

Monthly Update – November 2020
Fund at a Glance

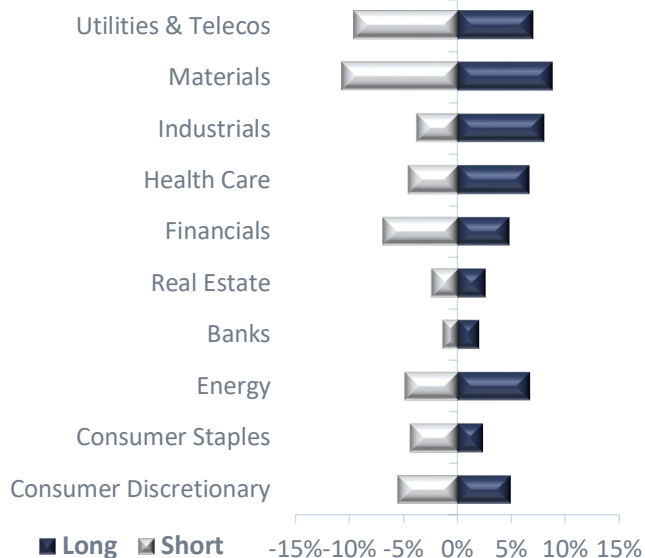
Fund Size	AU\$29m
Strategy FUM	AU\$241m
Fund Inception Date	May 2019
Fund Strategy	Variable Beta
Application/Redemption	Monthly
Benchmark	RBA Cash Rate

Return Characteristics

No. Long Positions	76
No. Short Positions	51
Gross Exposure	118.3%
Net Exposure	-1.4%
Unit Price	\$ 1.0715

Performance

	1 Mth	3 Mths	FYTD	SI (pa)
WARF (net return)	2.8%	4.4%	6.7%	4.6%
RBA Cash Rate	0.0%	0.1%	0.1%	0.6%
Outperformance	2.8%	4.3%	6.6%	4.0%

Sector Exposures

Gross Portfolio Structure

Investment Type	\$m	%
Listed Securities - Long	16.9	58.4
Listed Securities - Short	-17.3	-59.8
Net Exposure	-0.4	-1.4
Cash	29.4	101.4
Capital	29	100

Month in Review

Australian equities had a strong month with the ASX200 up 10%, rising from a low base as the market sold off in the lead-up to the US election. A Biden victory (eventually), and further updates on vaccine trial results drove the strong November market performance. Sector performance was led by the 'risk-on' opening trades, including Energy (+28%) and Financials (+16%). Factor rotation into value equities continued in November aided by the open-up trade.

The portfolio finished the month up 2.8% net of fees, driven by positive contribution from all sectors, particularly Financials. We lifted gross exposure post-US election in anticipation of a rising market.

We have been calling markets higher in recent months as the cyclical recovery gathers momentum. Following the significant move in November, the rally in shares will likely pause as we close out the year. We wouldn't be surprised to see a sharp correction in January given the overbought conditions we are facing across multiple sectors.

While there are strategists out there pointing to higher markets on the back of excessive stimulus and a post COVID economy, valuations are once again very stretched and the recovery still has multiple hurdles to navigate. As the recovery unfolds markets will lose the support of extremely low interest rates as bond yields move back to breakeven, this is a headwind for valuations. The cyclical rotation that has led this recovery is also moving into a mature phase. With the underperformance of defensive sectors, we are revisiting some of these laggards now in healthcare, staples and real estate where relative valuations are at multi-year extremes.

The Consumer sector delivered solid returns in November. The portfolio was positioned for the 'open-up' trade with long positions in travel (CTD), fuel marketing (VEA), and short positions in e-commerce and grocery. We used the market strength to take profits, particularly in travel where valuations are becoming stretched relative to the operational risks that still lie ahead. VEA remains in the portfolio, likely to benefit from both structural changes to the domestic refining industry, and from disruptive rebranding programs being undertaken by competitors in fuel retailing. With both the Ampol/Caltex and EG/Woolworths portfolios undergoing rebranding in the coming 24 months, we see an opportunity for VEA to cement a leading brand position, particularly in premium fuel.

Financials had a successful month, length in value, and housing delivered returns on the long side. Our shorts in expensive defensives also benefited from the rotation into value in which we saw alpha in a month where the market climbed ~10%. The portfolio benefited from a housing recovery and value thematic, with long positions in AFG, Genworth and the banks delivered sound performance. Genworth saw steady gains over the month as investors gained comfort of the trajectory of the Australian economy and the housing market.

