

Watershed Australian Share Portfolio

Investment Profile

A Professionally Managed Portfolio of Australian Shares

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

Investment Objective

The objective of the Watershed Australian Share Portfolio is to provide market-leading, tax effective returns over the medium to long term from a concentrated portfolio of large capitalisation, high quality Australian shares and listed Exchange Traded Funds.

Key Portfolio Features	
Inception	5 Aug 2010
Benchmark	S&P/ASX200 Accumulation Index
Authorised Investments	ASX200 shares Listed ETF's
Number of Stocks	15-30
Cash Allocation	2-20%
Tracking Error	2% to 5% per annum
Investment Horizon	At least 5 years

The Portfolio is designed for investors who...

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

Performance

Gross Performance (%)	1m	3m	6m	1yr	3yr	5yr	7yr	9yr	Inception *
WFM Aus Share Portfolio	3.01%	3.89%	15.65%	31.26%	8.08%	9.98%	7.49%	9.51%	7.60%
S&P/ASX 200 Accum Index	2.44%	4.25%	18.53%	37.46%	9.65%	10.25%	7.70%	9.63%	
Relative Performance	0.57%	-0.36%	-2.88%	-6.20%	-1.57%	-0.27%	-0.21%	-0.13%	

*Inception - August 2010

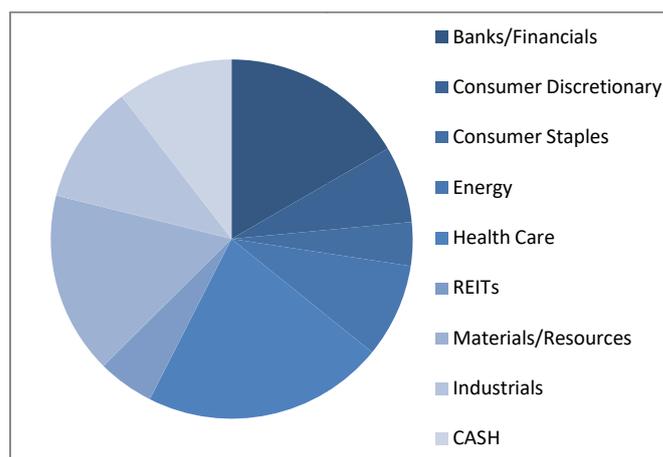
Performance Fee Disclosure All figures & tables stating investment performance returns (BEFORE administration fees and taxes) for the Portfolio. The performance returns have been calculated on a daily basis taking into account brokerage costs, and are accumulated for the period shown. Returns are shown as annualised if the period is over 1 year, or as total returns otherwise.

Portfolio Structure

No.	Company Name	ASX Code
1	CSL Ltd	CSL
2	Commonwealth Bank	CBA
3	BHP Group Limited	BHP
4	ANZ Banking Corporation	ANZ
5	Woodside Petroleum Limited	WPL

GICS Sector

Banks/Financials	16.59%
Consumer Discretionary	6.90%
Consumer Staples	3.91%
Energy	8.45%
Health Care	21.62%
REITs	5.05%
Materials/Resources	16.37%
Industrials	10.72%
CASH	10.39%
TOTAL	100%





Quarter in Review

- The Watershed Australian Share portfolio had another solid quarter remaining largely flat with the market as a big sector rotation took place beneath the surface. The portfolio returned 3.89% for the March quarter, trailing the index by 4.25%
- The 12 month return from the market lows of 37.46% show how dramatic the market rebound has been, however is still slightly below pre Covid levels.

Portfolio Adjustments

During the quarter we:

Bought: NCM

Sold: AWC, TWE

Topped Up: CSL

Trimmed: BHP, RIO

Quarterly Performance Attribution

Top Contributors	Key Detractors
ANZ	RMD
COH	ALX
ALL	AWC

Market Summary

The Australian economy is faced with an improving labour market, a red hot property market and elevated commodity prices, with Covid transmissions remaining well controlled. This economic backdrop has ultimately been driven by continued fiscal and monetary stimulus as well as an improving global economy. However we view this as adequately priced into the market at this level, and do not find current valuations overly attractive.

Yet while the Australian Share market continued to leg higher in the March quarter, digging a little deeper there was a much bigger narrative playing out. Market participants have become increasingly focused on inflation expectations after the huge wave of global fiscal and monetary stimulus being pumped into the economy. These expectations are ahead of central bank forecasts and have filtered down to a big rotation out of structural growth stocks into economically sensitive

value stocks. As such, defensives and financials led the market higher, while the big miners pulled back after some heat came out of the iron ore price and there were concerns over a China slowdown.

Given the Australian market inherently has a higher proportion to the more cyclical/value corner of the market (via the major Banks and resources) as opposed to the United States which has a much larger tech bias, it is well placed to benefit from the global economic recovery. However given the uncertainty around inflation, volatility will ensue and more cautious positioning is prudent, with a focus on capitalizing on market dips.

Portfolio Positioning

The portfolio has a good balance between the structural growth and cyclical value stocks after aggressively buying during the market sell-off in 2020. The position that has hurt the most is the underweight to the major Banks which have outperformed on lower arrears and the positive externalities of economic growth (eventual higher rates increase the banks profit margins). This is an area the portfolio is carefully considering, but given the recent rally, will likely wait for any weakness.

The big change during the quarter was reducing the overweight exposure to Materials, moving to market weight in the two big iron ore miners BHP and RIO. With Iron ore prices trading of US\$170 per tonne, we saw this as unsustainable in the medium term and sought to take some profits after strong recent outperformance.

On the Materials front, the portfolio also rotated out of aluminium producer Alumina (AWC) and into gold miner Newcrest (NCM) as a more defensive inflation hedge while maintaining cash around the 10% level given the current market valuation.

The portfolio also topped-up its holding in biopharmaceutical company CSL which had been sold off on weaker plasma donations given the US stimulus handouts (part of the US\$1.9tn US stimulus package). This is a cyclical rather than a structural issue and as such the portfolio topped up in weakness.

The portfolio enters the final quarter of the financial year with circa 10% in cash, cautiously optimistic about the medium term prospects, but wary that volatility will ensue as inflation expectations will bounce around on economic data flow. We remain of the view that any dips will be short lived and will ultimately prove to be a buying opportunity for the portfolio.