WATERSHED

FUNDS MANAGEMENT

Investment Overview
December 2020

Watershed Conservative Model

Investment Objective

The Watershed Conservative Model seeks to provide investors with a regular defensive income stream and some capital growth over the medium to longer term (at least 5 years) through exposure to a diversified portfolio of assets.

The objective of the Watershed Conservative Model is to outperform the Financial Express Unit Trust Peer Group Multi Asset Moderate Index after costs.

Investment Strategy

The Portfolio is an actively managed, diversified portfolio of securities across both growth assets such as Domestic and Global Shares, Property Trusts, Exchange Traded Funds and defensive assets such as cash and fixed interest securities. The portfolio will generally hold approximately 40% in growth assets and 60% in more defensive assets over time, but the mandate has deliberately broad target ranges allowing implementation of tactical asset allocation given our macro-economic views and expected asset class and sector returns.

Key Portfolio Features	
Inception	June 2016
Benchmark	FE UT PG Multi Asset Moderate Index
MER	0.55% p.a
Investment Horizon	5 years +
Number of Holdings	Typically 80 – 110

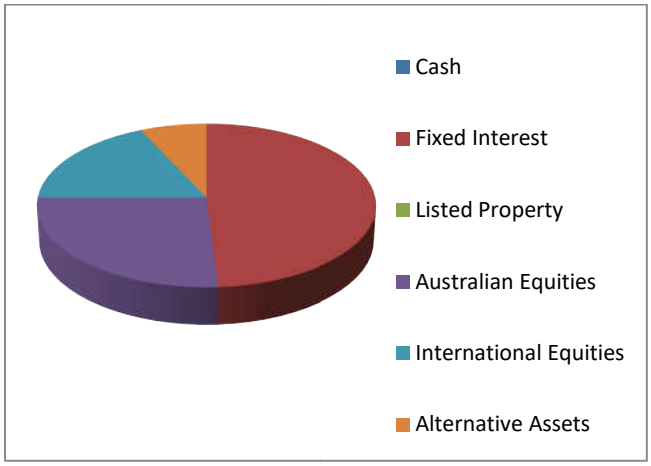
The Portfolio is designed for investors who…

- Seek long term capital growth & some tax-effective income
- Have a longer – term investment horizon of at least five years and accept the risk of moderate to minimal price fluctuations.

Portfolio Structure

Sector Allocations	Range	Strategic
Cash	0-40%	10%
Fixed Interest	40-80%	45%
Listed Property	0-10%	5%
Australian Equities	10-50%	20%
International Equities	10-40%	15%
Alternative Assets	0-15%	5%
TOTAL		**100%**

Underlying Assets	Tactical
Watershed Income	51.8%
Watershed Australian Share	18.5%
Watershed Emerging Leaders	8.9%
Watershed International	10.5%
Watershed International ETF	7.3%
Watershed Alternatives	3.0%



Performance

Gross Performance (%)	1m	3m	6m	1yr	2yr	3yr	4yr	Inception *
Watershed Conservative Portfolio	1.79%	5.88%	9.01%	6.82%	9.49%	6.47%	6.99%	**8.09%**
FE UT PG Multi Asset Moderate Index	0.47%	3.67%	4.96%	2.84%	5.92%	3.75%	4.11%	**4.03%**
Relative Performance	1.32%	2.21%	4.05%	3.98%	3.57%	2.72%	2.88%	**4.06%**

*Inception – June 2016

Performance Fee Disclosure All figures & tables stating investment performance returns (BEFORE administration fees and taxes) for the Portfolio. 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.

