



WATERSHED

FUNDS MANAGEMENT



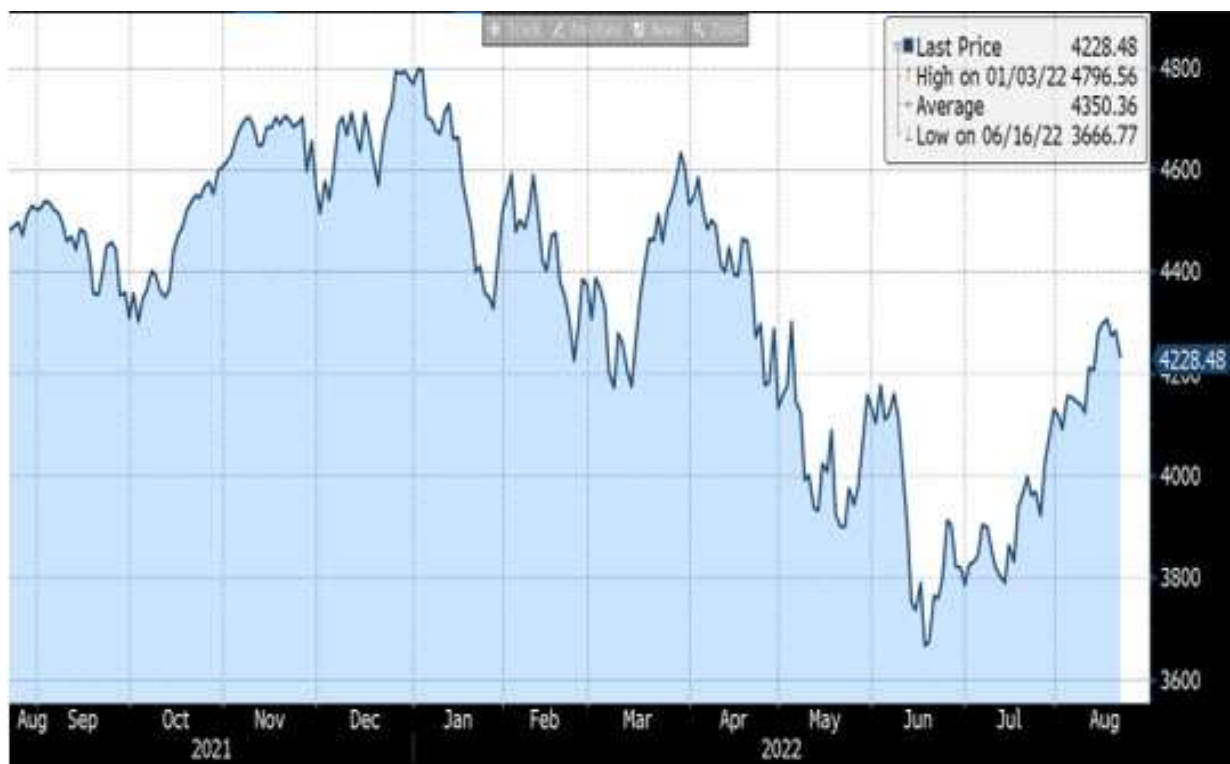
CHANGES

- Within the **International Equity ETF** sleeve we have again introduced the S&P 500 short (BBUS) and have switched the Japanese Equity exposure from Hedged (HJPN) to Unhedged (IJP).
- Within the **Australian Share SMA** we reduced the weight of Mineral Resources (MIN) by 1% to 3%, and increased the weight of Newcrest Mining (NCM) by 0.8% to 3.5%
- Within the **Emerging Leaders SMA** we also reduced the weight to Mineral Resources by 1.5% to 4.6% weight and reduced Independence Group (IGO) by 1.5% to 4.6%.

International Equity Sleeve

Markets have rebounded strongly after the sharp sell off in June, with the S&P 500 now 17% off the low and back above our short-term fair value target. The quarterly earnings season was solid but markets have rallied largely on expectations that central banks, namely the FED, will be less aggressive in hiking rates over the remainder of the year and will start to ease again next year. We believe that this now balances risk to the downside in the short term if inflation does not start to meaningfully retreat – which is our base case. After selling the geared US position on the 1st of August we have now reduced net market exposure further by adding Betashares S&P 500 Leveraged Short ETF (BBUS) with an initial weight of 3%, at \$8.59 on 18th August.

US S&P 500 - 1 year



We ordinarily prefer Japanese equity market exposure to be hedged as there is generally a negative correlation between the Yen and the Nikkei. 2022 has seen one of the sharpest sell offs in the Japanese Yen for a number of years, driven by; a large negative trade balance as Japan is a significant energy importer, but predominantly because the Japanese Central Bank is the last Central Bank in the world enforcing yield curve control (QE) and keeping rates near the zero bound. The below chart shows the difference in the US 10 Year Government Bond Yield (2.97%) and the JGB 10-year bond yield of just 0.22%. This has caused yen weakness against most developed market currencies, including the AUD.

