winners through the month and initiated new positions including an exciting investment in *Keyence*. Certain industrial names in the US are now trading at attractive valuations and we continue to look for opportunities to initiate investments as volatility stabilises.

Global Healthcare shares outperformed major bourses, marked by a solid performance in pharmaceutical shares as investors sought refuge in more ‘defensive’ and ‘value’ exposures. June quarter reporting kicked off later in the period, with results largely beating expectations. Medical device, life sciences and emerging biotechnology shares were volatile as valuations in some pockets remain stretched while financial results were largely encouraging. The Healthcare portfolio was down slightly in July where solid performances in *Novartis*, *Thermo Fisher Scientific* and *Galapagos* investments were offset by rallies in lower quality ‘value’ shorts. We believe the recent rally in pharmaceutical shares will be short-lived as the US government continues to push its agenda on targeting drug pricing and value chain reform.

Mixed economic data from China weighed on mining shares in the month. The portfolio performed well, most notably via a long position in *Vale*, which rallied on increased premiums for high grade iron ore, and a short position in a domestic copper miner which fell on weaker production guidance. We initiated a position in *Glencore*, a global mining company with a unique marketing business. The shares had suffered following a potential investigation by the US Department of Justice over operations in Nigeria, Venezuela and the Democratic Republic of Congo. The total value of these regions equates to one quarter of the company’s value, which is roughly the same quantum as the recent decline in the share price, suggesting the market has factored in a worst-case scenario.

Financial shares performed in line with broad market indices in July. There was relatively little on the policy front to drive the sector, with both the US Federal Reserve Bank and Bank of England delivering rate-increases in line with market expectations. The Financials portfolio contributed positively to returns in the month, as gains in the banking, insurance and real estate sectors offset losses in the diversified financials.

A stand-out positive contributor was our long position in UK lender *CYBG PLC*, which continued to outperform following the recommendation of its all-share offer for *Virgin Money (VM)* in July. Analysts at many investment banks remain on research restriction in relation to their coverage of *CYBG* and as such, have not updated their earnings forecasts for the combined *CYBG/VM* entity. We continue to believe the market will be positively surprised by the value created by this merger, and forecast EPS >40p when the synergies are fully-earned around 2021. This would imply a stock on 7-9x P/E, which we think is too cheap.