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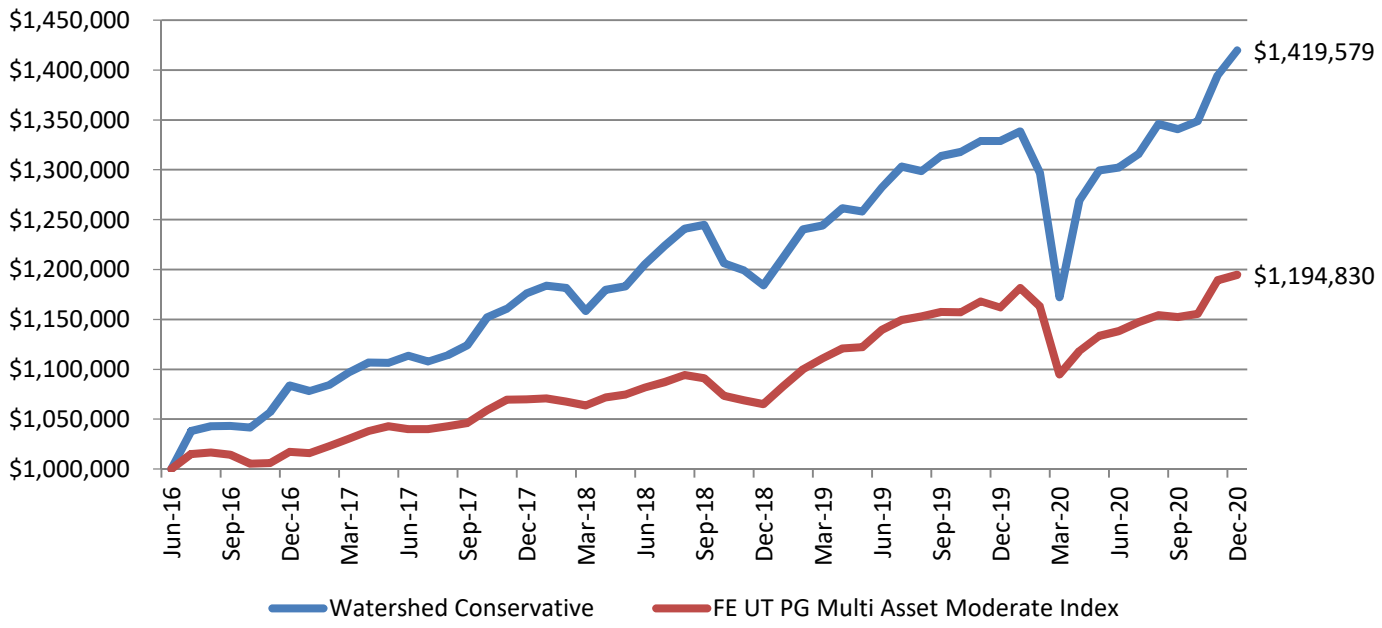
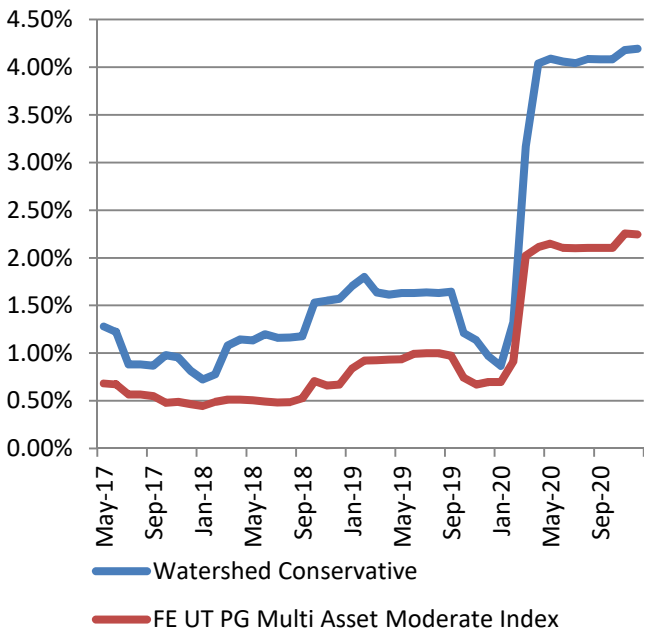
Growth of $1,000,000 since Inception



Risk Metrics

Key Portfolio Risk Metrics	
Tracking Error	1.26%
Standard Deviation	2.21%
Sharpe Ratio	3.07
Information Ratio	3.24

1 Yr % Rolling Standard Deviation



Portfolio Summary

- The Watershed Conservative Multi-asset portfolio had another strong quarter putting the portfolio strongly ahead for the 2020 calendar year. News of a Covid-19 vaccine was key reason the risk on trade pushed stocks higher in the December quarter.

