

Monthly Update – February 2020

Fund at a Glance

Fund Size	AU\$34m
Strategy FUM	AU\$291m
Fund Inception Date	May 2019
Fund Strategy	Variable Beta
Application/Redemption	Monthly
Benchmark	RBA Cash Rate

Return Characteristics

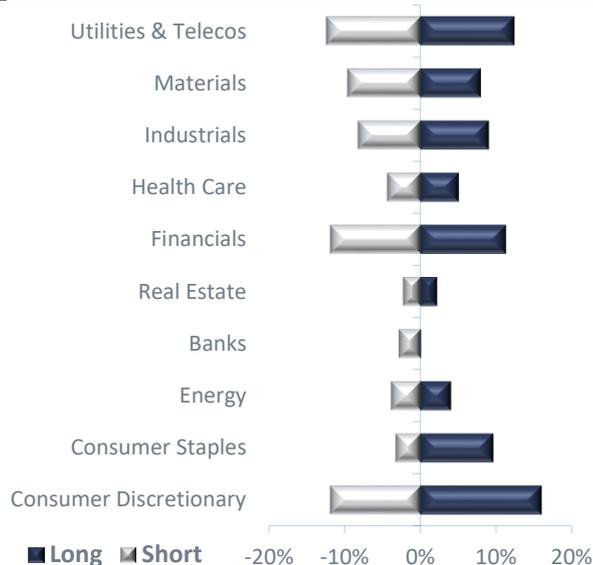
No. Long Positions	74
No. Short Positions	67
Gross Exposure	162.5%
Net Exposure	-7.3%

Unit Price **\$1.0410**

Performance

	1 Mth	3 Mths	FYTD	SI ¹
WARF (net return)	-1.1%	-0.5%	3.9%	4.1%
RBA Cash Rate	0.1%	0.2%	0.6%	0.7%
Outperformance	-1.2%	-0.7%	3.3%	3.4%

Sector Exposures



Gross Portfolio Structure

Investment Type	\$m	%
Listed Securities - Long	26.4	77.6
Listed Securities - Short	-28.9	-84.9
Net Exposure	-2.5	-7.3
Cash	36.5	107.3
Capital	34	100

Managing your Investment

The Fund is priced monthly, on or around the 6th business day of each month. Boardroom Limited, who manage the unit registry for the Fund, will accept applications and redemption requests up until 2pm on the 10th business day of each month, giving investors the opportunity to review the latest unit price before deciding to apply for, or redeem units.

Redemption proceeds will ordinarily be paid within 5 days of the cut off. Investors should refer to the Product Disclosure Statement for the Watermark Absolute Return Fund for details on applying for and redeeming units in the Fund.

For any queries regarding your unit holding, please contact the unit registry managed by Boardroom Limited at watermark@boardroomlited.com.au; or 1300 737 760.

¹ Since inception is stated as a cumulative return

Month in Review

The Fund delivered a return of -1.1% in February, significantly outperforming the All Ordinaries Accumulation Index, which fell by 8.1%. Global share markets went into freefall in the final week as COVID-19 spread rapidly around the world. The busy corporate reporting season, which saw a continuation in the trend of weak and deteriorating earnings growth, was quickly forgotten, as panic over the potential economic impacts of Coronavirus set in. With a fully hedged exposure, the Fund was spared any major damage when share markets turned. Our focus now is to ensure the hedging we have in place continues to effectively insulate the Fund, while looking for opportunities to generate profits.

The Metals and Mining portfolio delivered modest gains in the month. Energy exposures however did not fare so well, with broad-based selling providing no relief for energy companies such as Cooper Energy and Senex, which have relatively lower earnings linked to oil. We continue to position the Fund for an expected stimulus from China, however we are watching developments here closely. Shorts and gold exposures were the standout performers, in particular a short exposure to the S&P Oil & Gas Exploration & Production ETF.

A broad range of contributors to performance in the Financials portfolio was largely offset by losses on an investment in EML Payments. Short exposures to general insurers and private health insurers provided support as both sectors faced multiple headwinds. General insurance has been impacted by weather events and lower interest rates putting pressure on underlying margins. Private health insurance continued to see margin squeeze from the government's historically low approved rate increases, alongside rising numbers of claims. The largest detractor for the portfolio was a core position in EML. Whilst management narrowed its guidance range, institutional investors' expectations of an earnings upgrade were not met. This resulted in a sell-off of this widely held stock. Given the underlying environment, price support (from new buyers) is difficult to come by and EML retraced to its September 2019 levels over the month.

TMT/Healthcare was largely flat in the month. Pleasingly, the Fund was well-positioned for a number of positive results from companies through the reporting period, with investments in Altium, CSL and Bigtican all performing well. On the flip side, an investment in Telstra offset these gains. We believe the current sell-off in Telstra shares presents a compelling opportunity to add to a defensive exposure in the portfolio. Telstra's dividend yield of 4.5% should be particularly attractive in a 'post-corona' environment of lower bond yields. In terms of Telstra's fundamentals, its mobile business is starting to show some traction for 2HFY20 and its high cash flow generation more than supports the current dividend payout.

The Consumer/Industrials sectors detracted from returns in February. Underperformance in the portfolio stemmed from long positions in a basket of COVID-19 exposed stocks, including travel agents, leisure companies and casinos. While some of this risk was hedged, the Fund was carrying a net long exposure in early February when the virus looked to be contained in the Chinese Wuhan province. Given the recent developments, the Fund is now net-short the COVID-19 basket, given the likelihood of material earnings downgrades, cashflow constraints and potential solvency risk. Outside of the COVID-19 basket, the portfolio has been resilient, in particular our Agriculture holdings, which we acquired on trough-cycle valuations in recent months. Surprisingly, Elders is the best performing stock on the ASX YTD

Monthly Net Performance (%)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019					-0.70	0.94	2.09	1.54	-0.49	1.59	-0.42	-0.10	4.49
2020	0.75	-1.11											-0.37

More Information

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Available on the following platforms:

Macquarie Wrap

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Ausmaq

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