



WATERSHED

FUNDS MANAGEMENT



2020 IN THE REAR-VIEW MIRROR

There is not a lot that can be said about Calendar Year 2020 that hasn't been said already. From a market perspective, few in recent history have been as challenging. The year began watching our nation on fire and within a short period of time we were staring down the smouldering wreckage of a share market that collapsed in the face of a global viral pandemic. In addition to Acts of God and viruses, there have been punitive government lockdown policies, national workforces operating from their living rooms, both the fastest bull and bear markets in history, economic recession, unprecedented and evolving Central Bank stimulus, political trade wars, fluctuating fortunes in the race to develop an effective Covid vaccine and a tightly contested US election. Collectively these issues have fostered an atmosphere of uncertainty that has been largely

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unrelenting and this has subsequently led to sustained volatility in share markets across the globe. Against this backdrop it seems almost ludicrous to think that in the annals of history 2020 will go down as a year in which the share market delivered a mostly flat return.

However returns for fund managers have been anything but even with there being a significant discrepancy across returns for the Calendar Year. 2020 demanded that managers remain stoic and measured in the face of alarmist news headlines, diligent in safeguarding portfolio composition and also mindful of sectoral and style rotations from “vaccine-on” to “vaccine-off” and growth to value. But most importantly managers were required to be nimble, with an investment process and structure that enabled them to be expeditious in market dislocation. **And in this area we are very pleased to say that we have had a truly outstanding year with our Balanced Fund up over 7% for the year to date and every single mandate we manage ahead of its respective benchmark.**

You may recall at the start of the year we were concerned with the elevated levels of share markets and as a result we were defensively positioned with our portfolios holding high levels of cash and short positions to protect capital. We subsequently deployed this capital and unwound our shorts into the market capitulation and have spent the year making adjustments in terms of exposures as market volatility has presented opportunity. These opportunities have often been short-lived and we believe has underscored our key strength in terms of managing portfolios at both the Asset Allocation and the individual stock level. **Many brief market vacillations throughout the year may not have warranted a change at the over-arching Asset Allocation level, however they have presented numerous opportunities at the portfolio level where we have been able to add significant alpha throughout these disruptions by progressively harvesting cash into market strength and investing it into market sell-offs.** Given the all-pervasive uncertainty aforementioned, it has not been surprising to us that markets have tended to overshoot in on both sides of the ledger.

We enter 2021 close to fully-invested believing there is a strong probability of the market’s recent strength continuing for the early part of the year as the world enters a period of synchronised global growth. We have recently added to our exposures to Europe and Emerging Markets and have added more cyclical stocks to our

portfolios in preference to their growth counterparts (who have had a phenomenal run and are trading on stretched valuations) as they are more apt to outperform in a global economic recovery. As ever we will be monitoring global economies and share markets closely and believe that the prevailing environment, where there remains numerous uncertainties, is one where we should continue to be the beneficiaries of bouts of market over-exuberance and pessimism.

We'd like to take this opportunity to thank all of our clients for your business in this very trying year and extend to all our best wishes for a safe and happy festive season!



[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..
