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Information is current as at November 2015.
Emerging Markets key to growth outlook
Implications for the Australian Economy
Challenges ahead for Australian industry
Outlook for Australian Shares
The value in hedging strategies
Performance Update
Questions
Emerging markets key to growth outlook

Cheap credit and Three iterations of the financial crisis

2008 Global Financial Crisis
2011 European Sovereign Debt Crisis
2016 Emerging Market Crisis?
Leverage has increased across emerging markets

Leverage ratio of corporations in EMEs and advanced economies

US dollar-denominated EME corporate bond index

Ratio, annualised

EMEs:

All bond issuers
International bond issuers

Advanced economies:

Strip spread
Yield to maturity

Basis points

05 06 07 08 09 10 11 12 13 14 15

Q1 14 Q3 14 Q1 15 Q3 15
Emerging market stress vs. default incidence

![Graph showing balance sheet stress index and default incidence over time (1960-2010). The graph indicates a peak in stress and default incidence in the 1980s, with a decline afterward.](image)
Potential GDP growth has declined across EM’s
Property’s contribution to Chinese growth

Direct and indirect contribution to nominal GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Direct</th>
<th>Indirect</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td></td>
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<tr>
<td>2003</td>
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<tr>
<td>2004</td>
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<td>2005</td>
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<td>2006</td>
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<td>2007</td>
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<td>2008</td>
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<td>2009</td>
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<td>2012</td>
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<tr>
<td>2013</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
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</tr>
</tbody>
</table>

Peak level
Further correction for construction starts
Global growth simulation weaker EM Growth

Bloomberg consensus forecast

EM growth halves from 2014

% oya

Domestic growth has been tepid in the aftermath of the boom

Softer income growth and persistent pressure on living expenses, coupled with fiscal consolidation and deleveraging is constraining spending in the economy.

Following 25 years of uninterrupted expansion and a mining boom, Australia has become an expensive place to live and conduct business.

With high prices by global standards and deflationary pressures persisting revenue growth is proving hard to come by.
Highly profitable industries underinvesting

Industry concentration in important sectors of our economy such as banking, retail, telecom and utilities.

Many of these companies are extracting full economic rents.

Companies are not investing to sustain growth paying out more of their earnings to shareholders.

Industry leaders are generating usurious rents, a double edged sword in attracting competition.
Industries becoming more competitive

Australian Supermarkets

- Woolworths
- Coles
- Tesco
- Jeronimo Marts
- Casino
- Aldi
- Delhaize
- Vic-Maar
- Sakainse
- Morrisons
- Metro
- Carrefour
- SPAR
- Kroger

Global F&L EBITDA margin (%)

<table>
<thead>
<tr>
<th></th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Woolworths</td>
<td>11.4%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coles</td>
<td>9.0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tesco</td>
<td>8.8%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jeronimo Marts</td>
<td>8.7%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Casino</td>
<td>8.4%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aldi</td>
<td>9.2%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delhaize</td>
<td>9.2%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vic-Maar</td>
<td>8.0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sakainse</td>
<td>7.6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Morrisons</td>
<td>7.5%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Metro</td>
<td>6.6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carrefour</td>
<td>5.1%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SPAR</td>
<td>5.0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Electricity Retail

General Insurance

Motor market shares by GWP (year to 30 Jun 2014)

- Allianz, 9.9%
- SUN, 32.9%
- R&G, 29.6%
- Other, 27.7%
- Youi, 3.9%
- Auto & General, 3.4%
- R&Q, 3.3%
- QBE, 3.3%
- Holland, 3.0%
- Coles, 1.8%
- Other, 8.9%

Source: UBS estimates, Company data, Company accounts

Telecom

Market share (subscribers)
Disruptive forces presenting further challenges

• Technology and innovation are also playing an important role in lowering costs and improving productivity in a low growth environment.

• Many established companies are vulnerable to new competitors employing disruptive technologies.

• In respect of these themes, we examine:
  - Banking
  - Insurance
  - Utilities
  - Media
Industries affected by disruptive technology

Banks have been gouging

Australian Media losing eyeballs
‘Top 10’ are all challenged (45% of market capitalisation)

<table>
<thead>
<tr>
<th>#</th>
<th>Weight</th>
<th>Company</th>
<th>Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>8.8%</td>
<td>Commonwealth Bank of Australia</td>
<td>• Regulatory headwinds</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Past sweet spot in the credit cycle</td>
</tr>
<tr>
<td>2</td>
<td>6.8%</td>
<td>Westpac</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>5.1%</td>
<td>ANZ Banking Group</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>5.0%</td>
<td>National Australia Bank</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>4.3%</td>
<td>Telstra Corporation</td>
<td>• Renewed competition</td>
</tr>
<tr>
<td>6</td>
<td>4.2%</td>
<td>BHP Billiton</td>
<td>• Mining cycle won’t turn up for many years to come</td>
</tr>
<tr>
<td>7</td>
<td>3.0%</td>
<td>CSL Ltd</td>
<td>• IG slowing, other segments more competitive</td>
</tr>
<tr>
<td>8</td>
<td>2.8%</td>
<td>Wesfarmers</td>
<td>• Grocery sector becoming more competitive</td>
</tr>
<tr>
<td>9</td>
<td>1.9%</td>
<td>Woolworths</td>
<td>• Australia is an expensive place to shop</td>
</tr>
<tr>
<td>10</td>
<td>1.8%</td>
<td>Macquarie Group</td>
<td>• Leverage in a peaking asset cycle</td>
</tr>
</tbody>
</table>
Market Outlook

• Against this backdrop of weaker growth, elevated risks and full valuations, we retain our short net exposure to the Australian share market in our directional fund.

