

Monthly Update – November 2018

Fund at a Glance

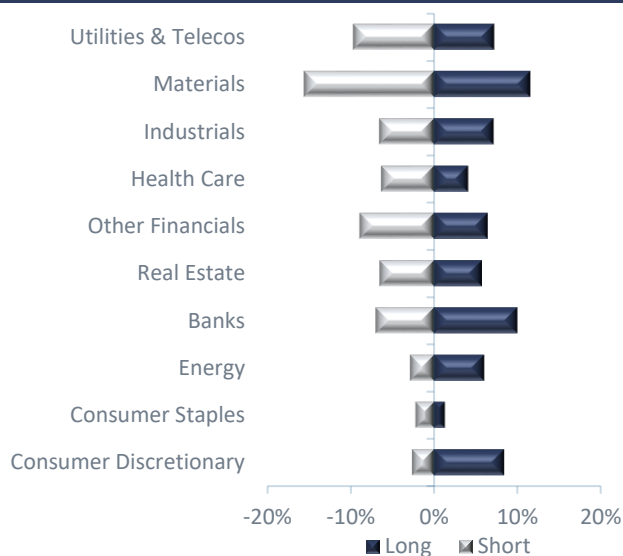
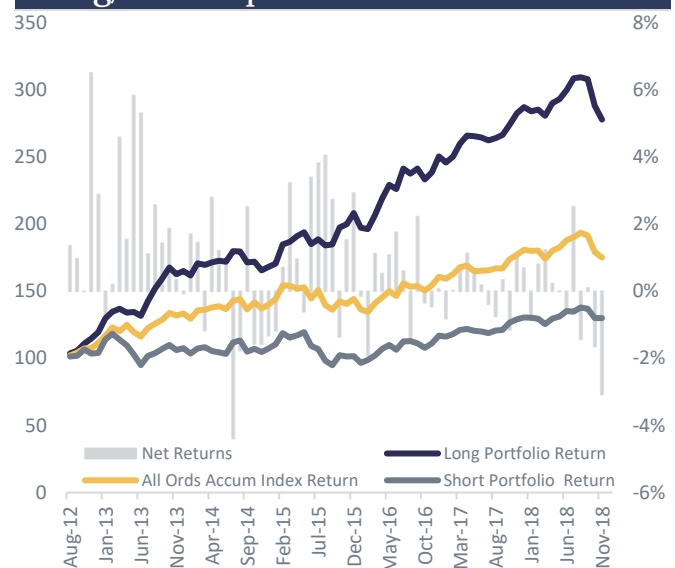
Fund Size	AU\$202m
Strategy FUM	AU\$271m
Fund Inception Date	August 2012
Fund Strategy	Equity Market Neutral
Application/Redemption	Daily
Management Fee	1.5%
Performance Fee	20%
Benchmark	RBA Cash Rate

Return Characteristics¹

Positive Months	67%
Beta	-0.1%
Sharpe Ratio	1.0
Sortino Ratio	3.0
Standard Deviation (annualized)	6.7%
No. Long Positions	54
No. Short Positions	67
Gross Exposure	137%
International Exposure (% of Gross)	3%

Performance

	1 Mth	1 Yr	2 Yrs (pa)	3 Yrs (pa)	4 Yrs (pa)	5 Yrs (pa)	SI (pa)
WMNT (net return)	-3.1%	-2.2%	-0.6%	1.5%	5.2%	4.1%	9.0%
RBA Cash Rate	0.1%	1.5%	1.5%	1.6%	1.7%	1.9%	2.1%
Outperformance	-3.2%	-3.7%	-2.1%	-0.1%	3.5%	2.2%	6.9%

Sector Exposures

Long/Short Spread²

Gross Portfolio Structure

Investment Type	October 2018		November 2018	
	\$m	%	\$m	%
Listed Securities - Long	226.6	92.5	137.4	68.0
Listed Securities - Short	-203.4	-83.0	-139.0	-68.8
Net Exposure	23.0	9.4	-1.6	-0.8
Cash	222.0	90.6	203.6	100.8
Capital	245	100	202	100

Month in Review

The Australian share market was the worst performer amongst its developed market peers in November, falling by over 2%. Mining and Energy shares were the biggest contributors to this weakness, as prices of bulk commodities and oil tumbled through the month. The outlook for the domestic economy remains benign, with solid growth expectations and a strong labour market tempered by the weakness in the property sector, and the knock-on effects for a range of sectors such as construction and retail. Investor sentiment has turned, and capital flows into defensive sectors such as utilities and consumer staples suggest a waning appetite for risk from institutional investors.

