

Monthly Update – October 2019

Fund at a Glance

Fund Size	AU\$37m
Strategy FUM	AU\$307m
Fund Inception Date	May 2019
Fund Strategy	Variable Beta
Application/Redemption	Monthly
Benchmark	RBA Cash Rate

Return Characteristics

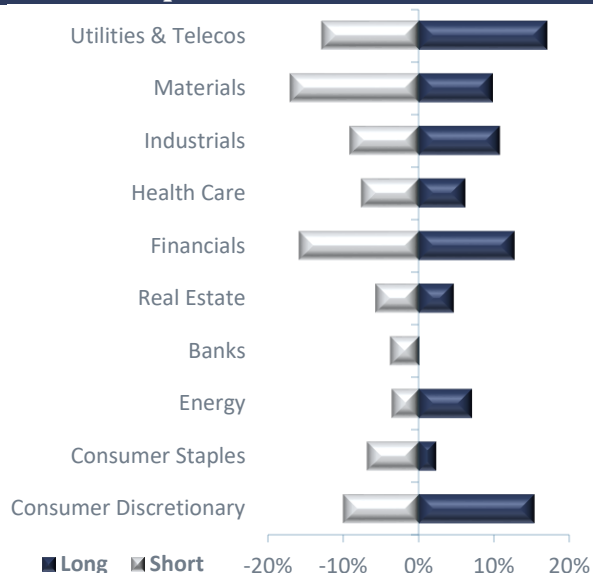
No. Long Positions	73
No. Short Positions	73
Gross Exposure	185.6%
Net Exposure	-5.4%

Unit Price **\$ 1.0503**

Performance

	1 Mth	3 Mths	FYTD	SI (pa)
WARF (net return)	1.6%	2.6%	4.8%	5.0%
RBA Cash Rate	0.1%	0.2%	0.3%	0.5%
Outperformance	1.5%	2.4%	4.5%	4.5%

Sector Exposures



Gross Portfolio Structure

Investment Type	\$m	%
Listed Securities - Long	33.3	90.1
Listed Securities - Short	35.3	-95.5
Net Exposure	-2.0	-5.4
Cash	39.0	105.4
Capital	37	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 bucked the trend amongst global peers, falling in October by 0.4%. With some easing in geopolitical tensions and continued support from central banks around the globe, investors seem increasingly confident that share markets can make new highs in the months ahead. There has however been a marked change in positioning from investors, rotating out of defensive yield exposures and high growth companies, into value plays and shares with stronger leverage to the last leg up in this economic cycle.

We have been monitoring the trends outlined above and have positioned the portfolio accordingly, tilting the Fund towards more cyclical parts of the market while selectively shorting 'expensive defensives' and high growth names. The Fund delivered a 1.6% return in October, comfortably beating its benchmark and continuing a string of positive months in FY20.

The Consumer sector contributed strongly to portfolio returns in October, with performance driven by investments in Gaming and Leisure. In particular, we benefited from an investment in Star Entertainment (SGR). After a 2H19 downgrade and mounting negative sentiment towards the stock, we saw the reporting of the annual result in August as a turning point. Firstly, the company reported stabilisation in trading conditions and was also able to provide more detail about the execution of its cost reduction program, which was running to plan. Beyond that, expectations for the stock were very low, which was fully reflected in the share price. Any positive resolution to the Gold Coast casino licence debate would be a positive surprise. In addition, we continued to see SGR as an attractive asset for strategic buyers, with potential catalysts to recognise the inherent value in the coming months.

In TMT & Healthcare, the performance was also solid, with contributions on both sides of the ledger. On the long side, CSL share price continued to reflect a strong IG market and solid execution by management. Our position in Integral Diagnostics benefited from the release of Medicare data showing an uptick in diagnostic imaging utilisation, particularly in more sophisticated modalities like MRIs and CT scans. Seek shares continued to advance as the company made its initial move towards increased monetisation of its Australian offering. Also, among key contributors, were several short positions in expensive technology and biotechnology companies.

October saw the commodity prices fall early in the month as trade concerns dominated. However, progress on Sino-US trade talks began to lift the market towards the end of the month. Quarterly production reporting was sound for bulks, base metals and oil shares, however gold names performed poorly, and the shares sold off. Performance in this sector was predominantly on the short book in the month. Investments in Iluka (which rallied following a fall in August and Silver Lake Resources (valuation gap closed on sound quarterly) were notable contributors. We added length to the mining and oil portfolio at the end of the month and initiated positions in WHC, MLX and KAR.

Investments in IOOF and Macquarie Bank were notable contributors in the Financials portfolio. IOOF continues to bear fruit as it announced a recut of the ANZ platforms acquisition deal at a lower price. The sunset date on the deal terms also extended, with the transaction now highly likely to proceed as the stock added 18% in October. Offshore banks delivered favourable investment banking and trading outcomes in October. This boded well for Macquarie Bank's November result, which met expectations with the full-year guidance. This business remains a core investment, as it remains relatively cheap on a price-earnings multiple.

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			5.03

More Information

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Available on the following platforms:

Macquarie Wrap

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Ausmaq

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