WATERMARK FUNDS MANAGEMENT

Market Neutral Trust

APIR: WMF0001AU

Monthly Update – December 2018

Fund at a Glance

Fund Size	AU$180m
Strategy FUM	AU$248m
Fund Inception Date	August 2012
Fund Strategy	Equity Market Neutral
Application/Redemption	Daily
Management Fee	1.5%
Performance Fee	20%
Benchmark	RBA Cash Rate

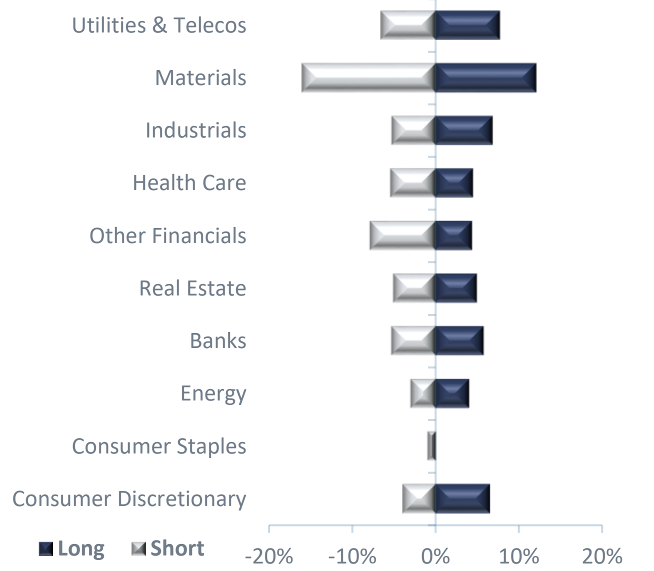
Return Characteristics[1]

Positive Months	67%
Beta	-0.1%
Sharpe Ratio	0.9
Sortino Ratio	2.8
Standard Deviation (annualized)	6.7%
No. Long Positions	47
No. Short Positions	58
Gross Exposure	118%
International Exposure (% of Gross)	2%

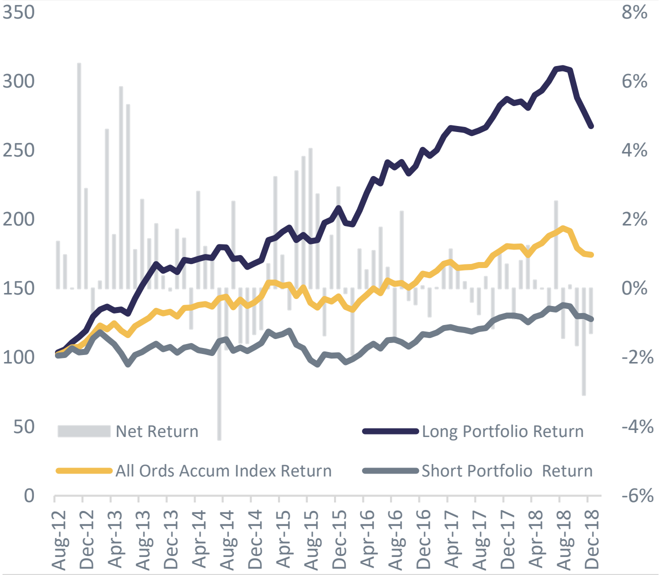
Performance

	1 Mth	1 Yr	2 Yrs (pa)	3 Yrs (pa)	4 Yrs (pa)	5 Yrs (pa)	SI (pa)
WMNT (net return)	-1.3%	-4.1%	-1.3%	0.1%	5.2%	3.8%	8.6%
RBA Cash Rate	0.1%	1.5%	1.5%	1.6%	1.7%	1.9%	2.1%
Outperformance	**-1.4%**	**-5.6%**	**-2.8%**	**-1.5%**	**3.5%**	**1.9%**	**6.5%**

Sector Exposures



Long/Short Spread[2]



Gross Portfolio Structure

	November 2018		December 2018	
Investment Type	**$m**	**%**	**$m**	**%**
Listed Securities - Long	137.4	68.0	104.8	58.2
Listed Securities - Short	-139.0	-68.8	-107.7	-59.8
Net Exposure	**-1.6**	**-0.8**	**-3.1**	**-1.7**
Cash	203.6	100.8	183.1	101.7
Capital	**202**	**100**	**180**	**100**

Month in Review

December marked the end of a tumultuous year for share markets both in Australia and abroad. Despite a strong start in 2018, investor sentiment turned sour in the early part of the year, on concerns over the impact of rate hikes and escalating geopolitical tensions. This proved to be a continuing theme throughout the year, which ultimately proved to be a disappointing period for investors in shares, with increased volatility and losses across most markets.

