

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

Net Performance (%)	1m	3m	6m	1yr	3yr	5yr	7yr	9yr	Inception *
WFM Aus Share Portfolio	-0.33%	3.58%	9.42%	26.13%	7.06%	9.20%	8.05%	9.44%	7.44%
S&P/ASX 200 Accum Index	-1.85%	1.71%	10.14%	30.54%	9.65%	10.42%	9.14%	10.36%	9.08%
Relative Performance	1.52%	1.87%	-0.72%	-4.41%	-2.58%	-1.22%	-1.10%	-0.93%	-1.64%

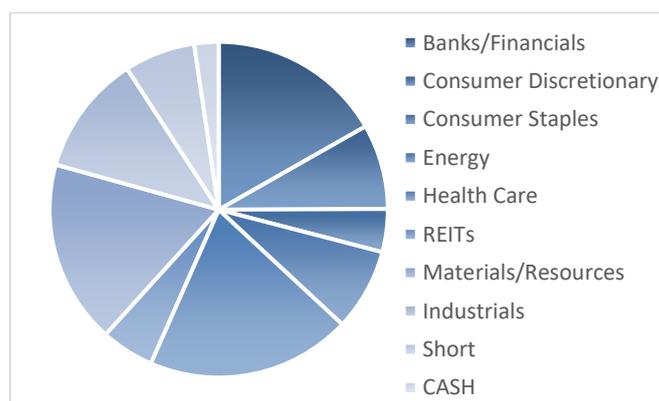
*Inception - August 2010

Performance Fee Disclosure The table above sets out the 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.

Portfolio Structure

No.	Company Name	ASX Code
1	CSL Ltd	CSL
2	Commonwealth Bank	CBA
3	BetaShares	BBOZ
4	BHP Group Limited	BHP
5	Aristocrat Leisure	ALL

GICS Sector	
Banks/Financials	16.73%
Consumer Discretionary	8.20%
Consumer Staples	4.14%
Energy	7.90%
Health Care	19.61%
REITs	5.09%
Materials/Resources	17.66%
Industrials	11.55%
Short	6.79%
CASH	2.33%
TOTAL	100%





Quarter in Review

- The Watershed Australian Share portfolio had a solid quarter outperforming the market, the majority of which was in September adding downside protection given an 80% market exposure
- The 1 year relative return remains negative due to the more conservative positioning not capturing all the markets strong recent gains.

Portfolio Adjustments

During the quarter we:

Bought: JHX

Corporate Action: TCL Entitlement

Topped Up: BBOZ, BHP, RIO

Quarterly Performance Attribution

Top Contributors	Key Detractors
SYD	BHP
CBA	RIO
SGR	COH

Market Summary

The September quarter began strongly, continuing the markets strong run in 2021, but volatility ensued as several macro factors weighed on the markets seemingly endless optimism. These factors culminated in the month of September being the first negative month for the market in a year, ending an 11-month run of positive monthly returns.

The market was rattled by several macro factors that saw the market retrace from mid-August record levels. The first was a significant, and dramatic, drop in the price for iron ore, which is Australia's largest export. This saw the big miners fall substantially in a very short period of time. This was compounded in part by concerns over the economic outlook for China given the government's broadening 'common prosperity' agenda, and uncertainty over whether it would allow one of its largest property developers – Evergrande, to collapse under its significant debt load.

Secondly are the progressing talks from the US that the

Federal Reserve will begin to unwind monetary stimulus earlier than expected. While this will likely be very gradual, with no rise in cash rates to begin with, this will be a key factor to watch in determining valuations for all asset classes.

And finally, the delta variant has also had a big impact on the domestic economy. Recent lockdowns in NSW and VIC have been costing the federal government roughly \$3.5bn a week and is expected to lead the September quarter GDP number to contract as much as 3%. However there is light at the end of the tunnel. Household balance sheets have gone up some \$250bn from increased savings, property markets are still booming, and the labour market remains strong with many industries to open up again in the short term as vaccination milestones are hit.

Portfolio Adjustments

During the quarter the portfolio added to the short position (via the listed BetaShare strong Bear ETF) as the market continued to set record levels up until August. This is consistent with our recent commentary and our strategy to fade the rallies. The short position dials equity exposure for the portfolio back to under 80% which is in line with the above mentioned view.

Additions to BHP and RIO after the collapse in the iron ore price moves our materials exposure back to market weight after taking profits and moving underweight earlier in the year after the iron ore price surged above US\$170/tonne. We feel the sharp decline is overdone and provides a good opportunity to neutralise the exposure.

And finally the portfolio added a new position in James Hardie Industries (JHX). James Hardie is the largest global manufacturer of fibre cement products for the housing and construction markets, with operations across North America, Asia Pacific and Europe. Recent market volatility has presented an opportunity to introduce James Hardie into the portfolio at attractive valuations. The company's most recent earnings result highlighted its success in building momentum in higher value products, as well as strong volume growth on the back of a recovery in US housing market, with annual sales growth of 35%. The portfolio went in with a 2% weight and is looking to build on the position in any further weakness.

Also worth noting is strong corporate activity with a conglomerate of super funds led by IFM Investors, placing a bid for one of Australia's most sought after infrastructure assets Sydney Airports (SYD) for \$8.75 a share or greater than \$32bn after increasing the offer price twice. The board has granted due diligence and there is talk a formal bid is getting closer.