

## Monthly Update – April 2020

### Fund at a Glance

Fund Size	AU\$32m
Strategy FUM	AU\$242m
Fund Inception Date	May 2019
Fund Strategy	Variable Beta
Application/Redemption	Monthly
Benchmark	RBA Cash Rate

### Return Characteristics

No. Long Positions	49
No. Short Positions	47
Gross Exposure	83.4%
Net Exposure	-9.8%

**Unit Price** **\$1.0245**

### Performance

	1 Mth	3 Mths	FYTD	SI <sup>1</sup>
WARF (net return)	0.9%	-2.7%	2.2%	2.5%
RBA Cash Rate	0.0%	0.1%	0.6%	0.8%
<b>Outperformance</b>	<b>0.9%</b>	<b>-2.8%</b>	<b>1.6%</b>	<b>1.7%</b>

### Sector Exposures



### Gross Portfolio Structure

Investment Type	\$m	%
Listed Securities - Long	11.8	36.8
Listed Securities - Short	-14.9	-46.6
<b>Net Exposure</b>	<b>-3.1</b>	<b>-9.8</b>
Cash	35.1	109.8
<b>Capital</b>	<b>32</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.

<sup>1</sup> Since inception is stated as a cumulative return

## Month in Review

Share markets bounced back with a vengeance in April, buoyed by the massive fiscal and monetary stimulus announced by governments and central banks around the world. Our framework for assessing the outlook for share markets since the onset of the coronavirus pandemic has been built around 3 main variables: monitoring the spread of the disease and the magnitude of the health crises that have arisen around the world as countries try to slow transmission and limit the human cost; assessing the political responses to the crisis and their efficacy in dampening shocks to the global economy; and analysing the impact on companies and industries and the speed with which they might be able to recover or rebuild, to a level that might reflect normalised earnings.

Our views on the progression of the disease and the full economic impacts of the measures that have been implemented to reduce transmission remain circumspect. Notwithstanding the successes of many countries in flattening the curve, transmission rates in the United States, Brazil, Russia and many other countries suggest the worst may be still to come. This coincides with moves in many parts of the world to reopen economies and relax social distancing measures, raising the spectre of new waves of infection, which have characterised pandemics such as the 1918 Spanish Flu. The economic costs to are as yet far too extensive to fully appreciate, suffice it to say that a deep and prolonged recession should be expected. The political response however has been decisive and with an unprecedented magnitude. Asset markets have been backstopped in the order of US\$4 trillion, with QE and asset accumulation by central banks likely to continue indefinitely. This fully explains the strength in the recovery of shares from their March lows.

We retained a small net short positioning through much of April and maintain that the risk for share markets is to the downside. This positioning was a headwind for returns in the month, and the Fund delivered a 0.9% return after all fees. The strongest contributions to returns came from the Consumer portfolio and Real Estate. IT and the Fund's short exposure to SPI200 Index Futures were the most notable detractors.

The Consumer/Industrials sectors delivered strong returns in April. Performance was achieved across both long and short portfolios taking advantage of the high volatility through the month. Returns in the short book were delivered via the supermarket sector which declined as investors bought riskier cyclicals. Our short portfolio also benefited from positions in travel stocks, with several companies undertaking highly dilutive capital raisings in the period. On the long side, investments in the agriculture sector performed well, as a result of what is likely to be the best grain crop in 5-years. Looking forward, several discretionary retail businesses are priced at valuations that seem unbelievable, given the current economic climate. We have taken the opportunity to rotate our short book into this space.

The aggregate TMT/Healthcare book was flat for the month. With several companies seeking to re-capitalise near the market lows in late March/early April, we took advantage of situations where capital was being raised to correct over-leveraged balance sheets, but where the underlying businesses otherwise remained healthy (e.g. oOh!Media, Cochlear). Conversely, we avoided re-capitalisations of companies where the business model is under structural pressure. Having significantly reduced our gross exposure in these sectors, we have been quick to re-deploy the balance sheet into businesses which have not been impacted at all by the virus, such as Appen. Shorts in low-quality names which snapped back with the market detracted in the month.

Share price performance across the Financials sector oscillated through April. Fintech companies found good support, while cyclicals/banks were left behind. An investment in Computershare was a notable contributor. In our view, the company is undervalued and underappreciated for its recurring style revenues, which give it the ever more important ability to pay dividends. Participation in a capital raising by Lend Lease also added to returns. While one of the largest raisings in the sector, it builds on a solid capital foundation for what is otherwise a quality company (notwithstanding issues in the engineering business). Lend Lease shares traded up 30% from the raise price shortly after shares were issued.

Commodity prices and the underlying equities crept higher in April, although a reversal in the trajectory of the AUD stalled the recovery. Reporting season revealed some impacts from COVID-19 however, production generally met expectations. The gold sector is starting to display an unfortunate change in behaviour, possibly due to high gold price. As gold prices increase, it becomes increasingly tempting to feed lower-grade ore into the mill as it becomes "economic". This results in lower production levels, increased costs, and similar cash

margins to when the gold price was lower. If the trend continues, the June quarter may miss expectations which have driven the stocks higher. We remain positive on gold; however, we are cautious of companies displaying this trend. We were generally positioned defensively long in the metals and mining book, with contributions coming from AWC (bottoming of alumina prices) and SAR (excellent operational performance). A short exposure in the energy sector detracted from returns. We wound this exposure back after the price of oil went negative in the month, however energy shares have started to factor in a recovery in the oil price. We remain cautious and will build length into weakness, given oil prices are unsustainable at current levels.

## 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	-1.11	-2.42	0.86									-1.95

## More Information

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