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	
Inception	4 January 2010
Benchmark	World Index (ex Aus)
Authorised Investments	Medium to Large Cap Listed International Shares
Number of Stocks	15-25
Cash Allocation	0-20%
Tracking Error	5% to 11% per annum
Investment Horizon	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	Berkshire Hathaway	BRK-B
4	Apple Inc	AAPL
5	Johnson & Johnson	JNJ
6	JP Morgan Chase	JPM
7	Costco	COST

Sector Allocation	
Financial Services	28.7%
Technology	30.2%
Industrials	6.2%
Healthcare	5.5%
Consumer Cyclical	14.5%
Consumer Defensive	7.7%
Cash	7.3%
TOTAL	100.0%
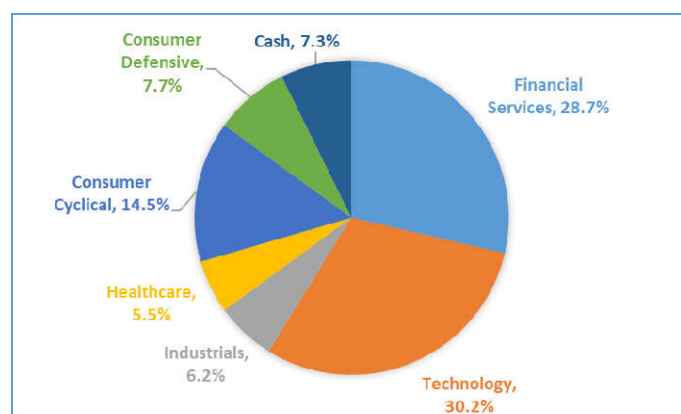
Performance

Gross Performance (%)	1m	3m	6m	1yr p.a.	3yr p.a.	5yr p.a.	7yr p.a.	Inception* p.a.
WFM International Share Portfolio in US$	**3.6%**	**11.0%**	**18.9%**	**18.3%**	**13.2%**	**14.5%**	**12.6%**	**14.4%**
MSCI World Index (ex Aus) in US$	3.7%	14.2%	22.6%	14.9%	10.2%	12.1%	9.2%	10.1%
Relative Performance in US$	(0.1%)	(3.1%)	(3.6%)	3.4%	3.0%	2.4%	3.3%	4.3%
WFM International Share Portfolio in A$	**(0.6%)**	**2.6%**	**6.1%**	**9.1%**	**14.2%**	**13.4%**	**14.9%**	**16.0%**
MSCI World Index (ex Aus) in A$	(0.5%)	5.7%	9.7%	5.7%	11.2%	10.9%	11.6%	11.7%
Relative Performance in A$	(0.1%)	(3.1%)	(3.6%)	3.4%	3.0%	2.4%	3.3%	4.3%

*Inception since January 2010

Quarter in Review

Performance Summary

- Measured in US Dollars, the MSCI World Index (excluding Australia) rose by **3.7%** in the December quarter and rose by **14.9%** for the 12 months ended December

- Measured in US Dollars, the Watershed International Share portfolio rose by **3.6%** in the December quarter underperforming its benchmark index by 0.1%, and rose by **18.3%** for the 12 months to December outperforming its benchmark by 3.4%

- Measured in Australian Dollars to account for the effects of changes in the US$/A$ exchange rate, the MSCI World Index (excluding Australia) fell by **0.5%** in the December quarter and rose by **5.7%** for the 12 months ended December

- The Watershed International Share portfolio fell by **0.6%** measured in A$ in the December quarter underperforming its benchmark index by 0.1%, and rose by **9.1%** in A$ for the 12 months ended December outperforming its benchmark by 3.4%.

Performance Commentary

- All the major equity markets rose in the December quarter, and U.S. equity markets ended 2020 at all-time highs, closing off a soaring comeback despite a deadly pandemic

- Wall Street's resurgence has been driven by the largest federal government stimulus ever, historic support from the Federal Reserve and optimism about how quickly the economy is likely to bounce back next year as coronavirus vaccines become widely distributed. Investors have largely ignored the pain on Main Street, including pronounced unemployment and battered small businesses

- During the December quarter, the AUD strengthened by 8.4% against the US dollar and against all other major currencies. Over the last 12 months, the AUD strengthened by 9.9% against the U.S. dollar and also strengthened against other major currencies

- The main driver of the strong Australian dollar was the higher iron ore price. During 2020, the iron ore price increased by more than 70%. Iron ore outperformed all commodities in 2020.

Performance Attribution for Quarter

Top Contributors	Key Detractors
JP Morgan Chase & Co	Intel
American Express	The Home Depot
PayPal	Nestle
Apple	Johnson & Johnson
Alphabet	Costco

Investment Environment

- The U.S. Food and Drug Administration, the European Commission and the World Health Organization authorised Pfizer's Covid-19 vaccine for emergency use in December, clearing the way for millions of highly vulnerable people to begin receiving the vaccine

- Global financial conditions have remained accommodative, supported by substantial fiscal and monetary policy stimulus. Central banks have continued to emphasise that they will maintain the current easy stance of monetary policies for some time and provide further stimulus if required

- Central bank bond buying programs have provided an offset to the effect on yields stemming from the ongoing high level of government bond issuances necessary to fund stimulus programmes

- Investors are focused on the future and not about what is happening right now or what happened in the past. Goldman Sachs predicts economic growth of 5.9 percent in 2021 in the United Sates, the best annual increase since 1984

- Corporate earnings are forecast to increase sharply in the second half of 2021, and importantly, analysts say, equities remain appealing for many investors because interest rates are so low, making them more attractive than other assets such as bonds

- It is worthwhile noting that households in most parts of the world have increased their savings significantly during 2020. Economists predict that some of the accumulated household savings will be spent in 2021, creating a major tail wind for the global economy

- Our investment philosophy has always been to focus on quality, and we expect the companies we are invested in to thrive once we get to the other side in 2021 and beyond.