

Monthly Update – December 2019

Fund at a Glance

Fund Size	AU\$35m
Strategy FUM	AU\$295m
Fund Inception Date	May 2019
Fund Strategy	Variable Beta
Application/Redemption	Monthly
Benchmark	RBA Cash Rate

Return Characteristics

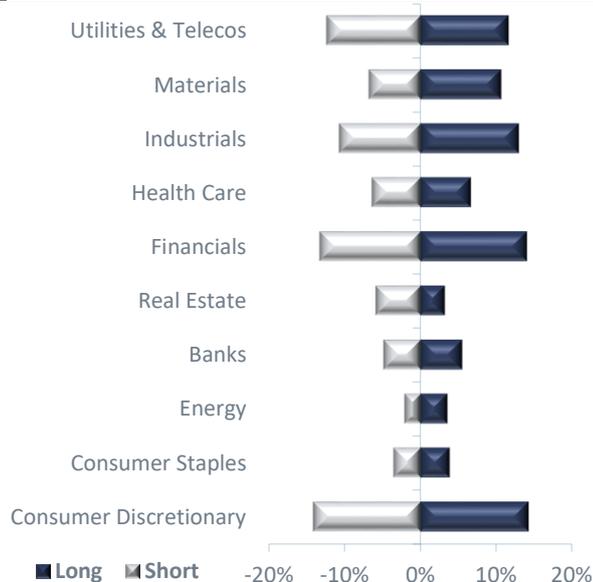
No. Long Positions	59
No. Short Positions	61
Gross Exposure	170.8%
Net Exposure	2.7%

Unit Price **\$ 1.0449**

Performance

	1 Mth	3 Mths	FYTD	SI
WARF (net return)	-0.1%	1.1%	4.3%	4.5%
RBA Cash Rate	0.1%	0.2%	0.4%	0.6%
Outperformance	-0.2%	0.9%	3.9%	3.9%

Sector Exposures



Gross Portfolio Structure

Investment Type	\$m	%
Listed Securities - Long	30.3	86.7
Listed Securities - Short	29.4	-84.0
Net Exposure	0.9	2.7
Cash	34.1	97.3
Capital	35	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

December 31 marked the end of a stellar year for the Australian share market, which delivered a total return of 24%, making it one of the top-performing global indices in 2019. In the absence of good news in respect of corporate earnings growth, it was Central Banks and their preparedness to support asset markets with an easing in policy settings that had the greatest impact on returns from the share market. Growth sectors were again the best performers in 2019, with Healthcare and Technology leading the way. However, weak data in respect of GDP growth and business and consumer sentiment, along with headwinds for the major banks, weighed on local market returns in the final quarter of the year.

The Fund fell by 0.1% after all fees in December. While the Fund's conservative exposure settings have clearly weighed on returns relative to the market in 2019, performance in the second half of the year has been encouraging. With very little net exposure to shares in the period, the Fund has been insulated against market falls and is well positioned to weather any volatility that may lay ahead.

There were modest losses in TMT/Healthcare portfolio amid lighter than normal stock specific news flow ahead of the holidays. On the positive side, the Fund benefited from short positions in overvalued technology names that were left behind in the market rotation towards cyclicals and value. Among the detractors, investments in Paradigm and Telix suffered from investors' profit taking after a strong performance (200% and 138% in 2019 respectively). We are believers in the fundamental outlook for both businesses and will look at pullbacks as an opportunity to add the positions. Both names have catalyst-rich 2020 outlooks in terms of clinical trials, regulatory filings and potential approvals that we expect will unlock further upside.

The Consumer/Industrials sectors contributed strongly to portfolio returns, with performance driven by core investments in small-cap consumer companies. BWX Limited (BWX) was a standout performer, along with a recent addition to the portfolio: Carbon Revolution (CBR). The portfolio also benefited from short positions in the gaming sector as lottery operators cycled an above-average jackpot sequence in the prior year. While structural factors are driving lottery participation towards digital sales, the market had confused the strength of that tailwind with the luck factors also driving revenue growth in the FY19 year.

Financials also detracted from performance, driven primarily from a pair in the wealth management sector and a broad-based sell off in Fintech names, which followed global growth names lower in the month. A core investment in Afterpay also lost ground, although strong results relating to Black Friday/Cyber Monday sales gave us the confidence to add to this position. We have been net short in the real estate sector in anticipation that expensive defensive names in this part of the market will underperform. This worked well in December as bond yields rallied. In the insurance sector, short exposure in the health insurance segment worked well. At the same time, an investment in QBE is expected to deliver further returns, buoyed by a hardening in the US rate cycle and currency tailwinds.

There was a notable recovery in the metals and mining complex in December. Prices of bulk commodities, base metals and oil all rallied higher, while gold also finished the year strongly. Key performers for the month were Northern Star Resources and NRW Holdings, both of which have recently raised capital to fund business expansions. Cooper Energy also performed as the company nears completion of its Orbost gas plant. We retain a net long bias and expect the materials sector to rally into 2020 on the back of a China-US trade deal. We initiated positions in Senex and Oil Search during the month.

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

More Information

Watermark Funds Management

02 9252 0225

info@wfunds.com.au

www.wfunds.com.au

Boardroom Limited – Unit Registry

watermark@boardroomlimited.com.au

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

Available on the following platforms:

Macquarie Wrap

BT Wrap

Netwealth

Powerwrap

Hub24

Ausmaq

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.