• Time will tell whether the recent sell-off marked the start of a new down cycle or merely a setback amidst an ongoing expansion.

• Either way, offshore markets are not far off their highs of this cycle, so the risks to us appear to be on the downside.
Long/Short Investing

Sample Portfolio Structure

Invest $100

Placed on deposit

‘Longs’ funded from ‘Shorts’

Target Return: Interest on cash + 10%

Long Portfolio $100

5% Outperformance

Short Portfolio $100

5% Underperformance
<table>
<thead>
<tr>
<th>Strategy</th>
<th>Equity Extension</th>
<th>Directional</th>
<th>Market Neutral</th>
<th>Short</th>
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</thead>
<tbody>
<tr>
<td><strong>Market Risk</strong></td>
<td>High</td>
<td>Moderate</td>
<td>None</td>
<td>Inverse</td>
</tr>
<tr>
<td><strong>Return Objective</strong></td>
<td>Share Market ++</td>
<td>‘Equity Like’</td>
<td>Cash +</td>
<td>Arbitrary</td>
</tr>
<tr>
<td><strong>Correlation with share market</strong></td>
<td>$\approx 1$</td>
<td>0.4 to 0.6</td>
<td>$&lt; 0$</td>
<td>$\approx -1$</td>
</tr>
<tr>
<td><strong>Volatility</strong></td>
<td>High</td>
<td>Moderate</td>
<td>Low</td>
<td>High</td>
</tr>
</tbody>
</table>
Genuine diversification and downside protection

Since inception of Market Neutral Strategy – Aug 2012
# Australian Leaders Fund

## Performance to 31 October 2015

<table>
<thead>
<tr>
<th></th>
<th>1 Month</th>
<th>6 Months</th>
<th>1 YEAR</th>
<th>3 YEARS (P.A.)</th>
<th>5 YEARS (P.A.)</th>
<th>7 YEARS (P.A.)</th>
<th>SI (P.A.)*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Portfolio Return (Net)</strong></td>
<td>-1.6%</td>
<td>9.5%</td>
<td>9.4%</td>
<td>16.4%</td>
<td>14.8%</td>
<td>19.6%</td>
<td>14.3%</td>
</tr>
<tr>
<td><strong>All Ords. Accum. Index</strong></td>
<td>4.6%</td>
<td>-6.2%</td>
<td>0.4%</td>
<td>9.9%</td>
<td>6.8%</td>
<td>8.8%</td>
<td>8.6%</td>
</tr>
<tr>
<td><strong>Outperformance</strong></td>
<td>-6.2%</td>
<td>8.3%</td>
<td>9.0%</td>
<td>6.5%</td>
<td>8.0%</td>
<td>10.8%</td>
<td>5.7%</td>
</tr>
</tbody>
</table>

Fund inception date is January 2004
Watermark Market Neutral Fund

Performance to 31 October 2015

<table>
<thead>
<tr>
<th></th>
<th>1 Month</th>
<th>6 Month</th>
<th>1 YEAR</th>
<th>SI (P.A.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio Return (net)</td>
<td>-1.9%</td>
<td>11.7%</td>
<td>12.6%</td>
<td>8.0%</td>
</tr>
<tr>
<td>RBA Cash Rate</td>
<td>0.2%</td>
<td>1.0%</td>
<td>2.2%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Outperformance</td>
<td>-2.1%</td>
<td>10.7%</td>
<td>10.4%</td>
<td>5.6%</td>
</tr>
</tbody>
</table>

Fund inception date is July 2013.
Strong performance relative to LIC peers

Pre-tax NTA performance to September 2015

Data: Bell Potter Securities
Security Selection – International Investments

International Universe (MSCI World Index – 1600 securities)

Target Opportunities:

1. Peers of Australian Companies that compete globally

2. Long/Short pairs with Australian companies

3. Access to sectors and industries not well represented in the domestic share market
## Portfolio Strategy – International Investments

<table>
<thead>
<tr>
<th>Category</th>
<th>Long</th>
<th>Short</th>
</tr>
</thead>
</table>
| Resources  | Goldcorp
Tahoe Resources
Royal Dutch Shell
BG Group
Anadarko Petroleum Corp | Barrick Gold Corporation
Matador Resources
Parsley Energy
Synergy Resources
Glencore PLC
First Quantum Minerals
Total SA |
| Defensives | Medtronic
Merck & Co
Galapagos NV | Novo Nordisk
Grifols SA |
| Cyclicals  | Zhaopin Ltd
Apple Inc | Netflix
ITV
Just Eat PLC
51Job Inc
Intel Corporation |
| Financials | ABN Amro Group |                                                          |
International shares make a strong contribution to performance

A disproportionate share of fund performance is coming from international investments

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QUESTIONS