



WATERSHED

FUNDS MANAGEMENT



SHOOTING THE LIGHTS OUT

Watershed's Top Performing Multi-Asset Managed Accounts reach 5 year performance milestone on platform

The Watershed Multi-Asset Portfolios rounded out the June Quarter with continued strong performance and over 5 years now have significantly outperformed all of our Managed Account peers.

Looking back over this period we have navigated 3 share market corrections (two circa 25% corrections in Q4 2015, Q4 2018 and a 40% collapse in Q2 2020), *within* a secular bull market. We have seen 3 similarly sharp corrections in credit markets and global bond markets that have changed course 3 times; with the US 10 year Yield running from 1.5% in June 2016 to peak at 3.2% in late 2018, then falling to just 0.5% last year before surging again to almost 2% earlier this year as the global economy moved from recession to the strongest growth seen in decades.

These short sharp cycles (not to mention rotations across regions and sectors) can be frustrating for advisers and clients alike but enable us to continually add value through each

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cycle. And looking at the current environment of incredible and unprecedented stimulus we are expecting similar volatility in the years ahead.

So with that, I thought I would just highlight what we believe are our key differences or competitive advantages and what we believe will continue to drive outperformance into the future:

Genuinely Dynamic Asset Allocation: We have an investment team that analyse and discuss markets daily and can implement portfolio changes quickly and on any given day. Asset Allocation changes can be implemented incrementally and in relatively broad ranges, reflecting the volatility of markets outlined above.

By way of example, our Balanced Portfolio's equity market exposure has moved in a range of just over 30% (60% neutral setting) from just over 40% in early 2020 to as high as 72%. The equity exposure has been in the low 70% range 3 times over this period but has also been in the mid 50's, well below our neutral setting three times as well.

Today we again sit around 6% below our neutral setting. We have successfully bought all of the market dislocations over the past five years. To do this however you need to maintain discipline and harvest cash when market valuations become stretched. This is genuine Dynamic Asset Allocation.

Many of our competitors have a monthly or in some cases *quarterly* asset allocation meeting and make small changes around their long term strategic asset allocation targets off the back of it. Asset Allocation management needs to be active, incremental and market driven *not* calendar driven.

Underlying Security Management: We believe a pivotal factor in our success has been our ability to control portfolio construction at both the overarching Asset Allocation level and also at the underlying security level. This effectively gives us two pivotal levers to adjust our exposure to asset classes and also enables us to truly implement our market view with coherence.

During periods where we have been cautious on the market outlook we have been able to achieve a combination of: reduced allocation to equities; accumulated cash; and rotation of our sector portfolios into more defensive sectors – all of which our clients can observe with full transparency in their portfolios. This result is typically in stark contrast to competitors, who are constrained by employing third-party fund managers and therefore cannot effectively implement a thematic view across the portfolio. With third-party managers in effective control of underlying portfolio management, and operating in separate silos, the result is managers with different views, offsetting positions, and a blended portfolio that may not reflect the views of the portfolio manager.

In addition, we also see many examples of blending active managers with different styles, which ultimately reduces the ability to generate alpha over time and ultimately provides an expensive index option.

The second benefit of our structure is that managing the bulk of the portfolio's underlying securities provides a huge benefit to the Asset Allocation Process. By running SMA's across International Equities (largely US), Australian Shares, both Large and Mid-Cap and Income

securities we believe that we have far better insight into not just broad market metrics but the movement in the underlying earnings drivers of markets and relative earnings drivers and valuation across markets.

Cost: Managing the bulk of the underlying equity portfolios ourselves enables us to greatly reduce costs.

Our structure enables us to provide a Dynamic, Multi-Asset portfolio at significantly lower cost than a traditional manage the manager approach.

We understand that performance is often cyclical and like every fund manager have had and will continue to have periods of underperformance, but, we believe that we have the structure and team to be able to continue to deliver top of table returns for you and your clients over time.

While some of our sector based SMA's now have a 10 year performance track record and we have run multi asset models for 12 years, reaching 5 years as an investment option on platform, with top of the table performance is something we are very proud of.

Finally, as we reach this milestone, I would like to thank Adam, who started the business with me 12 years ago and the rest of the Investment Team that have been with us for the journey: Ben (10 years and now also a business owner), Fred (8 years), Hamish (8 years) and our recent recruit Graeme and of course the sales and support team. But most of all, the advisers that have supported us over the years.

