

Monthly Update –December 2020

Fund at a Glance

Fund Size	AU\$27m
Strategy FUM	AU\$239m
Fund Inception Date	May 2019
Fund Strategy	Variable Beta
Application/Redemption	Monthly
Benchmark	RBA Cash Rate

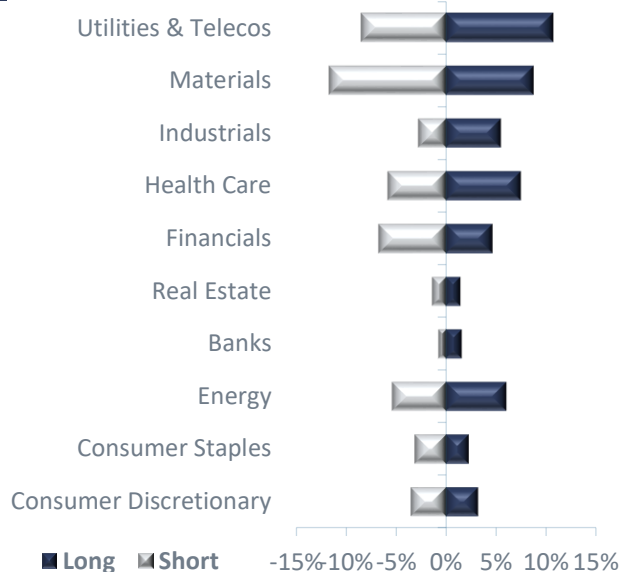
Return Characteristics

No. Long Positions	65
No. Short Positions	50
Gross Exposure	113.1%
Net Exposure	-1.1%
Unit Price	\$ 1.0599

Performance

	1 Mth	3 Mths	FYTD	SI (pa)
WARF (net return)	-1.1%	3.1%	5.6%	3.7%
RBA Cash Rate	0.0%	0.1%	0.1%	0.6%
Outperformance	-1.1%	3.0%	5.5%	3.1%

Sector Exposures



Gross Portfolio Structure

Investment Type	\$m	%
Listed Securities - Long	15.1	56.0
Listed Securities - Short	-15.4	-57.1
Net Exposure	-0.3	-1.1
Cash	27.3	101.1
Capital	27	100

Month in Review

Australian equities had a solid month delivering 1.2% in December. This followed a 10% move in November, which saw the ASX200 close up 1.4% over the calendar year 2020. December's performance was primarily supported by rising commodity prices where BHP, RIO and FMG all delivered double digit gains in the month. Value stocks saw follow through in outperformance from November as rising bond yields continue to put pressure on expensive stocks.

Financials contribution to the portfolio was flat for December. Key positions in private health insurers and NIB holdings generated positive returns. NIB appeared late in the financials rally of November which saw it have solid a December. Both Medibank and NIB was supported by a government price increase approval that was slightly ahead of expectations. This was partly offset by a weaker performance in long positions across the portfolio. We saw profit-taking in many positions that had a strong November. Among these were retail REITs and QBE (which also gave a late December downgrade).

The Technology portfolio consisted of mixed returns in December. Our long positions in small caps, Nitro Software and Family Zone Cyber Safety, performed well while large-cap names such as Domain were flat. We continue to support Domain and hold it as a key beneficiary of the improving housing market.

The Consumer/Industrial sectors delivered a negative contribution in December. Our short positions in ecommerce and grocery names were key drivers of outperformance in November, however some of this was given back in December. Ecommerce stocks rallied in December in-line with international peers. This was somewhat counterintuitive given northern hemisphere ecommerce retailers are likely to benefit from increased instances of Covid-19 lockdown, a tailwind that Australian domestic ecommerce retailers are unlikely to see. While Australian ecommerce retailers are likely to deliver strong Christmas sales like their brick-n-mortar peers, the sector is overvalued. This should become evident as the retail landscape normalises into 2021.

Our medium term view is unchanged. The reflation trade continues for another 12-18mths. Real interest rates at -1.6% are far too low for the recovery that is happening. Bond yields are moving higher as inflation expectations build for outer years as policymakers appear to have abandoned inflation targeting. With this backdrop, all the reflation indicators are doing what you would expect. The USD is under pressure, commodity prices are rallying everywhere, risk markets are rising (EM, corporate spreads, equities). At the same time, we have all the hallmarks of bubbles forming in certain speculative asset classes like Cryptocurrencies, commodities, emerging technologies. With interest rates at such low levels- M&A and IPO activity is quickly moving back to record levels. All these indicators signal a bubble environment is forming for risk assets more broadly.

In the short term, share markets are overbought and at risk of a correction. Typically late in a cycle, volatility should increase such corrections as they happen can be quite violent, so watch out.

Having increased our exposure in the October sell off, we picked up the November rally but are now moving back to fully hedged settings to take advantage of the next inevitable pull back. We will only have a modest exposure to equities here so late in the cycle with our principal objective being the preservation of capital as the bubble in asset values will inevitably burst, probably sometime next year.

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	-1.3							7.6

* 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

Watermark Funds Management

02 9252 0225

info@wfunds.com.au

www.wfunds.com.au

Boardroom Limited – Unit Registry

watermark@boardroomlimited.com.au

<https://www.boardroomlimited.com.au/>

Available on the following platforms:

Macquarie Wrap

BT Wrap

Netwealth

Powerwrap

Hub24

Ausmaq

Disclaimer: This document is issued by Watermark Funds Management Pty Ltd (ABN 98 106 302 505, AFSL 250897) in relation to the Watermark Absolute Return Fund (the Fund). Watermark Funds Management Ltd (Watermark) is a privately owned funds management business. Equity Trustees Limited (ABN 46 004 031 298, AFSL 240975) is the Responsible Entity for the Fund. The information provided is general information only. It does not constitute financial, tax or legal advice or an offer or solicitation to subscribe for units or shares in any fund of which Watermark is the contracted Investment Manager. The information in this document has been prepared without taking account of your objectives, financial situation or needs. Before acting on the information or deciding whether to acquire or hold a product, consider its appropriateness and the relevant Product Disclosure Statement (PDS), which is available on Watermark's website; wfunds.com.au, or by phoning 02 92550225. Watermark receives management and performance fees in respect of the Fund, details of which are also set out in the PDS. Watermark, its affiliates and associates accept no liability for any inaccurate, incomplete or omitted information of any kind or any losses caused by using this information. All investments carry risks. There can be no assurance that any Watermark Fund will achieve its targeted rate of return and no guarantee against loss resulting from an investment in the Fund. Past fund performance is not indicative of future performance.