

Monthly Update – January 2020

Fund at a Glance

Fund Size	AU\$37m
Strategy FUM	AU\$299m
Fund Inception Date	May 2019
Fund Strategy	Variable Beta
Application/Redemption	Monthly
Benchmark	RBA Cash Rate

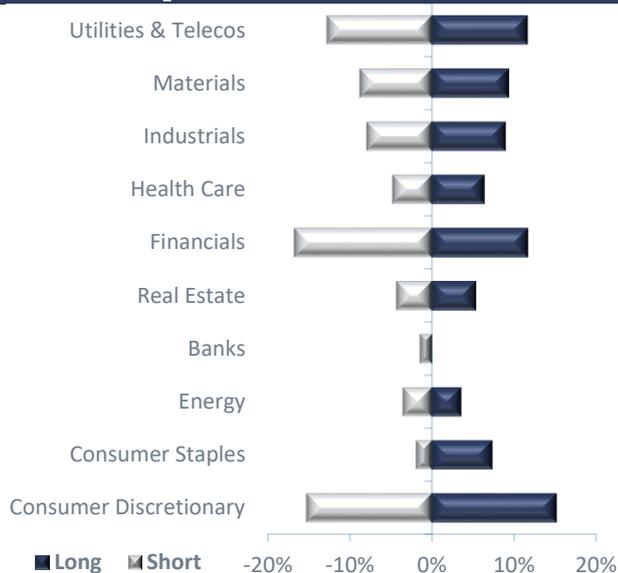
Return Characteristics

No. Long Positions	70
No. Short Positions	65
Gross Exposure	167.9%
Net Exposure	-8.7%
Unit Price	\$ 1.0527

Performance

	1 Mth	3 Mths	FYTD	SI ¹
WARF (net return)	0.7%	0.2%	5.0%	5.3%
RBA Cash Rate	0.1%	0.2%	0.5%	0.7%
Outperformance	0.6%	0.0%	4.5%	4.6%

Sector Exposures



Gross Portfolio Structure

Investment Type	\$m	%
Listed Securities - Long	29.5	79.6
Listed Securities - Short	32.7	-88.3
Net Exposure	-3.2	-8.7
Cash	40.2	108.7
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.

¹ Since inception is stated as a cumulative return

Month in Review

The Fund posted a net return of 0.75% in January. After a muted start, weakness in the broader market towards the end of the month presented an opportunity to increase the Fund's net short exposure, delivering stronger performance. Share markets have exhibited increased volatility in recent months, although the Fund has been largely insulated from this with volatility of Fund returns less than half that of the market. The strongest contribution to performance came from the IT sector, with Mining and Financials also making notable gains.

Among the big winners in the TMT/Healthcare portfolio were CSL, Telstra, Paradigm and Bigtincan. Bigtincan benefited from strong quarterly numbers, new sizeable contract wins (Sephora) and an overall benign environment for software names. Telstra continued re-rating in response to favourable competitive dynamics in mobile and is being supported by lower global bond yields. CSL put on nearly 15% in the month, in anticipation of an earnings beat & upgrade at its full year results in February. It is also being supported by an overall positive environment for Med Tech and secular growth names. Paradigm put on over 40% in January, more than recovering the profit taking at the end of 2019 in anticipation of a catalyst rich 2020 (potential TGA provisional approval, submission for a Phase 3 trial with the FDA, ongoing recruitment of 10 ex-NFL players).

A high conviction investment in QBE drove performance in the financials portfolio. QBE gave a trading update in late December which cleared the air for a rally through January, even as risks remained around domestic peers. The company also benefited from a series of positive results from international insurance companies, which all reported a sustained rate improvement. An investment in Afterpay made a solid contribution as web traffic data flowed in post-Christmas trading. Momentum in these statistics continued to impress. The share price was also supported by a tech rally, led by offshore Nasdaq names. EML also rallied through the month and we believe that 2020 will produce another strong year for this company. While the price of EML shares has had such a strong run, we believe there is further upside as investors get increased visibility on the PFS acquisition and see the scaling of EML's base business.

The metals and mining complex consolidated the December strength in the first half of January, only to fall heavily at the end of the month due to concerns around the Coronavirus. Prices of bulks, base metals and oil fell, with gold holding at record AUD levels. Our shorts and gold exposures worked well during the month with top performers being Northern Star Resources and Alumina. Our current positioning in this part of the portfolio is neutral due to the heightened risk of disruption to the Chinese economy however, we believe value opportunities will arise during this period of uncertainty.

The Consumer/Industrials sectors distracted from portfolio returns in January. Underperformance in the portfolio stemmed from positions in a basket of Coronavirus stocks, including travel agents, china exporters and casinos. Frustratingly, the portfolio had been intentionally skewed to China growth given the recent 'Phase 1' trade deal with the US and a view that the market would start to price a Chinese economic recovery. However, we added to this basket on days of weakness and performance has subsequently improved. We expect performance to continue as the market looks through this short-term issue. Outside of the Corona basket, the portfolio has performed well, in particular our Agriculture holdings (Elders), which we acquired on trough-cycle valuations in recent months.

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												0.75

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.