5 year numbers to 30 June are listed below:

Mandate	1 mth	3 mth	6 mth	1 yr	3 yr	5 yr
Watershed Conservative	1.77%	4.87%	6.22%	15.79%	7.75%	8.56%
Elston Conservative Portfolio	0.58%	1.34%	2.77%	8.01%	3.92%	5.36%
Lonsec Multi-Asset Managed Portfolios Conservative	1.22%	3.79%	4.90%	10.62%	5.22%	5.00%
Netwealth Active Conservative	0.94%	2.91%	3.96%	10.14%	5.32%	4.75%
FE UT PG Multi Asset Moderate Index	0.97%	2.94%	3.54%	8.67%	4.57%	4.35%
Quilla Conservative Income Portfolio	0.95%	3.53%	4.38%	9.17%	4.56%	4.23%
Colonial First State IFC Conservative	0.65%	1.77%	3.15%	7.93%	4.10%	3.84%
Morningstar Conservative Managed Account	0.45%	1.72%	1.14%	3.55%	3.05%	2.67%
Evergreen Premier Conservative Portfolio	1.12%	3.12%	4.15%	11.32%	4.26%	N/A
Zenith Elite Blends - Moderate Portfolio	0.71%	2.88%	3.64%	10.28%	N/A	N/A

Mandate	1 mth	3 mth	6 mth	1 yr	3 yr	5 yr
Watershed Balanced	2.14%	5.65%	8.04%	18.40%	8.83%	10.18%
Elston Balanced Portfolio	1.41%	2.65%	6.72%	16.76%	5.81%	8.92%
Colonial First State IFC Balanced	0.99%	3.36%	7.68%	18.96%	7.26%	7.38%
FE UT PG Multi Asset Balanced Index	1.44%	4.35%	6.81%	15.16%	6.49%	6.41%
Netwealth Active 50/50 Balanced	1.34%	4.01%	6.84%	15.96%	6.73%	6.40%
Quilla Moderate Portfolio	1.31%	4.92%	6.97%	14.28%	6.82%	6.24%
Lonsec Multi-Asset Managed Portfolios Balanced	1.49%	5.14%	7.15%	14.11%	6.06%	6.25%
Morningstar Balanced Managed Account	1.08%	2.92%	5.13%	10.79%	5.40%	5.20%
Evergreen Premier Balanced Portfolio	1.67%	4.89%	7.74%	19.38%	6.76%	N/A
Zenith Elite Blends - Balanced Portfolio	0.94%	4.12%	5.75%	15.12%	N/A	N/A

Mandate	1 mth	3 mth	6 mth	1 yr	3 yr	5 yr
Watershed Growth	2.38%	6.27%	9.41%	20.22%	9.99%	11.54%
Elston Growth Portfolio	1.77%	3.25%	8.33%	20.33%	6.45%	10.01%
Quilla Assertive Portfolio	1.85%	6.51%	10.12%	20.77%	9.24%	8.29%
FE UT PG Multi Asset Growth Index	1.87%	5.75%	9.47%	20.46%	7.78%	8.18%
Colonial First State IFC Growth	1.08%	3.80%	8.94%	21.85%	7.84%	8.16%
Netwealth Active Growth	1.65%	5.11%	9.79%	21.74%	7.60%	7.69%
Lonsec Multi-Asset Managed Portfolios Growth	1.93%	6.34%	9.50%	17.98%	6.49%	7.21%
Morningstar Growth Managed Account	1.49%	3.71%	7.23%	15.08%	7.08%	6.76%
Evergreen Premier Growth Portfolio	2.00%	6.17%	9.74%	22.00%	7.48%	N/A
Zenith Elite Blends - Growth Portfolio	1.18%	5.25%	7.84%	19.84%	N/A	N/A

*Performance returns sourced from HUB24 and FE Analytics



Adrian Rowley - Watershed Funds Management CIO



Our latest Quarterly reports can be viewed [here](#).

If you would like to speak to us and how Watershed can help drive your client's investment returns please contact our BDM Shantelle Lay:

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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.

Performance Fee Disclosure

All figures & tables stating investment performance returns (AFTER investment management fees, but 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.

FE Analytics Index

The FE Peer Group Multi-Index Indices offer average returns across circa 150 funds with a similar risk mandate, i.e. Balanced.