The Fund delivered a net return of -1.3% for the month, capping a difficult 12-month period, particularly through the latter part of the year. Losses in the month were felt across multiple sectors, with long exposures in consumer services, media and energy detracting most notably form returns. Healthcare was the only positive contributor of note.

The brutal sell-off in the price of oil continued in December, with Brent falling to $50 a barrel, a level not seen in over a year. While we remained balanced in the sector, our position in Senex underperformed as the company is currently debt funding two key projects. We have maintained this position as the Atlas project would likely be sold at a fixed price without any influence from the oil price. Mining companies fared better, with iron ore rallying through December. We have begun shorting a select number of mining companies which are trading close to their highs, with the expectation of a difficult 2019. Gold proved to be a safe haven with the metal surging to nearly $1300/oz. OceanaGold performed well in this environment. Shares in the Industrial sector moved lower through the month on weakness across building material companies. The negative outlook for housing construction in Australia and the US continues to weigh on the sector. Our holding in Downer bucked this trend, rallying after the company announced a key contract win – the Parramatta Light Rail.

Financials were a positive contributor over the month supported by our position in CBA. We continue to view CBA as a higher quality business relative to its peers, with its earnings power supported by its low-cost deposit franchise. Deposit pricing typically provides a tailwind when mortgage competition escalates in a lower credit growth environment. The Reserve Bank of New Zealand recently announced changes to its capital requirements, impacting all the major banks. CBA's NZ exposure is moderate, and it is better positioned for these changes due to its strong capital position. It appears CBA's peers may need to raise capital, sell assets or reduce dividends to comply with these new requirements.

Clydesdale was a detractor from Fund performance. We continue to see near term pressures while uncertainty around Brexit persists, however our valuation work shows long term value in the company. A material cost out opportunity remains, and there are still revenue synergies that will arise from the ability to cross-sell products between Clydesdale and Virgin Money. The final approval of the banking licenses is expected to occur at the end of 2019.

The TMT portfolio was a modest detractor. Globally this was one of the worst performing sectors; the Nasdaq 100 index was down 16% peak to trough through the month. Growing concerns about the cycle potentially rolling over into a recession in 2019 triggered further de-risking across the sector. Our position in oOh! Media gave up recent gains after the company announced the renewal of its City of Brisbane contract. The company suffered due to concerns surrounding the advertising outlook for 2019 even though the outdoor category has favourable long-term prospects. Short exposures in tech-related provided downside protection to the portfolio, contributing positively to returns.

The Consumer portfolio also detracted, driven primarily by an investment in Flight Centre. The travel sector declined in sympathy with increased media coverage of the softening Australian housing market. While we do see some risk to Flight Centre's leisure business, its core corporate division is expected to continue its solid growth. The company should also be cushioned by stronger airfare pricing, as carriers reduce capacity in Australia.

More broadly across the sector, Christmas and Boxing Day sales activity has been softer than last year. However, it was far from the disaster that some predicted. Foot traffic in shopping centres was down materially across the sector as consumers embraced digital sales events such as Black Friday.

The Healthcare portfolio was a positive contributor to returns. Short positions in generic pharmaceutical manufacturers provided positive results on concerns over increased competition, price erosion and launch delays new products. Our investment in Healius (formerly known as Primary Healthcare) declined in anticipation of a weaker result in February. However, in early 2019 Jangho Group, revealed its intention to bid for the whole company at $3.25 per share (+45% over December's close). Even though the board was quick to dismiss the approach as opportunistic and undervaluing the company, the bid drove home the message that Healius remains fundamentally cheap and attractive for long term investors.

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	-1.30	**-4.11**

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[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.