

## Monthly Update – June 2020

### Fund at a Glance

Fund Size	AU\$31m
Strategy FUM	AU\$229m
Fund Inception Date	May 2019
Fund Strategy	Variable Beta
Application/Redemption	Monthly
Benchmark	RBA Cash Rate

### Return Characteristics

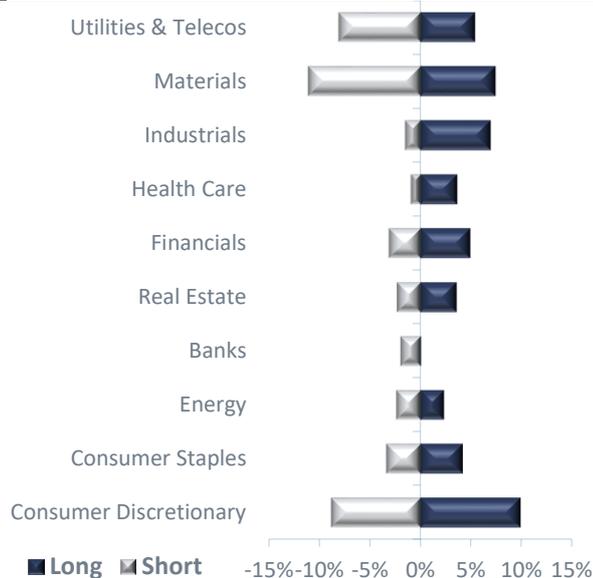
No. Long Positions	60
No. Short Positions	49
Gross Exposure	100.6%
Net Exposure	-4.0%

**Unit Price** **\$ 1.0050**

### Performance

	1 Mth	3 Mths	FYTD	SI (p.a)
WARF (net return)	-1.2%	-1.1%	0.3%	0.4%
RBA Cash Rate	0.0%	0.1%	0.7%	0.7%
<b>Outperformance</b>	<b>-1.2%</b>	<b>-1.2%</b>	<b>-0.4%</b>	<b>-0.3%</b>

### Sector Exposures



### Gross Portfolio Structure

Investment Type	\$m	%
Listed Securities - Long	15.0	48.3
Listed Securities - Short	-16.2	-52.3
<b>Net Exposure</b>	<b>-1.2</b>	<b>-4.0</b>
Cash	32.2	104.0
<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

The 2020 financial year drew to a close on June 30, capping off what has been an extraordinary period for asset markets. The last 12 months have seen natural disasters such as fire and drought ravage much of Australia, preceding the outbreak of the coronavirus and the onset of a global health crisis. Having powered out of a surprise election result in May 2019, the Australian share market rallied on the back of monetary and fiscal stimulus, extending what had already been one of the longest bull markets on record. As the COVID-19 pandemic first struck in late February, asset markets saw the most savage sell-down since the GFC as the economic toll of the crisis began to reveal itself. Central Banks and governments were quick to respond, sending asset markets flying again by April, with the local share market rallying some 30% in the final quarter of FY20.

Against this very difficult backdrop, the Fund achieved one of its principal objectives, protecting investors' capital when markets fell. For the 12 months to June 30, 2020, the Fund delivered a gross return of 1.2%, outperforming the benchmark All Ordinaries Accumulation Index, which fell by 7.2% for the year. The promising start that was made in the first half of the year was undone somewhat with the onset of the crisis. We have struggled to reconcile the massive dispersion between the economic toll and impact on corporate earnings resulting from measures required to suppress the spread of the disease, and the euphoria in asset markets which are being supported at any cost by unprecedented monetary stimulus and fiscal support. The question now is whether this dispersion can continue, or whether a second wave of infections and the consequent economic damage could send markets plummeting again.

In commodities, iron ore and copper led off a strong start in June. While the price of iron ore subsequently fell back from its highs, copper continued to show strength on higher levels of optimism and supply constraints out of South America. A balancing act now exists for iron ore prices, with supply from Brazil lifting despite COVID-19 concerns and the wet season beginning to impact Chinese steel consumption, providing negative price signals. This is being offset by low port stocks being restocked and a seemingly insatiable appetite for more iron ore. The price of gold continued to march towards US\$1800/oz, leading the shares of gold miners higher. Oil failed to maintain momentum as production lifted and inventory stocks outweighed optimism of higher fuel consumption due to the restarting of economies. Outperformers during the month were OZL (copper prices), AMI (positive mine plan update), WHC (coal price weakness) and BPT (oil price weakness). We remain positive on gold and copper; however, we neutralised our exposure in iron ore towards the end of the month. We have also maintained a neutral position in oil, with cautious positioning for the financial results season.

The Consumer/Industrials sectors delivered a flat return in June. The casino sector was a good source of returns within the portfolio. Our position in SkyCity is currently trading freely with no lockdown restrictions but also has minimal pending competition threat from new floorspace entering the Australian market in the coming years. These are risks that both Australian casinos still need to navigate in addition to the NSW Casino inquiry. Since SkyCity has resumed operations in NZ, it regularly sees daily revenue at 80%-90% of pre-COVID 19 levels. Despite this, the stock is still trading well down on its historical share price even after factoring in its recent share issue. We see further upside on a longer-term view. Looking forward, several discretionary retail stocks 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.

It was a benign month for the Financials portfolio. Contributions from exposures in growth sectors such as fintech and industrial property, as well as shorts in a number of fund managers were offset by losses across investments in the insurance sector. Afterpay and Sezzle contributed to the portfolio, a trend which continues strongly into July. We highlighted Sezzle as one of our key picks at our recent investor update. This was on the premise that Sezzle's end market (being eCommerce) had effectively doubled, as retailers moved online in response to COVID-19 suppression measures. We are still confident that insurance names will re-rate, as the market begins to appreciate their defensive characteristics in a post-COVID recessionary environment.

TMT & Healthcare were modest detractors from performance in June. Share prices continued to be driven by the push and pull of pandemic-driven negative earnings revisions vs monetary stimulus. Among our winners, Healius stands out for having received a binding offer from a private equity investor for its medical centres business. This will help alleviate pressure on the company's balance sheet and raises questions about the strategic future for the rest of the business (pathology and imaging). Investments in Xero and Bigtinca added

value in the technology sector, while an investment in Altium detracted with the company suffering a pandemic-induced hit to sales expectations for FY20. We expect the impact to be short-lived and remain optimistic about Altium's long term outlook. A core investment in CSL shares also detracted as concerns mounted about a transient reduction in their plasma collections given its exposure in southern states of the USA particularly affected in this second wave of the pandemic (Florida, Texas, California, Arizona).

## 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	-1.25							-3.82

## More Information

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**Available on the following platforms:**

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