WATERMARK GLOBAL LEADERS FUND

NTA and Monthly Update – October 2018

Company at a Glance

ASX Code	WGF
ASX Code Options	WGFO
Fund Size	AU$75.1m
Fund Strategy	Global Market Neutral
Share Price	$0.88
Shares on Issue	73.8m
Option Price	0.1 cents

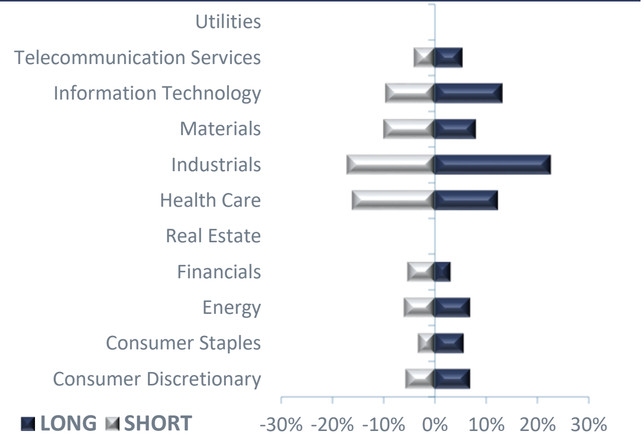
Net Tangible Asset (NTA) Backing

	Sep 18	Oct 18
NTA Before Tax	$1.08	$1.05
NTA After Tax	$1.07	$1.05
Gross Portfolio Structure		
Long Exposure	100.2%	84.3%
Short Exposure	-95.5%	-81.7%
Gross Exposure	195.7%	166%
Cash	95.3%	97.4%

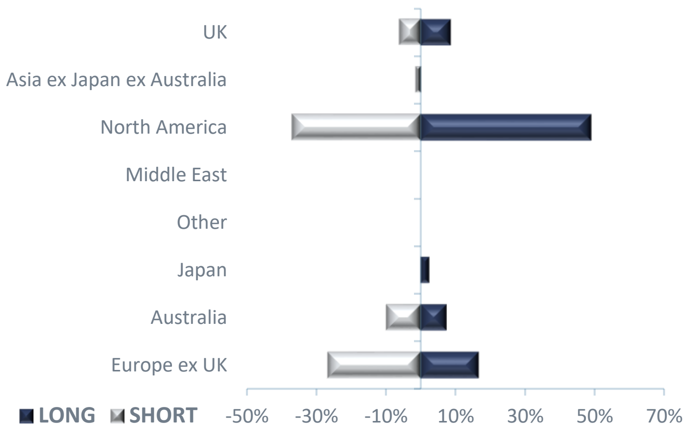
Performance

	1 Mth	3 Mths	6 Mths	Fin. YTD	1 Yr	2 Yrs (pa)	S.I.
Portfolio (net return)	-3.2%	-3.0%	-3.6%	-3.2%	-2.7%	-	-3.2%
RBA Cash Rate	0.1%	0.4%	0.8%	0.5%	1.5%	-	1.6%
Outperformance	-3.3%	-3.4%	-4.4%	-3.7%	-4.2%	-	-4.8%

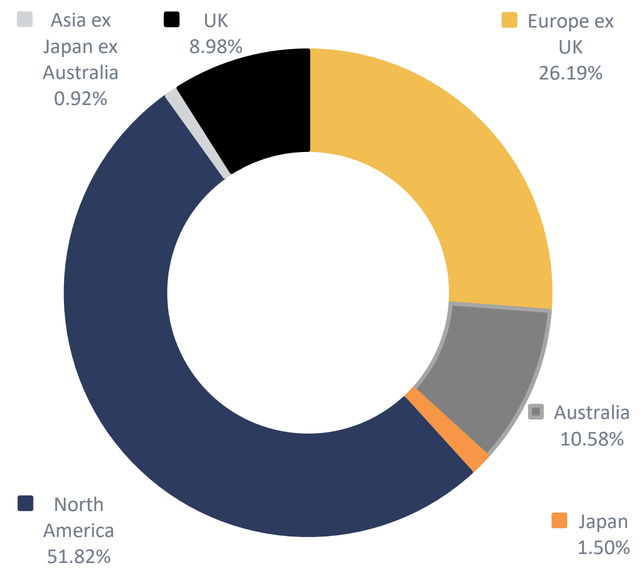
Sector Exposures



Regional Exposures (Net)



