

## Monthly Update – May 2020

### Fund at a Glance

Fund Size	AU\$31m
Strategy FUM	AU\$239m
Fund Inception Date	May 2019
Fund Strategy	Variable Beta
Application/Redemption	Monthly
Benchmark	RBA Cash Rate

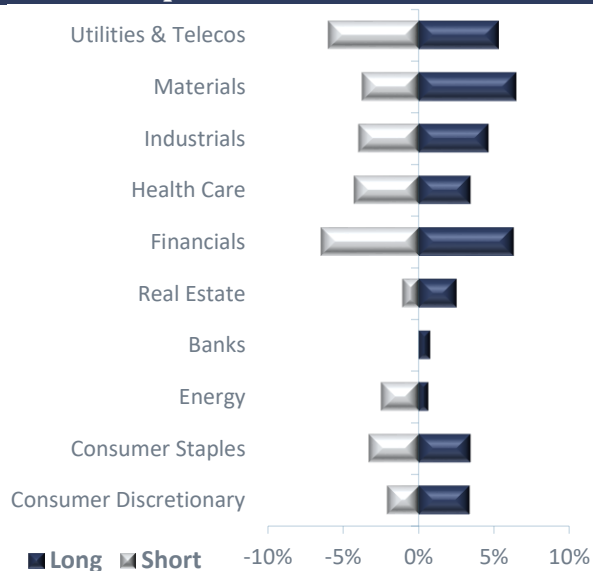
### Return Characteristics

No. Long Positions	56
No. Short Positions	50
Gross Exposure	97.4%
Net Exposure	-6.0%
<b>Unit Price</b>	<b>\$ 1.0177</b>

### Performance

	1 Mth	3 Mths	FYTD	SI
WARF (net return)	-0.7%	-2.2%	1.5%	1.7%
RBA Cash Rate	0.0%	0.1%	0.6%	0.8%
<b>Outperformance</b>	<b>-0.7%</b>	<b>-2.3%</b>	<b>0.9%</b>	<b>0.9%</b>

### Sector Exposures



### Gross Portfolio Structure

Investment Type	\$m	%
Listed Securities - Long	14.2	45.7
Listed Securities - Short	-16.0	-51.7
<b>Net Exposure</b>	<b>-1.9</b>	<b>-6.0</b>
Cash	32.9	106.0
<b>Capital</b>	<b>31</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

May was another strong month for share markets the world over, as stimulatory settings and the gradual rollback of lockdown measures in many countries drew investors back into the market despite overwhelmingly negative news flow regarding the damage to global economies and corporate earnings. Within the local market, smaller companies outperformed largely, and there was a marked rotation of capital out of defensive sectors into more cyclical parts of the market, indicating that there is now a clear target for the market to re-test the February highs in the coming weeks. Notwithstanding this rapid rebound, there will be significant tests ahead for the market as stimulus is withdrawn and welfare support for businesses and households fades.

The Fund retained a consistent net short exposure through the month of between 5-10%. This was a headwind for returns, and the portfolio decreased in value over the month by 0.7% after all fees. The strongest contributions to returns came from the Telco and Industrials sectors, where we have had a small value tilt. Weaker performance in Financials and Real Estate weighed on returns, while a short exposure to Share Price Index Futures (which are used to adjust the net exposure settings) also detracted.

The TMT/Healthcare book had a strong positive month. Our winners were spread across cyclical businesses, springing back to life post COVID-19 and secular growers who benefited from continued re-rating of technology stocks. Among the cyclicals, our positions in media (News Corp and oOh!media) were strong contributors in anticipation of the recovery in advertising budgets and potential portfolio actions in the case of News Corp. In Healthcare investments in utilisation-driven businesses like Ramsay (hospital beds) and Sonic (pathology) performed well.

Financials had a softer month in May. Our historically benign short position in banks was a major detractor resulting from the rotation to value that captured global equity markets. This was partly offset by holdings in insurance names such as QBE and IAG and financials MQG and CCP. We continue to see upside in these names. Financials have been the laggard in the rally and are now all playing catchup. While growth prospects remain soft, valuations remain undemanding.

The commodities sector continued to trade higher in May as investors look towards stimulus and the opening up of economies. Gold performed well over the month with equities pushing higher, however the price failed to break out over US\$1,750/oz and may consolidate further before reaching for new highs. The price of iron ore rallied as risks to Brazilian supply increased, due to potential COVID-19 disruptions. This again puts the iron ore market at risk of deficits and higher prices, echoing last year's moves. Outperformers during the month were SAR (gold equity rally) and MIN (iron ore price strength), underperformers were AWC (removal from the global index) and NCM. We remain positive on gold in the longer-term, however have neutralised our settings while consolidation occurs. Given the strength in the underlying commodities, we have added length in copper, oil and iron ore and continue to be cautious of the coal and speciality minerals sectors where underlying fundamentals are poor, and investor interest remains subdued.

The Consumer/Industrials sectors delivered positive returns in May led by gains on both sides of the ledger in the supermarket sector. Supermarkets provided a safe haven for investors in March and April; however they have seen share price declines as investors switched focus back to the 'reopening' trade in May. The Fund has been net-short the sector over this period. On the other side, an investment in Metcash has performed well as the stock was oversold post an unexpected capital raising. Our industry contacts confirmed that Metcash's IGA retail partners were taking market share during the COVID-19 lockdown as consumers chose to avoid shopping centres and shop closer to home. There is still some debate as to whether MTS can retain this share, but at the time of printing, momentum seems to be holding. Looking forward, several discretionary retail companies are priced at valuations that seem unbelievable given the economic climate. We are carefully timing new short positions as the market starts to look beyond the short-term stimulus sugar hit.

## 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	-0.66								-2.60

## More Information

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Boardroom Limited – Unit Registry

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Available on the following platforms:

Macquarie Wrap

BT Wrap

Netwealth

Powerwrap

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Ausmaq

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