



# WATERSHED

FUNDS MANAGEMENT



After three months of sharp declines, culminating in a 9% fall in June, markets staged a strong rebound in July, with the Australian Share Market (ASX 200) up 6% and the S&P 500 up over 9%.

On Monday we sold the Leveraged Long position (GEAR) in the Australian Share SMA, the Leveraged Long S&P 500 position (GGUS) in the International Equity ETF sleeve and trimmed a number of holdings in the International Share SMA, increasing the cash weight from 14.5% to 19% within the portfolio.

*This is the third time so far this year that we have both bought the dip in equity markets and then subsequently taken profits, selling the rally.*

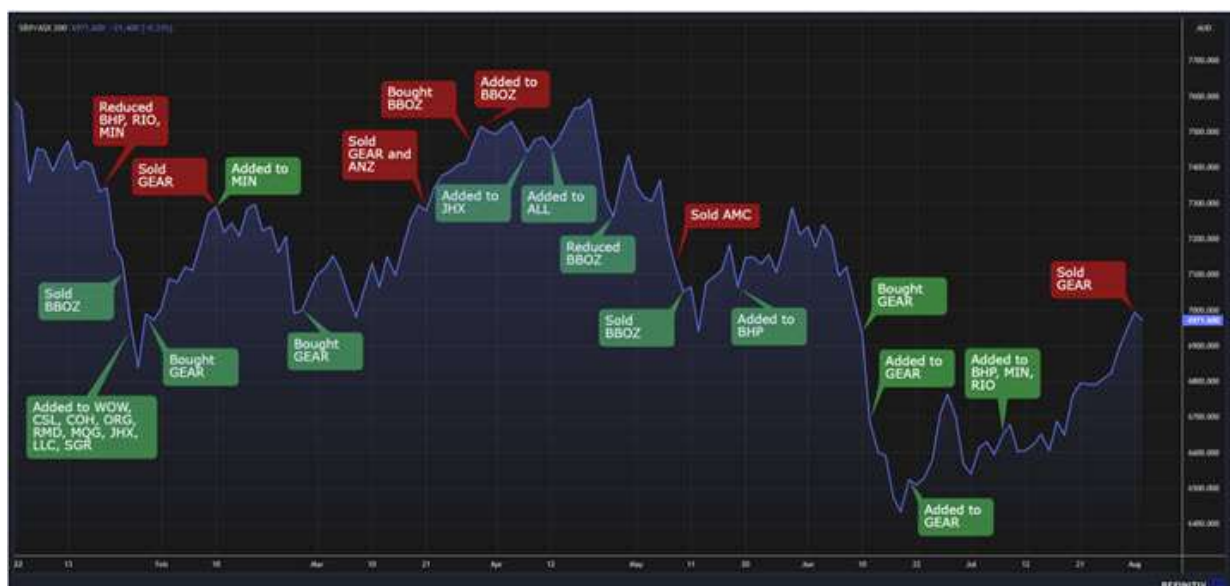
## Portfolio Activity:

- **Australian Share SMA:** We sold the GEAR position (4.4% weight), increasing the cash weight to 11.35%, ahead of the August reporting season. Net market exposure decreased from approximately 100% to 89%.
- **International Equity ETF sleeve:** We sold the GGUS position (7.07%) taking the cash weight to 11.12%.
- **International Equity SMA:** We sold 3M Company in Full (1.4%), reduced Apple by 0.7% to 7% weight, reduced American Express by 1.55% to 3.5%, Google by 0.6% to 4.5% and Microsoft by 0.53% to 13.5%. The net result was an increase in cash weight from 14.58% to 18.83%.

**Impact on Multi Asset Portfolio's:** In the context of our Balanced Portfolio, which has a 60:40 neutral setting, the combination of the above sales has reduced equity market exposure by 4.4%. This has reduced the portfolio's overall equity market exposure from being slightly overweight, at **62.5%**, to now slightly underweight at **58.1%**.

**Volatile Markets provide an opportunity to add alpha for genuinely active Managers.** The tables below show the buying (in green) and selling (in red) within the Australian Share SMA and the International Equity ETF sleeve so far this year.

## Australian Share SMA



## International Equity ETF sleeve



**Summary:** July saw much better-than-expected earnings from some of the large, high quality, global US companies such as Microsoft, Apple, Google, Amazon and McDonalds. We also saw generally weaker economic data globally, which resulted in over 100 basis points of expected tightening over the coming year, come out of bond markets. The combination of these two resulted in a sharp rally in equity markets, from what we viewed as a short term oversold level in June.

The path of inflation and interest rates over the balance of the year will be critical for the direction of both equity and fixed income markets over the remainder of 2022 and into 2023 – and is at this stage very hard to forecast. One certainty though, is that we will continue to see heightened levels of volatility, which as always, will provide opportunities for active managers.

***Watershed Funds Management***

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Our JUNE 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 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.

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## **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.