We do not believe that this differential is likely to significantly widen further and taking a longer-term view (2 years) we expect it to narrow, supporting the Yen once more. And, ultimately a weaker Yen (which is also historically a safe haven currency) is positive for Japanese economic growth and for export oriented Japanese equities.

US and Japanese 10 year Bond



Japanese Yen/AUD

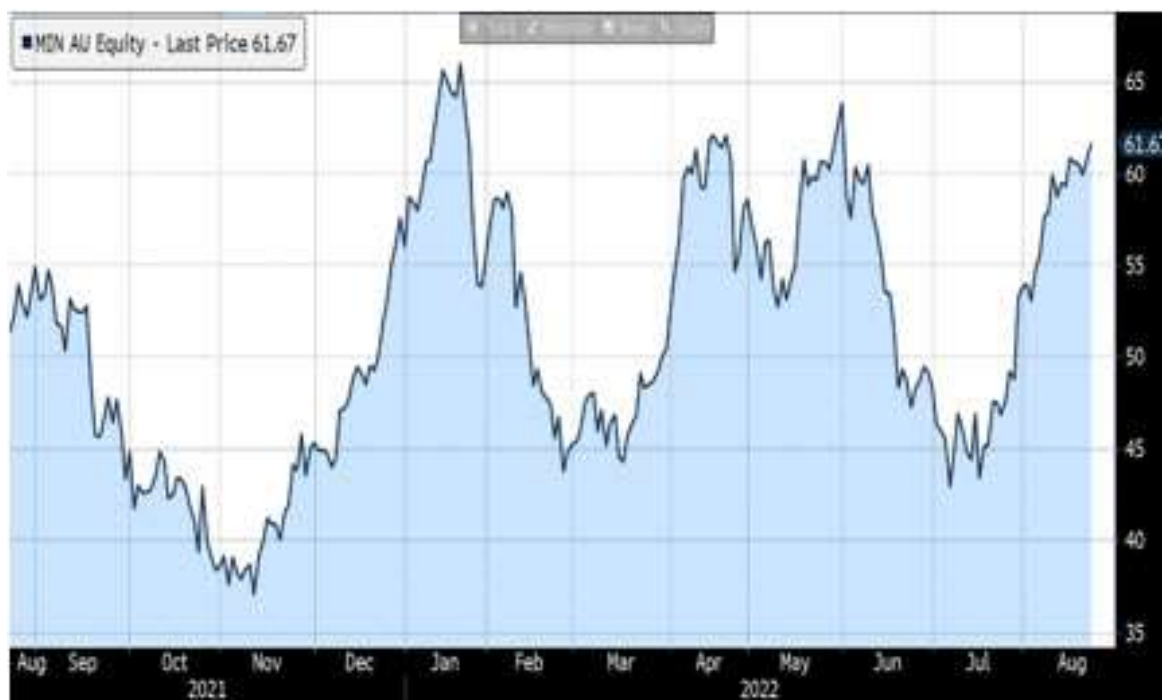


Australian Share SMA and Emerging Leaders SMA

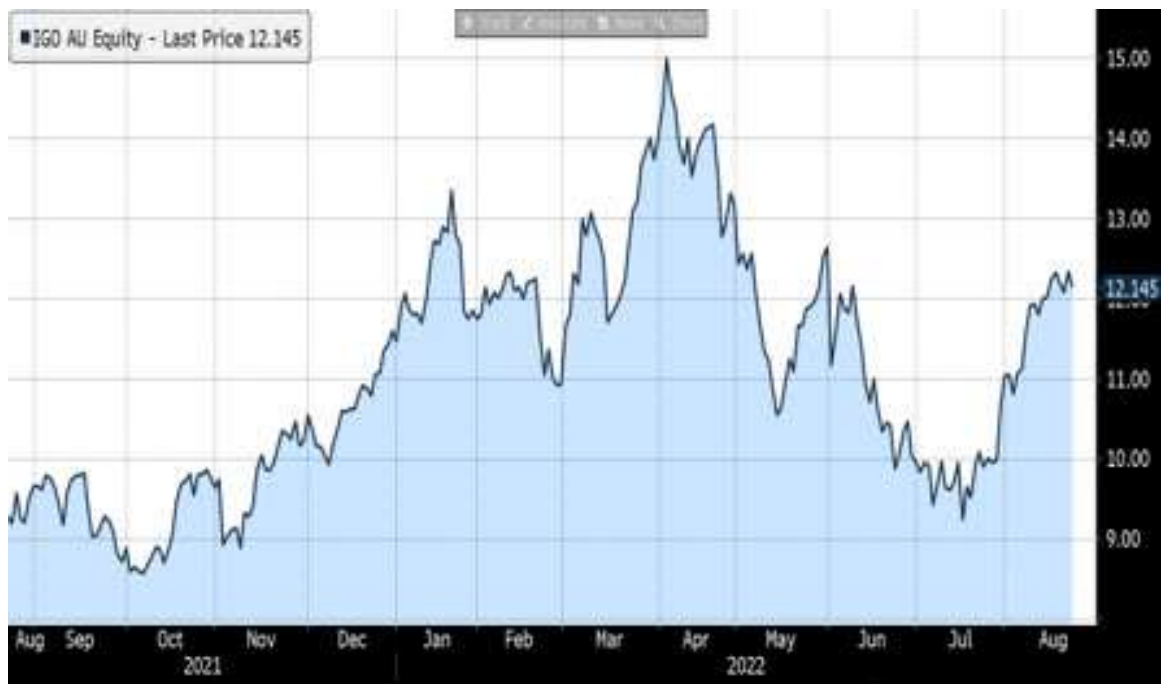
We added to Mineral Resources on the 7th July at \$44.40 (as well as BHP and RIO) after the sharp recession fear sell off in June. Mineral Resources has rallied 34% since and on 11th August we reduced the weight from 3.94% back to 3%. Mineral Resources is now in the ASX 100 and will need to be divested by the Emerging Leaders portfolio by year end and we used the recent rally to further reduce the holding by 1.5% and also reduced the weighting to IGO by 1.5% increasing the portfolio's cash weight to 12.95%.

