

Monthly Update –September 2020

Fund at a Glance

Fund Size	AU\$29m
Strategy FUM	AU\$233m
Fund Inception Date	May 2019
Fund Strategy	Variable Beta
Application/Redemption	Monthly
Benchmark	RBA Cash Rate

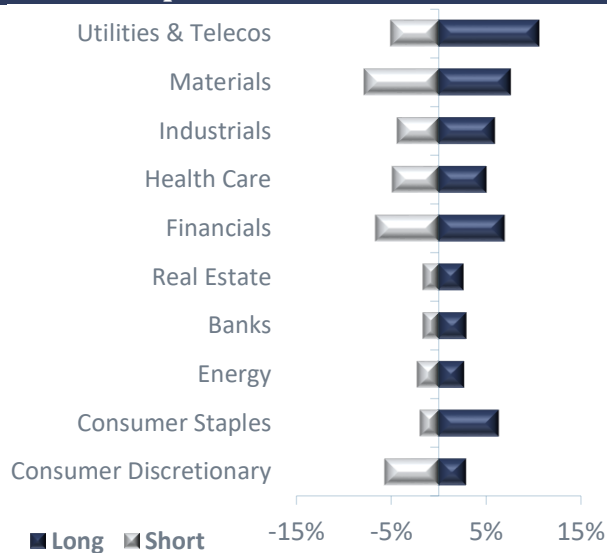
Return Characteristics

No. Long Positions	73
No. Short Positions	52
Gross Exposure	97.3%
Net Exposure	12.6%
Unit Price	\$ 1.0281

Performance

	1 Mth	3 Mths	FYTD	SI (pa)
WARF (net return)	0.1%	2.4%	2.4%	2.1%
RBA Cash Rate	0.0%	0.1%	0.1%	0.7%
Outperformance	0.1%	2.3%	2.3%	1.4%

Sector Exposures



Gross Portfolio Structure

Investment Type	\$m	%
Listed Securities - Long	15.9	54.9
Listed Securities - Short	-12.3	-42.3
Net Exposure	3.7	12.6
Cash	25.3	87.4
Capital	29	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

Australian equities declined in September, ending a five-month rally as investors faced renewed fears over a more extreme 2nd wave of coronavirus cases globally as well as global growth concerns. The ASX200 fell 4% over the month, dragging what had been a largely flat quarter-to-date into negative territory, led by weakness in Energy, Consumer Staples and Technology shares.

The portfolio delivered 0.1% net of fees, reflecting our largely defensive positioning. Although our long and short positions were broadly balanced, we used weakness in the market to accumulate length and pivot the portfolio toward more cyclical pockets such as media and building materials. Strong contributions came from Contractors and Media in September.

Financials had a weaker month in September. This was primarily driven by key long positions in QBE and APT. QBE lost its CEO Pat Regan, which weighed in on the stock while Chairman Mike Wilkins has stepped into the role temporarily. Afterpay traded weaker on the back of Paypal announcing its own a “pay in 4 product”. The key determinant of Afterpay’s success in defending market share will be its ability to leverage its sale leads platform. It has proven successful at deterring competitors in the past, as seen in its frequency of use. Afterpay’s customers who have been using the product for more than 3 years use it an average of 25x a year. This is 2-3x its competitor's customer usage.

The **Consumer** and **Industrials** sectors delivered a positive return in September. The key contributors came from both the long and short portfolio. The long portfolio profited from positions in ‘open up’ defensives including Coca-Cola Amatil and Sky City Entertainment. These and other usually defensive companies continue to trade below historic valuations and are likely best placed as the economy transitions to a more normal consumer environment in months ahead. Our short portfolio benefited from exposure to the infant formula segment, which is currently experiencing inventory issues through supply chain disruption and market share gains by competing Chinese brands. Looking ahead, the economy is likely to be driven forward via a propped-up property sector. As such we have built positions to benefit from this likely tailwind.

Commodities were broadly weaker over the month of September, except for the coal complex (both metallurgical and thermal) which managed to find some support on the back of supply curtailments. Strength in the USD weighed on Gold which saw its largest monthly decline (-4.2%) in over a year, as well as oil (WTI -5.6%) which suffered from a sobering demand outlook and sell-off in global equity markets. Outperformers during the month were WHC (turnaround in thermal prices) and MIN (iron ore decline). Over the month, we continued to increase our gold exposure whilst maintaining broadly neutral settings in base, bulk and energy sectors.

The **TMT** and **Healthcare** sector were up for the month of September. Among our winners, our long position in oOh!media (OML) stands out after putting on a 40% re-rating. There are many reasons why we like OML, it is a strategic asset, in a duopolistic market, and unlike TV or Print or Radio does not face any structural threats. Once balance sheet concerns were addressed with the capital raise in April and 1H results, the debate for OML was always a matter of when not if. Audiences are slowly but surely returning post COVID-19 and it is only a matter of time until advertising budgets follow. When we initiated the position, the stock was trading at 5.0-5.5x normalised EBITDA compared to a historical multiple of 10x. Within Healthcare, our position in Cochlear benefited from increased evidence of resumption in elective procedures.

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	0.13				-1.52

More Information

Watermark Funds Management

02 9252 0225

info@wfunds.com.au

www.wfunds.com.au

Available on the following platforms:

Macquarie Wrap

BT Wrap

Netwealth

Powerwrap

Hub24

Ausmaq

Boardroom Limited – Unit Registry

watermark@boardroomlimited.com.au

<https://www.boardroomlimited.com.au/>

Disclaimer: This document is issued by Watermark Funds Management Pty Ltd (ABN 98 106 302 505, AFSL 250897) in relation to the Watermark Absolute Return Fund (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.