



WATERSHED

FUNDS MANAGEMENT



Trade Update – March 2020

Diversified Multi-Asset Rebalance

Our strategy through much of 2019 was to fade the rallies as asset classes across the board were trading at the top end of historical valuations. In an environment of record low interest rates, valuations were constantly pushed higher as investors trawled the investment universe for yield.

In December 2019, we chose to trim our equity exposure slightly and put the proceeds into the 'Alternatives' asset class. The primary objective for our Alternatives portfolio is to generate returns non-correlated to traditional asset classes. The Pimco Trends Managed Futures Strategy is a trend following strategy that uses futures to capture momentum across equities, fixed interest, currencies and commodities. The fund follows short term

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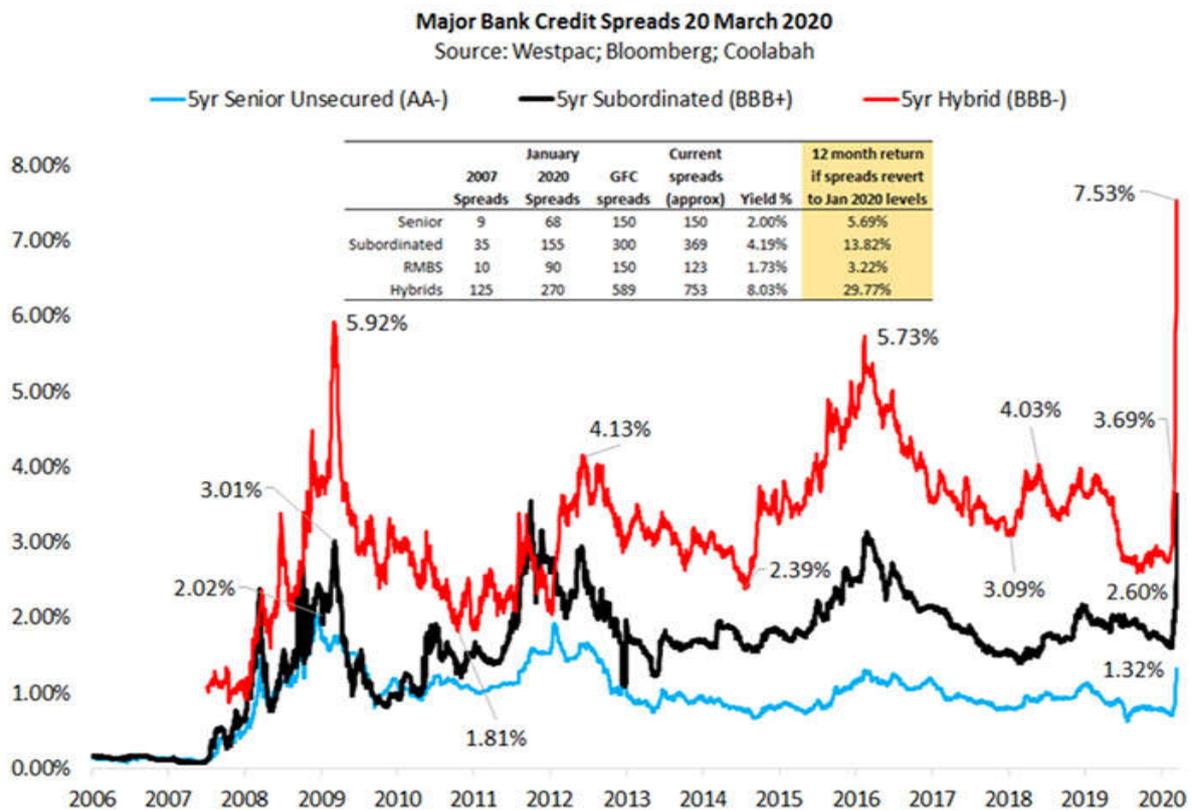
A CORPORATE AUTHORISED REPRESENTATIVE OF WATERSHED DEALER SERVICES PTY LTD ABN 29 162 693 272 AFSL No. 436357

trends and is aptly placed to respond quickly to market movements by scaling up or down positions depending on the strength of the trend.

The Pimco Trends Fund has performed very well in the recent market correction. Positions such as long duration, short energy, long gold and more recently switching to short equities has seen the fund return POSITIVE circa 17% (at the time of writing) since its addition in December. This is at a time when equity markets have FALLEN over 30% and even defensive asset classes such as bonds and gold have been weak.