Within the Australian Share SMA, we also increased the weighting to Newcrest Mining (NCM) by 0.8% to 3.5%. Rising interest rates have prompted a sell-off in gold and gold companies, including Newcrest. We view NCM's current share price as significantly undervalued, particularly given its future pipeline of growth projects. This should also be a risk diversifier in what will likely be a continuation of very volatile markets

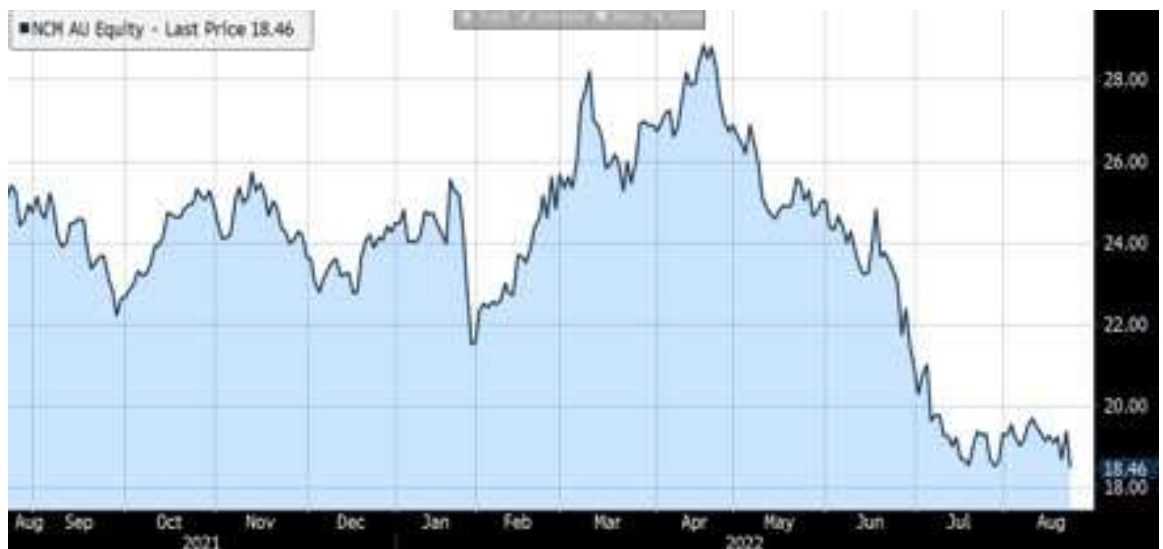
Mineral Resources



Independent Group



Newcrest Mining



Watershed Funds Management



Our JULY 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:

shantellelay@watershedgroup.com.au
[0417459842](tel:0417459842)

Watershed Funds Management

Watershed Funds Management is a specialist Managed Account provider and has been a pioneer in the delivery of Managed Account (MDA & SMA) 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 Managed Account (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 SMA's.

An investment in a Watershed SMA 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.