Early through Covid-19, we saw indications from offshore markets that consumers looked through economic risks and continued to buy houses at higher prices. With the wallet tightening in travel and leisure, it allowed for greater disposable incomes. This was coupled with a multipronged housing stimulus by state and federal governments. Consumers also showed a greater appreciation for the spaces they were spending more time in. This combination of tailwinds gives us ongoing confidence in the trajectory of the housing market. We continue to hold Genworth (mortgage insurance), Stockland, AFG (mortgage broking) and the banks.

In the Technology portfolio results were mixed. Investors sold market darling momentum names and rotated funds into unloved companies. While Telstra had a positive update at its AGM, as a defensive it underperformed. Key media holdings NEC and OML performed well as advertising spend appears to be recovering faster than expected.

Health Care as a growth/defensive sector has underperformed as money has rotated into cyclical and value segments of the market. A number of healthcare names that had benefited from the health crisis have also underperformed on the prospects of a vaccine.

Mining shares led the move higher last month, as commodities broadly rallied. Aluminium, copper and soft commodities spiked higher. Even laggards in Coal, Lithium, Alumina and Oil showed signs of lift-off. Iron ore which has been trading at inflated levels for some time also found support as Vale downgraded production forecasts once again. The fund performed well having opportunistically accumulated positions in Coal (S32, WHC, CRN), Lithium (ORE) and Alumina (AWC). Gold has been retracing gains from earlier in the year and should resume its move higher in the months ahead.

Building Material companies have lost momentum, BLD had a mixed update and US homebuilders are rolling as longer term interest rates back up. We did very well in Contractors that benefit from strength in the mining sector and infrastructure investment.

Monthly Gross Performance (%)*

Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD
2004								0.5	1.5	0.3	0.1	2.4	4.9
2005	1.2	-0.2	4.7	2.9	4.5	2.5	0.4	1.4	-0.8	-6.0	-0.2	5.0	15.9
2006	2.2	2.8	4.9	-2.9	4.0	3.9	1.7	2.1	6.7	3.2	-1.4	1.3	32.1
2007	-3.0	4.5	1.9	7.9	3.1	2.6	3.5	-2.2	3.7	1.3	2.8	2.2	31.9
2008	-0.9	4.2	2.9	1.1	0.0	-1.6	-11.7	-8.2	1.5	4.5	1.6	-7.0	-14.0
2009	-1.0	5.4	-5.1	-15.9	-6.2	3.3	2.6	3.2	16.4	7.4	10.2	7.5	26.5
2010	9.9	14.1	7.1	-0.1	0.7	-0.5	-2.7	2.6	4.3	-2.3	-6.8	-2.0	24.8
2011	3.0	-3.7	2.5	0.2	2.9	12.6	2.6	2.1	4.5	2.4	-1.6	-1.5	28.5
2012	-3.9	-6.6	-8.2	6.7	-1.2	1.1	5.1	5.0	3.9	1.0	-2.2	0.9	0.3
2013	3.9	4.3	0.1	-1.0	7.5	3.8	3.4	1.5	3.8	2.8	2.0	3.6	41.6
2014	4.0	3.7	3.0	4.2	-0.2	0.0	0.6	4.0	-1.6	3.1	1.5	0.9	25.6
2015	-3.5	-2.3	1.5	-1.1	-2.4	-1.0	-1.1	1.1	3.1	0.9	-0.4	3.2	-2.2
2016	3.9	4.7	2.0	-2.0	0.7	2.7	0.5	-2.5	1.9	-0.9	1.8	1.9	15.4
2017	-0.2	-0.4	4.0	-0.4	-0.8	-0.1	-0.6	0.0	0.3	1.3	0.9	-0.4	3.6
2018	0.3	-1.7	-0.3	-2.9	1.4	0.2	-0.5	0.8	1.1	1.0	0.1	-0.5	-1.1
2019	3.1	-1.8	0.3	-1.9	-2.8	-1.3	0.6	0.8	-0.8	-2.2	-0.6	1.1	-5.5
2020	2.6	2.1	-0.5	1.9	-0.5	-0.1	1.0	-1.2	-3.0	1.2	-0.7	-1.4	1.2
2021	1.5	1.5	0.3	1.9	3.6								9.0

* WARF was established in May 2019, the historic returns were taken from the Australian Leaders Fund Limited (ALF:ASX) which runs the same variable beta strategy.

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.

More Information

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