- The portfolio returned 5.88% for the quarter outperforming its benchmark by 2.21% and places us at the upper echelon for multi asset managers across the Conservative risk profile for all longer term time periods. Over the 2020 calendar year the portfolio returned 6.82%, strongly outperforming its benchmark of peers by 3.98%.

Asset Allocation

When determining optimal Asset Allocations we factor both our long-term views on economic and market variables as well as asset class valuations. We then combine these assumptions to generate risk-return trade-offs for investors with different risk profiles and investment horizons. This long-term asset allocation is referred to as our Strategic Asset Allocation (SAA) and generally remains unchanged throughout the investment cycle. However, in order to exploit dislocation and mispricing in asset classes throughout the cycle we employ active Tactical Asset Allocation (TAA).

Market Outlook

2020 was a year that will not be easily forgotten. Coronavirus dominated news flow across the world for much of the year and had very divergent impacts across the investment universe. It was a year where more than ever investors needed to be nimble and not get swept up in the market panic – always a lot easier said than done. In such a volatile year, it is a time for active management to shine. However many managers were caught out by the large and rapid market gyrations and this led to large discrepancies across calendar year returns. While risks will remain ever present, governments and central banks have laid the foundations for an economic recovery. Unprecedented fiscal and monetary response in respect of both quantity and swiftness helped lead markets strongly higher to end the calendar year in positive territory for many equity markets.

Honing in on the December quarter, and aside from continuing case numbers, the large focus was on the outcome of the US Federal Election. In what was the biggest voter turnout in history, the initial market reaction of a Democratic leader and a hung parliament was positive for stimulus, while also limiting any far left reform (unwinding corporate tax cuts being the most obvious). However recent developments from a run-off election in Georgia have given the Democrats control of the Senate.

The other key catalyst for the December quarter was the spark of optimism from the progression in vaccines which are now starting to be rolled out. This caused a rotation out of expensive growth stocks into the beaten up cyclical and value stocks like financials, energy and travel – otherwise known as the reflation trade. Bond yields also rose on optimism and expectations inflations will eventually come through (although consensus still has this a while off).

While central banks have changed their rhetoric on how they plan to manage inflation – i.e. they will be looking at actual inflation for more than one data point – markets will be watching closely to see what impact the huge levels of stimulus (both fiscal and monetary) will have in moving the inflation needle. This has a significant impact in valuing investment assets as it will determine the discount rate used in valuation methodology. While inflation is now only slowly expected to rise, market participants will be watching closely and trying to pre-empt it, most notably in bond markets and equity markets.

Portfolio Positioning

The landscape has very much altered with structural trends accelerated, a fracturing of globalisation and a paradigm shift in the geopolitical landscape. Many brief market vacillations may not have warranted a change at the asset allocation level, however they did present several opportunities at the underlying portfolio level where we were able to a significant alpha by harvesting cash into market strength and investing it into the market sell-offs. Given the conservative position of the portfolios going into 2020, this has led to the multi asset portfolios outperforming on both sides of the ledger.

Looking ahead, we see the wave of global stimulus measures leading to an environment of synchronised global growth providing a favourable environment for equities as a whole. As a result the diversified portfolios enter 2021 largely fully invested, having recently added to our exposures in Europe and Emerging Markets, we 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.

Given the inherent uncertainties we expect bouts of volatility with markets over exuberance and pessimism likely to persist as news of the vaccine rollout progress. However, as was much of the case for 2020, the ultra-accommodative fiscal and monetary policies in place should ensure any pessimism has no lasting impact on confidence and activity levels.