The Trends Fund is aptly positioned to benefit from falling markets. It is also mandated to go half as long equities as it can go short. As a result we view the position to have performed its role, providing downside protection and generating a positive return, and are looking to put the proceeds into the Income SMA which we strongly believe has experienced a large price dislocation largely driven by liquidity being withdrawn from the sector in the recent volatility.

The Income portfolio contains 64.5% hybrids, 28.8% credit and 6.7% cash (with MBLPA having just matured). Hybrids securities across the board are trading at 10-20% discounts and as a result are providing attractive running yields (distributions) and yields to maturity given capital values are at big discounts to face value. See chart below for return expectations on hybrid securities if conditions revert to normal.



Peer Comparison as of March 2020 *Performance numbers sourced from FEAnalytics

Credit funds KKC (global) and MXT (domestic) are also trading at large discounts to NTA which we again view as unwarranted. KKC is trading at a 42% discount to NTA and MXT 21%. The sector is pricing in a far worse economic outcome than the GFC, which we don't see given huge Central banks and now Government Fiscal responses pumping large amounts of liquidity and financial support into the market.

Our current positioning in the Income portfolio is outlined below:

ASX Code	Company Name	Current Price \$	Portfolio Weight %	Interest Margin %	Gross Running Yield %	Yield to Maturity %
ANZPD	ANZ Capital Note	\$89.12	7.84%	3.40%	4.92%	12.44%
ANZPE	ANZ Capital Notes 2	\$88.00	7.65%	3.25%	5.34%	10.51%
BENPE	Bendigo & Adelaide Bank	\$84.00	2.08%	3.20%	4.93%	35.82%
BOQPE	Bank of Queensland Capital Note	\$78.50	0.94%	3.75%	5.93%	10.68%
CBAPD	CBA Perls VII	\$85.50	6.54%	2.80%	3.97%	9.40%
CBAPG	CBA Perls X	\$80.30	2.84%	3.40%	4.97%	8.88%
CGFPB	Challenger Capital Notes	\$68.00	1.56%	4.40%	7.76%	18.69%
MQGPC	Macquarie Capital Note 3	\$74.00	4.24%	4.00%	6.03%	11.90%
MQGPD	Macquarie Capital Notes 4	\$76.70	4.38%	4.15%	6.21%	9.85%
NABPB	NAB Converting Pref Shares	\$90.80	9.25%	3.25%	3.82%	17.07%
NABPD	NAB Capital Notes 2	\$92.00	2.00%	4.95%	6.37%	9.97%
RHCPA	Ramsey CARES	\$87.50	4.63%	4.85%	6.69%	NA
WBCPH	Westpac capital note 5	\$80.48	7.11%	3.20%	5.13%	7.94%
WBCPI	Westpac capital notes 6	\$81.13	3.49%	3.70%	5.66%	9.53%
MXT	MCP Master Income Trust LIC (NTA \$2)	\$1.57	21.28%	NA	5.25%	NA
KKC	KKR Credit Income Fund (NTA \$2.20)	\$1.27	7.49%	NA	6.60%	NA
CASH			6.68%		0.25%	
Income Portfolio updated at 24.03.20			100.00%		4.98%	

If you would like to discuss how this investment can add value to your client portfolios please contact our Business Development Manager, Shantelle Lay on (03) 9614-8899.

Performance Fee Disclosure

The performance returns have been calculated on a daily basis taking into account brokerage costs, and are accumulated for the period shown. Returns are shown as annualised if the period is over 1 year, or as total returns otherwise.

Watershed Funds Management

Watershed Funds Management is a specialist Managed Account (MDA & SMA) Provider and has been a pioneer in the delivery of these portfolio solutions to financial advisers. Watershed leverages the expertise of a highly credentialed investment team to form a global thematic view that determines asset class and sector allocations. Our investment committee structure differs for each SMA and is chaired by an individual with niche expertise and a proven track record for managing portfolios within that asset class. With a research process that is both rigorous and thorough we have been able to deliver strong historical returns across our full suite of Managed Accounts.

An investment in a Watershed Managed Account provides professional and active investment management with full transparency of holdings, transactions and structure. Watershed seeks to form a collaborative relationship with advisers, actively communicating portfolio strategy in the current market environment so that advisers are better equipped to communicate with their clients..
