

## Watershed International Share Portfolio

### Investment Profile

A Professionally Managed Portfolio of International Shares

The Watershed International Share Portfolio is a separately managed account, or SMA, actively managed by Watershed Funds Management. SMAs are professionally managed portfolios of direct shares whereby the investor receives beneficial ownership of the underlying securities.

#### Investment Objective

The objective of the Watershed International Share Portfolio is to provide attractive investment returns over the medium and long-term while reducing the risk of permanent capital loss. The Portfolio consists of investments in high-quality global businesses whose shares are listed on major global stock exchanges. The Portfolio aims to outperform the MSCI World Index (excluding Australia) over a rolling three-year period by 2 - 3% per annum.

Key Portfolio Features	
<b>Inception</b>	4 January 2010
<b>Benchmark</b>	World Index (ex Aus)
<b>Authorised Investments</b>	Medium to Large Cap Listed International Shares
<b>Number of Stocks</b>	15-25
<b>Cash Allocation</b>	0-20%
<b>Tracking Error</b>	5% to 11% per annum
<b>Investment Horizon</b>	At least 5 years

#### The Portfolio is designed for investors who...

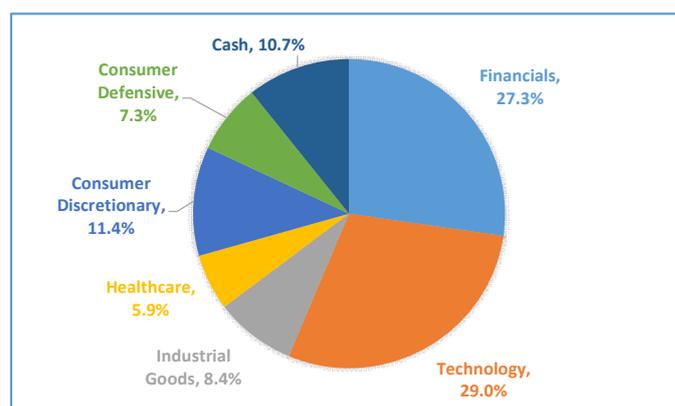
- Seek long term capital growth & portfolio diversification
- Have a longer-term investment horizon of at least five years and accept the risk of price fluctuations.

### Portfolio Structure

No.	Company Name	Ticker
1	Microsoft	MSFT
2	Amazon	AMZN
3	JP Morgan Chase	JPM
4	Berkshire Hathaway	BRK-B
5	Johnson & Johnson	JNJ
6	3M	MMM
7	Costco	COST

#### Sector Allocation

<b>Financial</b>	27.3%
<b>Technology</b>	29.0%
<b>Industrial Goods</b>	8.4%
<b>Healthcare</b>	5.9%
<b>Consumer Retail</b>	11.4%
<b>Consumer Staples</b>	7.3%
<b>Cash</b>	10.7%
<b>TOTAL</b>	100.0%



### Performance

Performance after Fees (%)	1m	3m	6m	1yr p.a.	3yr p.a.	5yr p.a.	7yr p.a.	Inception* p.a.
<b>WFM International Share Portfolio in US\$</b>	2.6%	8.6%	10.2%	25.3%	14.5%	10.8%	15.2%	14.9%
MSCI World Index (ex Aus) in US\$	2.5%	8.4%	9.2%	27.1%	12.7%	8.9%	10.8%	9.7%
Relative Performance in US\$	0.1%	0.2%	1.0%	(1.8%)	1.8%	1.9%	4.3%	5.2%
<b>WFM International Share Portfolio in A\$</b>	(0.8%)	4.5%	10.1%	26.2%	15.6%	14.0%	21.5%	17.3%
MSCI World Index (ex Aus) in A\$	(0.9%)	4.3%	9.1%	28.0%	13.8%	12.2%	17.1%	12.1%
Relative Performance in A\$	0.1%	0.2%	1.0%	(1.8%)	1.8%	1.9%	4.3%	5.2%

\*Inception since January 2010



## Quarter in Review

### Performance Summary

- Measured in US Dollars, the MSCI World Index (excluding Australia) rose by **8.4%** in the December quarter and rose by **27.1 %** for the 12 months ended December
- Measured in US Dollars, the Watershed International Share portfolio rose by **8.6%** in the December quarter outperforming its benchmark index by 0.2%, and rose by **25.3%** for the 12 months to December underperforming its benchmark by 1.8%
- Measured in Australian Dollars to account for the effects of changes in the US\$/A\$ exchange rate, the MSCI World Index (excluding Australia) rose by **4.3%** in the December quarter and rose by **28.0%** for the 12 months ended December
- The Watershed International Share portfolio rose by **4.5%** measured in A\$ in the December quarter outperforming its benchmark index by 0.2%, and returned **26.2%** in A\$ for the 12 months ended December underperforming its benchmark by 1.8%.

### Performance Commentary

- Equity markets produced their best gains in years for investors in 2019, both in the U.S. and abroad, defying expectations that the bull market would be upended by threats from the U.S.-China trade fight and a slowdown in global economic growth. The S&P 500 finished the year up 29% for its best showing since 2013, while the Dow Jones added 22% and the Nasdaq advanced 35%. Australia's ASX 200 rose 18% in 2019
- For the December quarter, the S&P 500 rose 9%, the Nasdaq increased by 12% and the ASX 200 was flat
- President Trump said in late December that he would sign a phase one trade agreement with China at the White House in mid-January and then head to Beijing later for talks on "phase two" of a trade deal. Though details on such a deal remain somewhat scant, financial markets have looked favourably upon the general de-escalation of trade tensions
- Commodities closed out the December quarter with solid gains, highlighting how a brighter view of the world economy is supporting riskier investments entering 2020.

## Performance Attribution for Quarter

Top Contributors	Key Detractors
JP Morgan Chase	The Home Depot
Microsoft	Boeing
Apple	Nestle
Johnson & Johnson	Costco
Intel	

## Investment Environment

- Financial markets had a very strong year in 2019, when equities and bonds around the world climbed in concert. But for the next year, Wall Street is telling investors to set their expectations lower. It is not because investors see the economy falling into a recession. Instead, it is a simple matter of math. Equities and bonds do not have as much room to rise after the stellar success they had in 2019, analysts say. Starting points matter, and investments began 2019 at a low point after recession worries pounded markets in December 2018. But equities will start 2020 close to their highest levels ever
- Equities are more expensive than a year ago on a host of different measures. One of the most commonly used is how a stock's price compares to its profit over the preceding year. By that measure, the S&P 500 is trading at 21.1 times its earnings. That is more expensive than at the start of the year, when it was at 16.5, or its average over the last two decades of 17.7, according to FactSet
- Low interest rates should help keep this price-earnings valuation high, analysts say. So will the trade conflict between the United States and China, which is showing signs of cooling off. The diminished threat of a recession and a low interest rate environment should keep investors willing to pay relatively high price-earnings ratios
- Our investment strategy is to maintain an overweight to US Equities given the strength of the US economy. In respect of US Equities, we are positive on the technology sector with latest developments in cloud services, artificial intelligence, data analytics and robotics. We always have an interest to invest some funds in major industry disrupters and currently have investments in two of the major disrupters in the retail industry namely Amazon and Costco.