

## 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	
<b>Inception</b>	4 January 2010
<b>Benchmark</b>	World Index (ex Aus)
<b>Authorised Investments</b>	Medium to Large Cap Listed International Shares
<b>Number of Stocks</b>	15-25
<b>Cash Allocation</b>	0-20%
<b>Management Fee</b>	0.66% (inc GST)
<b>Investment Horizon</b>	At least 5 years

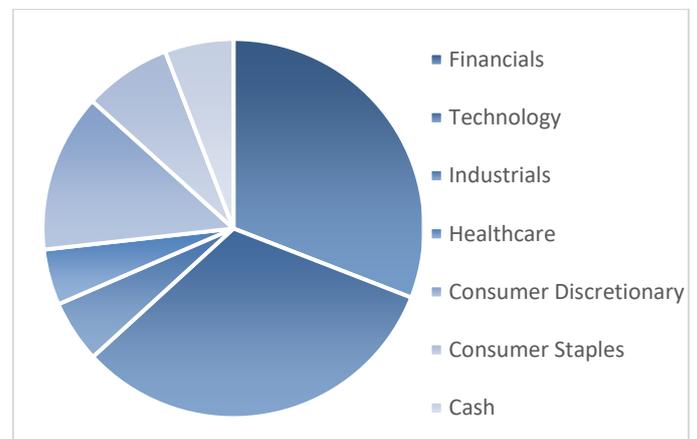
#### The Portfolio is designed for investors who...

- 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	JP Morgan Chase	JPM
5	Apple Inc.	AAPL

Sector Allocation	
<b>Financials</b>	30.94%
<b>Technology</b>	32.22%
<b>Industrials</b>	5.30%
<b>Healthcare</b>	4.76%
<b>Consumer Discretionary</b>	13.52%
<b>Consumer Staples</b>	7.43%
<b>Cash</b>	5.83%
<b>TOTAL</b>	100.0%



### Performance

Net Performance (%)	1m	3m	6m	1yr p.a.	3yr p.a.	5yr p.a.	10yr p.a.	Inception* p.a.
<b>WFM International Share Portfolio in US\$</b>	<b>(4.80%)</b>	<b>(0.25%)</b>	<b>8.42%</b>	<b>28.28%</b>	<b>14.51%</b>	<b>16.54%</b>	<b>15.65%</b>	<b>14.29%</b>
MSCI World Index (ex Aus) in US\$	(4.81%)	(0.30%)	7.86%	29.36%	12.78%	13.80%	12.77%	10.70%
Relative Performance in US\$	0.01%	0.05%	0.56%	(1.08%)	1.73%	2.74%	2.88%	3.59%
<b>WFM International Share Portfolio in A\$</b>	<b>(3.05%)</b>	<b>4.03%</b>	<b>14.24%</b>	<b>26.67%</b>	<b>15.02%</b>	<b>17.92%</b>	<b>19.12%</b>	<b>16.42%</b>
MSCI World Index (ex Aus) in A\$	(3.05%)	3.98%	13.68%	27.75%	13.29%	15.18%	16.23%	12.84%
Relative Performance in A\$	0.00%	0.05%	0.56%	(1.08%)	1.73%	2.74%	2.88%	3.59%

\*Inception since January 2010



## Quarter in Review

### Performance Summary

- Measured in US Dollars, the MSCI World Index (excluding Australia) fell by **0.30%** in the September quarter and rose by **29.36%** for the 12 months ended September
- Measured in US Dollars, the Watershed International Share portfolio fell by **0.25%** in the September quarter outperforming its benchmark index by 0.05%, and rose by **28.28%** for the 12 months to September underperforming its benchmark by 1.08%
- Measured in Australian Dollars to account for the effects of changes in the US\$/A\$ exchange rate, the MSCI World Index (excluding Australia) rose by **3.98%** in the September quarter and rose by **27.75%** for the 12 months ended September
- Measured in Australian Dollars to account for the effects of changes in the US\$/A\$ exchange rate, the Watershed International Share portfolio rose by **4.03%** in the September quarter outperforming its benchmark index by 0.05%, and rose by **26.67%** in A\$ for the 12 months ended September underperforming its benchmark by 1.08%.

### Performance Commentary

- After a long stretch of gains for the equity markets this year, September was the month when percolating investor anxiety finally came to a head, forcing markets lower. Investors have navigated more uncertainties lately, including concerns that higher inflation, driven in part by supply-chain issues, will stick around longer than expected. Also worrying markets recently were fears of contagion from debt-laden property developer China Evergrande Group, as well as data that has shown that U.S. economic growth may be starting to slow
- Continuing wrangling in Washington has weighed on investors' minds, too. The U.S. Congress on the last day of the month passed a bill extending government funding through December 3
- Despite the mixed September quarter, equity markets are mostly significantly higher over the last twelve and twenty-four months
- During the September quarter, the AUD weakened by 4.2% against the US dollar and also weakened against other major currencies.

## Performance Attribution for Quarter

Top Contributors	Key Detractors
Alphabet	PayPal
Microsoft	3M
Apple	Amazon
JPMorgan Chase	Intel
Costco	Nestle

## Investment Environment

- In countries with high vaccination rates, the economic recovery has been supported by the lifting of restrictions in recent months. Rates of hospitalisation and recent deaths are relatively low despite an increase in case numbers of COVID-19
- Unemployment rates in advanced economies have continued to decline over recent months. Demand for labour is high but the supply of labour has been slower to respond to the lifting of restrictions, particularly in the services sector. These mismatches are contributing to pockets of labour shortages and wage pressures in some industries
- Economic activity in China has softened in recent months and the outlook has become more uncertain than it has been for some time
- Consumer price inflation remains high in advanced economies, and it is likely that global supply chain disruptions will be more persistent than initially envisaged by central banks
- The U.S. Fed should announce a gradual reduction, or tapering, of its monthly purchases of \$120 billion in Treasury and mortgage debt at its next meeting on November 2
- New projections released at the end of the Fed's two-day policy meeting in September showed half of 18 officials expect to raise interest rates by the end of 2022
- Whether the pickup in inflation proves temporary is a key question for financial markets, and we see some heightened risks in the investment environment. Our investment philosophy has always been to focus on quality, in particular financially strong companies with plenty of cash and low debt as these companies can ride out the turbulent times.