WATERMARK
GLOBAL LEADERS FUND

NTA and Monthly Update – November 2018

Company at a Glance

ASX Code	WGF
Fund Size	AU$73.8m
Fund Strategy	Global Market Neutral
Share Price	$0.88
Shares on Issue	73.3m

Net Tangible Asset (NTA) Backing

	Oct 18	Nov 18
NTA Before Tax	$1.05	$1.04
NTA After Tax	$1.05	$1.04

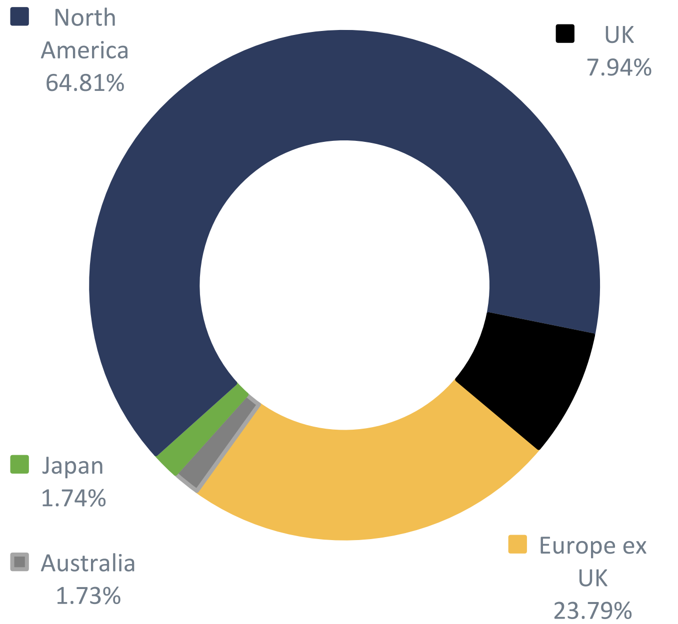
Performance

	1 Mth	3 Mths	6 Mths	Fin. YTD	1 Yr	2 Yrs (pa)	S.I.
Portfolio (net return)	-1.1%	-3.5%	-5.4%	-4.3%	-4.3%	-	-3.6%
RBA Cash Rate	0.1%	0.4%	0.8%	0.6%	1.5%	-	1.6%
Outperformance	-1.2%	-3.9%	-6.2%	-4.9%	-5.8%	-	-5.2%

Contributors/Detractors

Top 3 Contributors	
United States Oil Fund LP	0.4%
Continental Resources, Inc.	0.2%
Metso Oyj	0.1%
Top 3 Detractors	
ABIOMED, Inc.	-0.3%
Aurelia Metals Limited	-0.3%
Dropbox, Inc	-0.2%

Regional Exposures (Gross)



Month in Review

Global equity markets delivered mixed returns in November. Emerging markets outperformed developed markets as investors pivoted back to Asian markets which looked oversold after October's rout. Dovish comments from the US Federal Reserve on the pace of future rate hikes and cooling tensions over trade, provided support for the US market, notwithstanding a marked shift in investor sentiment, from risk-on to risk-off. This has resulted in increased capital flows out of growth sectors and into more defensive exposures such as utilities, consumer staples and real estate. European shares underperformed, with weak growth and activity data coupled with ongoing concerns over political instability in Italy and the UK weighing on most markets.

November saw the US headline average hourly earnings growing by 3.1% year on year, the strongest pace since 2009, while jobs growth shows no signs of a slowing. This has resulted in unemployment hitting a near 50-year low and concerns around US corporate margins due to inflationary pressures continue to build. In fact, S&P 2019 EPS estimates were cut by almost 1% during November after two years of upward revisions. At the same time as the Fed is tightening, investors are becoming concerned that we are approaching an economic slowdown – many are now watching the yield curve (which is flattening) as a proxy for a potential recession event in the next 12-18 months.

Looking towards China, the economy continues to slow despite mixed economic data. Industrial production remained steady, and we saw increased investment in infrastructure, but property related indicators softened slightly. It is becoming clearer that some policy initiatives have been launched and policymakers are moving from a tightening to an easing stance. Sentiment on the ground remains weak with the trade war overhang dampening confidence and willingness to invest despite stable utilisation levels and continued economic growth.

The portfolio fell in value by 1.1% in November, with losses felt most acutely in the mining, healthcare and technology sectors. Net short positioning in the energy sector was a strong contributor to returns.

Performance of the Industrials portfolio was flat in the month, with losses in names such as United Rentals, Safran and Weir were offset by shorts in Metso, Sandvik and other European industrials. Our selective US machinery longs caught a bid, with Caterpillar and Deere contributing to portfolio performance during the month. The sector continues to be volatile, where daily share price moves of ±2-3% are not uncommon.

Global Healthcare posted solid gains in November with broad outperformance seen across most subsectors and regions. Pharmaceuticals, Life sciences/Tools and Medical Devices led the rally, regaining most of the sharp declines in October. Biotechnology shares were more volatile and lagged peers, as macro factors continue to test investor's risk appetite for these shares. The Healthcare portfolio declined in November with losses stemming principally from an investment in Abiomed Inc. Abiomed shares fell sharply after the company reported early-stage data from a clinical trial which disappointed investors. We believe this was an overreaction and took comfort in the early results, which if successful in later studies could see a near doubling of the addressable market for its leading Impella device. We made no material changes to the Healthcare portfolio and maintain a modest net short bias.

The fund benefitted from the collapse in oil price during the month. We held positions in both Exxon Mobil and Hess Corporation, and a short position in an oil ETF. The unexpected drop in the oil price sent the ETF down 20% while Exxon was broadly flat. We closed this position late in the month.

The TMT portfolio detracted from performance in November. The month started well after the sharp October correction, but soon after the U.S. midterm elections, the correction resumed, pushing the Nasdaq to new lows and in the process dragging down growth and technology-related stocks.

On the positive side, we benefited from short exposures in expensive technology stocks that lacked earnings momentum (Temenos, Dassault, Checkpoint) and idiosyncratic short positions (Twitter) where we have a negative structural view on earnings forecasts and the underlying health of the business. However, some of our high-quality earnings compounders came under pressure, amidst the market correction and sector rotation (Google, Adobe).