

Monthly Update – August 2019

Fund at a Glance

Fund Size	AU\$40m
Strategy FUM	AU\$306m
Fund Inception Date	May 2019
Fund Strategy	Variable Beta
Application/Redemption	Monthly
Benchmark	RBA Cash Rate

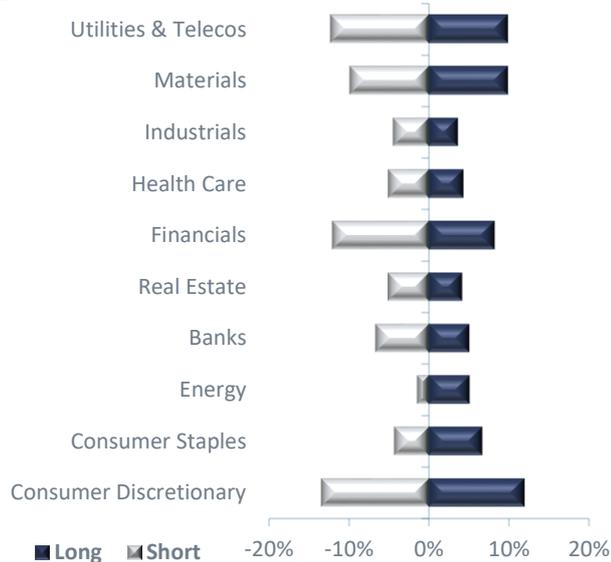
Return Characteristics

No. Long Positions	66
No. Short Positions	67
Gross Exposure	144%
Net Exposure	-6.9%
Unit Price	\$1.0390

Performance

	1 Mth	3 Mths	1 Yr	2 Yrs (pa)	3 Yrs (pa)	4 Yrs (pa)	SI (pa)
WARF (net return)	1.5%	4.6%					3.9%
RBA Cash Rate	0.1%	0.3%					0.3%
Outperformance	1.4%	4.3%					3.6%

Sector Exposures



Gross Portfolio Structure

Investment Type	\$m	%
Listed Securities - Long	27.5	68.7
Listed Securities - Short	30.2	-75.6
Net Exposure	-2.8	-6.9
Cash	42.8	106.9
Capital	40	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

August saw the Australian share market post its first monthly fall in 2019, underperforming weak global markets to post a loss of 2.2%. In a reversal of the trends seen for much of the year, the prices of bulk commodities were weak, while the recovery in the residential property sector, led by major markets in Sydney and Melbourne, continued to gather momentum. Geopolitical tensions across the globe continue to unsettle investors, giving rise to elevated volatility in the share market. The local reporting season saw softer corporate earnings in aggregate, with consensus earnings forecasts for FY20 also revised down.

The Fund performed well in the month, rising by 1.5% and outperforming its benchmark by 1.4%. With volatility expected to continue, WARF's long/short mandate provides flexibility to position the Fund to benefit from significant moves up or down, for the broader share market. August saw a number of such moves and the Fund's net exposure ranged between 5% and -15% in response. This augmented solid alpha generation from security selection, with positive contributions across most sectors.

The Consumer sector was the top contributor in August, led by an investment in BWX Limited, which delivered a strong earnings outlook, well ahead of market expectations. BWX is in the early stages of a turnaround under new CEO David Fenlon. The business owns a number of high-quality natural skincare brands, including Sukin and Andalou, that are benefiting from tailwinds as consumers switch away from synthetic products. Despite mismanagement in recent years, BWX's brands have remained strong from a customer standpoint (very important), and we are backing incoming management to convert that demand into higher profitability.

Weakness in the commodities sector was broad based, with prices of bulks and base metals all suffering falls. Gold and nickel were the outliers, the former as a safe-haven asset for risk averse investors and the latter due to expectations that Indonesia would bring forward bans on the export of nickel ore. Despite the rising gold price, most gold equities sold off towards the end of August as valuations became stretched. We added to investments in South32 and Iluka, which were trading at significant discounts to our target prices. The price of oil tracked sideways, however reported financial results for Santos and Beach Energy highlighted the quality of both companies in terms of cash flows and production growth. This is to be contrasted with Woodside Energy and Oil Search which have been plagued by plant closures, poor execution on expansion plans and political uncertainty in regions such as PNG.

In Healthcare, the Fund was well positioned to benefit from reported earnings results. An investment in CSL performed well, with the company reporting strong revenues from its IG and Albumin divisions, offsetting subdued growth in the Haemophilia and Specialty divisions. Importantly, the company's guidance for FY20 surprised on the upside, lending further support to the shares. An investment in Resmed also benefited from a stable funding environment and strong growth in its core sleep apnoea market.

Conversely, results in the TMT sector proved trickier to navigate. We began the month with a skew towards value and away from growth, given the combination of frothy valuations, softening activity data and negative catalysts (US-China trade, Brexit, Italy). This tilt paid off in the first half of the month, however it led to losses as earnings results were reported. Shares with strong price momentum (which have been market darlings for some time) continued to find favour with investors despite missing on targets for earnings growth. We took a position in the float of Fineos, a high-quality life, accident and health insurance software company, focused on serving global customers. We like Fineos because of its recurring revenue stream, sticky customer base, high incremental margins and asset-light nature.

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					3.90

More Information

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Available on the following platforms:

Macquarie Wrap

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