

## Monthly Update – September 2019

### Fund at a Glance

Fund Size	AU\$37m
Strategy FUM	AU\$302m
Fund Inception Date	May 2019
Fund Strategy	Variable Beta
Application/Redemption	Monthly
Benchmark	RBA Cash Rate

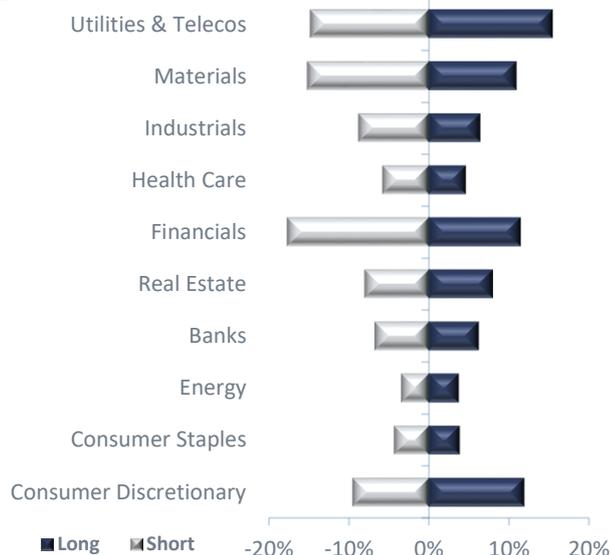
### Return Characteristics

No. Long Positions	74
No. Short Positions	74
Gross Exposure	182%
Net Exposure	-7.8%
<b>Unit Price</b>	<b>\$ 1.0339</b>

### Performance

	1 Mth	3 Mths	1 Yr	2 Yrs (pa)	3 Yrs (pa)	4 Yrs (pa)	SI (pa)
WARF (net return)	-0.5%	3.2%					3.4%
RBA Cash Rate	0.1%	0.3%					0.4%
<b>Outperformance</b>	<b>-0.6%</b>	<b>2.9%</b>					<b>3.0%</b>

### Sector Exposures



### Gross Portfolio Structure

Investment Type	\$m	%
Listed Securities - Long	32.2	86.9
Listed Securities - Short	35.0	-94.6
<b>Net Exposure</b>	<b>-2.9</b>	<b>-7.8</b>
Cash	39.9	107.8
<b>Capital</b>	<b>37</b>	<b>100</b>

### 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](mailto:watermark@boardroomlited.com.au); or 1300 737 760.

## Month in Review

September was a solid month for global equity markets, which were buoyed by coordinated stimulus from central banks in Europe and the US. In a departure from recent trends, there was a sharp rotation from defensive exposures, back to more cyclical, 'value' names. This trend was reflected in the local share market, where cyclical sectors such as banking and consumer discretionary outperformed at the expense of defensive sectors such as healthcare and telecommunications. Absent any marked improvement in economic conditions and with geopolitical tensions continuing to simmer, it remains to be seen whether these recent trends can be sustained, or whether we will see markets capitulate as they did in the last quarter of 2018.

Given its defensive positioning, the Fund underperformed for the month, falling by 0.5%. We have maintained a small net short exposure in recent months, with the portfolio tilted towards long exposures in defensive parts of the market and short the more economically sensitive cyclical sectors. While this did not work in September, losses were mostly contained and offset in part by strong performance in sectors such as Information Technology.

Commodity markets bifurcated in September, with iron ore rallying while most other base and precious metals markets tracked sideways or fell. Strength in iron ore was driven by restocking at Chinese mills prior to a national holiday in early October. The price of gold faded through the month despite poor global economic data and gold equities gave up some of the gains made throughout August. Oil markets were rocked by a drone attack on a Saudi Arabian facility; however, markets shook off the risk of supply interruption, selling off a temporary spike in prices. Santos and Independence Group were key contributors in the month.

The consumer sector was a strong contributor to performance. This was driven by three investments in small-cap companies: BWX Limited, Baby Bunting and PointsBet Holdings. We have written about BWX and PointsBet recently, however, Baby Bunting (BBN) warrants some discussion. The company holds a near-monopolistic position in the domestic baby goods category (it has 53 stores where the next largest competitor has 3). BBN remains in the early stages of several value generative strategies including its digital rollout, private-label expansion and the development of adjacencies to the core retailing offer. We took some profits in the month due to the strong share price performance, however the stock remains reasonably priced at 20x PE (FY20).

In healthcare an investment in Paradigm Biopharma was a stand-out performer. Paradigm has re-purposed an existing drug (Pentosan Polysulphate Sodium or PPS) for the treatment of osteoarthritis (OA) of the knee. With no effective treatments currently on offer for anything more than mild cases of OA, the most common approach involves use of opioids, which are addictive and required in increasingly large doses for effective management of acute pain. Recent clinical data from Paradigm's Phase 2B trial, as well as anecdotal evidence from its patients in Special Access Scheme in Australia (i.e. compassionate use), confirms that Pentosan is highly effective in the treatment of the symptoms of OA and could potentially slow down the pace of cartilage deterioration. Paradigm shares have already rallied 75% in the last month, but our valuation work suggests further upside if the company manages to get it through FDA approval and into commercialization in the US market. Our position in Integral Diagnostics was another key contributor during the month. Weak Medicare data in August spawned concerns about a sector-wide slowdown, but deeper analysis reveals that higher value-add imaging modalities such as MRI and CT scans continue to outgrow the rest of the system, providing support to Integral's business mix.

An investment in IOOF Holdings performed well in the month, with APRA losing its key case against the company and its executives. This has revived expectations that its acquisition of ANZ's platforms business will be approved, which will be highly accretive to IOOF's earnings. We took an opportunity to initiate this investment following the release of the company's financial results, which saw its shares fall as a result of its ~\$240m remediation charge.

## 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				3.39

## More Information

Watermark Funds Management

02 9252 0225

[info@wfunds.com.au](mailto:info@wfunds.com.au)

[www.wfunds.com.au](http://www.wfunds.com.au)

**Boardroom Limited – Unit Registry**

[watermark@boardroomlimited.com.au](mailto:watermark@boardroomlimited.com.au)

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

**Available on the following platforms:**

Macquarie Wrap

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