

Monthly Update – August 2020
Fund at a Glance

Fund Size	AU\$30m
Strategy FUM	AU\$233m
Fund Inception Date	May 2019
Fund Strategy	Variable Beta
Application/Redemption	Monthly
Benchmark	RBA Cash Rate

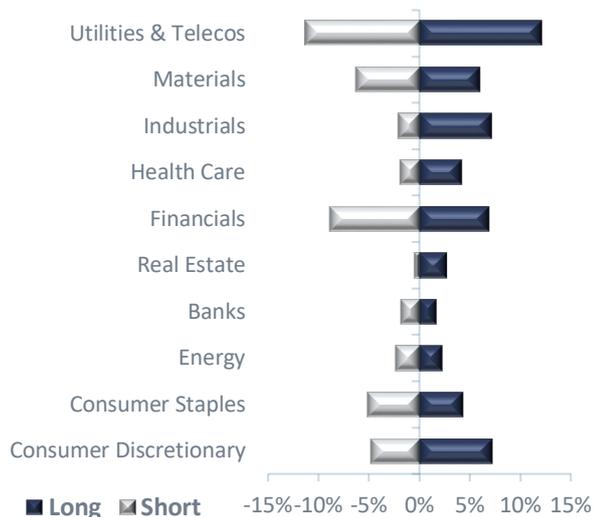
Return Characteristics

No. Long Positions	73
No. Short Positions	50
Gross Exposure	110.2%
Net Exposure	-0.76%

Unit Price \$ 1.0268

Performance

	1 Mth	3 Mths	FYTD	SI (pa)
WARF (net return)	1.1%	1.0%	2.3%	2.1%
RBA Cash Rate	0.0%	0.1%	0.0%	0.7%
Outperformance	1.1%	0.9%	2.3%	1.4%

Sector Exposures

Gross Portfolio Structure

Investment Type	\$m	%
Listed Securities - Long	16.4	54.7
Listed Securities - Short	-16.6	-55.5
Net Exposure	-0.3	-0.8
Cash	30.3	100.8
Capital	30	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.

Month in Review

The Australian share market responded positively to reporting season with the ASX200 index finishing August 2.2% higher, this however lagged the S&P 500, which surged 7% over the month. The difference is driven by Australia being overweight banks and materials and underweight tech stocks. This enthusiasm failed to carry into September, where we have seen a volatile beginning to the month.

The portfolio delivered 1.1% net of fees, which was a solid outcome given the defensive portfolio settings that have been maintained. We carried broadly neutral overall market exposure, balancing long positions with short positions. Strong contributions came from financials and mining in August.

Financials had a solid reporting season. Core positions in Goodman Group, Charter Hall and QBE all rallied strongly into and out of results. We have pared back exposure in these positions into the strength, but all remain core holdings for the Fund. Positive performance in Financials was partially offset by some weakness in Infrastructure. We have held a position in Transurban, which we expect to benefit from an improving COVID situation in Victoria. While this timeline was delayed, we still see value in Transurban as asset concessions are long-dated (~25 years) and short term volume reductions have an immaterial impact on the value of these assets.

The **Consumer** group delivered a negative return in August. The key detractors were our position in TWE and a basket of short positions in discretionary retail stocks. As widely covered in the press, Australian wine companies have been targeted with a threat of tariffs as political tensions between China and Australia increase. While this was a risk for any company exporting to China, our channel checks suggested non-commoditised products such as premium wine were at a lower risk. This subsequently proved to be incorrect and was especially disappointing given the stock rallied strongly post its earnings result on the back of an improved sales trajectory into China. As mentioned in last month's newsletter, we saw several discretionary retail stocks trading at valuations that didn't reflect the underlying risk in the economy. We gave up some performance in August as the market capitalised the short-term benefit these retailers received from July Super withdrawals. Looking forward however, as stimulus measures reduce and job layoffs accelerate in a post-Jobkeeper environment, we expect these short positions to deliver good returns. This has been the case in early August.

Commodities continued their recovery in August with the exception of coal. Gold remained relatively flat, despite breaking new highs at the beginning of the month. Oil, on the other hand, was up 6% following concerns over supply disruption on the back of the Beirut port explosion as well as tropical storm Laura. Outperformers during the month were Iluka Resources (board approval for MAC demerger) and Whitehaven Coal (higher net debt and weaker production guidance). Santos and Senex Energy once again outperformed Woodside Petroleum, given their clearer paths to growth realisation. Post reporting season, we have been adding to our gold exposure and remain broadly neutral across energy and base/bulks.

The **TMT/Healthcare** portfolio had a flat month in August during the peak of the reporting season. While we were on the right side of most of the reports, our positions in Telstra and Wisetech offset the profits elsewhere in the portfolio. In the case of Telstra, the market over-reacted to a negligible and one-off adjustment in the profit outlook due to the effect of COVID19 on FY21. Telstra's key attractiveness at this point is its defensive characteristics in a post-Jobkeeper world as well as the fact that its dividend is well underpinned by cash flows (management is only paying out 2/3s of cash flows). Our position in CSL came under pressure as the market focuses on the potential near-term disruption to its plasma collection operations in the USA, without regard for the fact that this is likely to be a temporary disruption more than compensated for by increased donations in a higher-unemployment US economy in 2021.

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	-2.42	0.86	-0.66	-1.25	1.16	1.09					-1.64

More Information

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