

Monthly Update –October 2020

Fund at a Glance

Fund Size	AU\$28m
Strategy FUM	AU\$235m
Fund Inception Date	May 2019
Fund Strategy	Variable Beta
Application/Redemption	Monthly
Benchmark	RBA Cash Rate

Return Characteristics

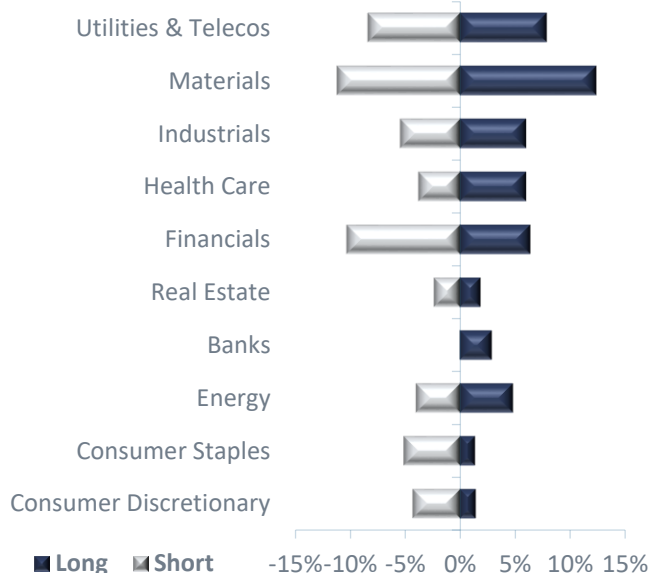
No. Long Positions	73
No. Short Positions	58
Gross Exposure	118.3%
Net Exposure	-11.7%

Unit Price **\$ 1.0427**

Performance

	1 Mth	3 Mths	FYTD	SI (pa)
WARF (net return)	1.4%	2.7%	3.8%	3.0%
RBA Cash Rate	0.0%	0.0%	0.1%	0.6%
Outperformance	1.4%	2.7%	3.7%	2.4%

Sector Exposures



Gross Portfolio Structure

Investment Type	\$m	%
Listed Securities - Long	14.9	53.3
Listed Securities - Short	-18.2	-65.0
Net Exposure	-3.3	-11.7
Cash	31.3	111.7
Capital	28	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

Australian equities countered the trend of global share markets in October, as hopes of Monetary policy easing and the reopening of Victoria outweighed the rapid increase in Covid-19 cases globally and fears that fresh lockdowns would derail global economic recovery. The ASX 200 rallied almost 2% in October following a drop of 4% in September. Technology shares were the best performing sector over the month rallying 9%, whilst Financials closed up 6%. In terms of laggards, the Industrials sector retreated the most, ending October down 4%, whilst Utilities declined 1.5%.

The portfolio finished the month up 1.4% net of fees, driven by Consumer Staples, Financials and Materials. We used strength over the first half of the month to reduce risk across the portfolio ahead of the US Presidential election, trimming our exposure to growth equities that had performed strongly, in favour of cyclicals with valuation support.

The Consumer/Industrials sectors delivered strong returns in October. Our long position in Coca Cold Amatil (CCL) was a key contributor reflecting improved trading as the Australian economy opened up, but ultimately due to a takeover offer made by Coca Cola European Partners at a 19% premium. The decision by the board to immediately accept the bid was disappointing, however in such transactions the Coca Cola Co in Atlanta often plays king-maker and is likely to have anointed this deal. CCL has been a good investment for the fund as we started acquiring post the AGM update in May. The short book also delivered positive returns this month, principally from E-Commerce positions. This sub-sector is displaying bubble characteristics, and the fund's short positioning has continued to deliver performance in November. We have chosen to pass on most E-Commerce IPOs in recent weeks as vendors have looked to capitalise on nose-bleed valuations. The Adore IPO was particularly disappointing, dropping as low as \$5.49 after an IPO offer price of \$6.75.

Financials had a sound month, with Fintech holdings in Afterpay and HUB24 both reaching record levels. Afterpay delivered its quarterly showing that growth remains over 100% on the prior comparable period. Competitive pressures and a return to in-store spending are yet to impact Afterpay's sales momentum. HUB24 made new highs on the back of its Xplore wealth acquisition, seeing it scale up faster during its rapid growth phase. More broadly our position in the fund manager Janus Henderson saw gains of up to 35% during the month. This followed activist investor Trian Partners taking a 9.9% stake in the company.

In the Healthcare portfolio, we have taken up our exposure to Healius (HLS:ASX) with the pending sale of the general practice business, the company is much simplified and the balance sheet strengthened. The pathology division is benefiting from COVID testing and will benefit further from improved government funding going forward, a departure from budgetary pressures in the past. The TMT portfolio had a flat month as long positions in media names Nine Entertainment and OohMedia were offset by mixed outcomes in internet and technology investments.

Commodities were mixed during the month of October, with base metals broadly tracking higher while crude oil (WTI -12%) plunged on the back of a resurgence in Covid-19 cases across the globe, and as US and Libyan production showed signs of recovering more quickly than previously anticipated. Gold prices fluctuated in a relatively tight range over the month before turning slightly lower amid the US dollar strengthening ahead of the US Presidential election. Outperformers for the month included BSL (Strong 1H beat and guidance) and SAR (proposed merger with NST).

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	1.16	1.09	0.13	1.42			-0.12

More Information

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Available on the following platforms:

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