Regional Exposures (Gross)



Contributors/Detractors

Top 3 Contributors	
International Business Machines Corporation	0.5%
Continental Resources, Inc.	0.3%
Lynas Corporation Limited	0.3%
Top 3 Detractors	
United Rentals, Inc.	-0.5%
Electronic Arts Inc.	-0.3%
Epiroc AB Class A	-0.3%

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Month in Review

Global equities had their worst monthly performance since May 2012, with the S&P 500 index in the US posting a 7% loss, the largest monthly pullback since September 2011. Technology, industrials, consumer discretionary, energy and cyclical sectors all saw a significant hit, while defensive sectors such as utilities and staples managed to stay in the black. According to Goldman Sachs data, global long short hedge funds had one of their worst monthly performances on record, finishing the month of October -7.4% on average. The WGF portfolio decreased in value by 3.2% through the month with most sectors suffering from the market unwind.

Central banks continue to wind back stimulatory policies, which is adding to the volatility in global markets. The Federal Reserve is persevering with its program of rate hikes while the ECB continues to reduce its asset purchases and will cease this program by December 18. The bank of Japan has also followed suit and reduced its pace of buying considerably over the last 12 months. Putting all of this together, this will be the first quarter since the financial crisis where central banks are net asset sellers rather than buyers.

While there remains no resolution to China/US trade war, data has remained relatively solid with China exports in September coming in stronger than expected (15% vs expectations of 8%) and imports came in broadly in-line. Latest headlines suggest that Presidents Trump and Xi will be meeting at the G20 summit in Argentina at the end of November offering some hope for a potential resolution.

Similar market trends were also observed in Europe despite its underperformance over the last few years, with the CAC/DAX down 7% and the FTSE100 shedding 5%. Brexit headlines continue to dominate in Europe, with the EU and UK failing to come to a deal regarding the Northern Ireland border which continues to be a significant barrier to any agreement being struck between the two parties.

The Industrials portfolio was a detractor in October with a severe pullback in names such as United Rentals and Ashtead detracting from performance. Offsetting these were shorts such as Duerr, SKF, Sandvik along with European auto names.

Global Healthcare shares suffered in October albeit finishing broadly in-line with global bourses. Pharmaceutical and European healthcare shares were a highlight as investors sought refuge in more ‘defensive’ and ‘value’ exposures while medical devices and life science languished with the broader market. September quarter financial reporting commenced late in the period with results largely meeting expectations. Companies that missed estimates were met with savage selling while companies that beat still struggled to deliver positive absolute performance.

The Healthcare portfolio was down moderately in the month. Shorts delivered robust performance, however these were more than offset by outsized declines from an investment in Fresenius Medical, which fell sharply after the company surprised investors with an early guidance downgrade, and Baxter International which delivered disappointing September quarter results. With the US midterm elections looming, we made no new investments despite the pullback in healthcare shares.

The TMT portfolio detracted from performance, driven by the sharp selloff in US technology stocks that affected our positions in software and internet names. Our short positions in expensive internet names like Dropbox and Snapchat worked well mitigating some of the downside. Snapchat had a particularly disappointing Q3 report, with a loss of 2 million daily active users and guiding for continued deterioration in Q4. Our core positions in Google and Microsoft dragged down returns despite reporting results in line with market expectations.

The Consumer portfolio was a positive contributor for the month. Among the winners was a short in Aston Martin, which fell over 19% in October as investors came to realise that the IPO was likely overpriced given the meagre cash generation of the business. Investments in Dollar General and Walmart continued to appreciate in light of solid business outlooks. Dollar General is benefitting from a healthy consumer environment and from the missteps of its competitor Dollartree. Walmart issued solid financial guidance for FY20 at an investor day, in spite of heavy investments in building its online business.

The financials portfolio was a modest detractor from returns in the month, with issues stemming principally from investments in European banks. Clydesdale Bank is dual-listed on the London stock exchange and the ASX and was dragged lower with the broader European banking sector, despite significant upside resulting from its merger with Virgin money. European banks have been sold-off on concerns over political instability in Italy and the ongoing Brexit saga, as well as money laundering scandals in Denmark and the Netherlands, which impacted an investment in Danske Bank. Returns in insurance and diversified financials were flat for the month.