November was a difficult month for the Fund, which fell by -3.1% after all fees. It has taken us some time to reposition the portfolio in light of developments in the share market in recent weeks, and we have been too slow in some cases to cut losses. Despite strong valuation support for high-quality investments in companies such as Aristocrat Leisure, Clydesdale Bank, Janus Henderson and James Hardie, these names continued to sell-off in the month, accounting for much of the negative performance.

We continue to position the Consumer portfolio for softening trends in discretionary spending. The Fund has a core investment in Aristocrat Leisure, reflecting the strength of the business and historic defensiveness of gaming expenditure. The company reported a solid FY18 result in November, however, the share price contracted as the company signalled plans for marketing investment in its newly acquired digital gaming division. While management has a strong track record of capital allocation and execution, the market currently has little appetite for uncertainty, particularly for a company stepping outside its core competency. Aristocrat delivered an outstanding outcome for investors with its first digital acquisition, Product Madness (2012), which we believe should be repeatable.

TMT exposures detracted from returns during the month. An investment in a New Zealand company Trade Me Group, benefitted from an indicative bid by Apax Partners to buy the business for \$6.40 per share (25% premium). Our stake in accounting software company MYOB continued to grind higher after KKR agreed to increase its indicative offer price to \$3.77, in order to progress to due diligence phase. Conversely, short positions in expensive Australian technology stocks suffered from better than expected earnings updates.

Financials also weighed on Fund returns as investors sold-off Clydesdale Bank, following its full-year result in November. Whilst the result was in line with market expectations, there are concerns around the outlook for margins, particularly in the recently acquired Virgin Money business. With a dual listing on both the London stock exchange and the ASX, Clydesdale was also dragged lower with the broader European and UK banking sector, amidst concerns over the economic impact of Brexit. Despite challenges in the near-term, we see an opportunity for the business once final approvals for the merger are obtained and the benefits of cost-out programs and revenue synergies are fully realised.

Chinese economic data continued to soften, weighing on mining shares in November. We have a modest net short bias in the sector, expecting a difficult period ahead for commodities as the Chinese property market cools in 2019. We exited our position in Lynas after the shares rallied ahead of an anticipated positive parliamentary review. The price of oil collapsed a further 20% as increasing supply from several regions met concern over the demand outlook, as the global economy slows. While we remain balanced in oil producers, our investment in Origin Energy detracted from performance.

The US housing market has been growing steadily since the GFC, but at a pace that is still well below a longer term 'mid-cycle'. The continued rise in US interest rates and emerging affordability issues have resulted in a pullback in housing construction. Combined with a poor quarterly result, this led to a significant drop in the price of James Hardie shares. We have maintained our position as we believe the opportunity remains for increased penetration of their market leading product.

Australian Healthcare shares underperformed global peers, driven by selling in sector heavyweights CSL and Cochlear. Notwithstanding the recent sell-off, domestic healthcare valuations in many cases remain stretched and we expect lacklustre performance to continue as investors seek more attractive value opportunities elsewhere. The Healthcare portfolio was a positive contributor to returns in November and we retain a modest net short bias in this part of the portfolio.

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	-0.61	2.52	-1.44	0.10	-1.65	-3.08		-2.84



Macquarie Wrap

BT Wrap

BT Panorama

Asgard

Netwealth

IOOF Pursuit

Mason Stevens

Powerwrap

Hub24

AMP North

KeyInvest Life Events Bond

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.