



Watershed Emerging Leaders Portfolio Quarterly Report December 201

Investment Profile

A Professionally Managed Portfolio of Australian Shares

The Watershed Emerging Leaders 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 Emerging Leaders Portfolio is to provide investors with long-term capital growth and some tax effective income from a concentrated portfolio of stocks listed outside of the ASX 100. The Portfolio aims to outperform the ASX Small Ordinaries Accumulation Index over the medium to longer term (three to five years) by 2-3% per annum, while at the same time seeking to minimise the risk of investment capital loss.

Key Portfolio Features

Inception	6 Aug 2013
Benchmark	S&P/ASX Small Ordinaries Accumulation Index
Authorised Investments	ASX listed companies not in the ASX 100
Number of Stocks	15-30
Cash Allocation	0-20%
Tracking Error	5% to 9% per annum
Investment Horizon	At least 3 – 5 years

Performance

Gross Performance (%)	1m	3m	6m	1yr
WFM Emerging Leaders	-0.90%	1.82%	4.85%	11.29%
S&P/ASX Small Ordinaries Index	0.47%	-3.89%	-2.45%	-3.81%
Relative Performance	-1.37%	5.71%	7.30%	15.10%

*Since Inception Aug 2013

The Portfolio is designed for investors who...

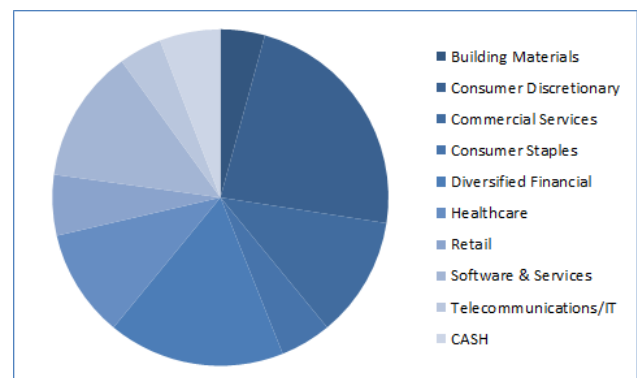
- Seek long term capital growth & some tax-effective income
- Have a longer -term investment horizon of at least three years and accept the risk of significant price fluctuations.

Portfolio Structure

No.	Company Name	ASX Code
1	Slater & Gordon	SGH
2	Estia Health Limited	EHE
3	Platinum Asset Management	PTM
4	Magellan Financial Group	MFG
5	Burson Group Limited	BAP
6	Fonterra Share Fund	FSF
7	BT Investment Management	BTT
8	Regis Healthcare Limited	REG
9	iCar Asia	ICQ
10	Automotive Holdings Group	AHE

GICS Sector

Building Materials	4.27%
Consumer Discretionary	23.16%
Commercial Services	11.60%
Consumer Staples	4.91%
Diversified Financial	17.02%
Healthcare	10.39%
Retail	5.83%
Software & Services	12.83%
Telecommunications/IT	4.13%
CASH	5.85%
TOTAL	100%





WATERSHED

FUNDS MANAGEMENT



FUTURE PLANNERS

Financial Services

Quarter in Review

Performance Summary

- The S&P/ASX Small Ordinaries Accumulation Index delivered a **-3.89%** during the quarter, whereas the Watershed Emerging Leaders SMA increased by **1.82%**, giving outperformance of **5.71%**.
- At a sector level, the portfolio's overweight exposure to Asset Management was positive for performance while the exposure to the commercial services was a detractor.
- The Watershed Emerging Leaders Portfolio has outperformed the ASX Small Ordinaries Accumulation Index by **7.30%** over the past six months and by a significant **15.10%** over the year.

Portfolio Adjustments

During the quarter we:

BOUGHT: Carsales.com, Village Roadshow, Billabong International, iCar Asia

SOLD: iSentia Group, Vocation Group, Monash IVF, Regis Healthcare (partial), Magellan Financial Group (partial), Money3 Corporation, MyState Corporation

PARTICIPATED IN: The IPO for Regis Healthcare Ltd and Estia Health Limited

Monthly Performance Attribution

Top Contributors	Key Detractors
Magellan	Skilled
Regis	Estia
Platinum	Seven West

In what was a volatile quarter for the Small Ordinaries Index, we were able to sell some of our holdings into price strength and additionally acquire some stocks at what we believe to be attractive prices.

We sold our holdings in iSentia, Money3 and MyState on valuation grounds. We also took part profits in both Regis Healthcare and Magellan Financial Group into strong price appreciation.

We sold our positions in both Vocation Group and Monash IVF, believing that both businesses face near-term challenges.

We bought Village Roadshow whose businesses include Theme Parks, Film Distribution, Cinema and Film Production. Village delivered a strong recent result, have an impressive film slate coming up in FY15 and their Theme Parks will benefit from a lower Australian dollar which should boost domestic tourism.

We acquired a stake in Carsales.com when the stock fell below the \$9.50 level. Carsales.com's domestic trading performance in the first quarter was solid and we expect this to continue assuming market conditions remain unchanged. The business is also making strong progress on development of opportunities in Brazil and South Korea and is well positioned for medium and long term growth in these markets.

We acquired shares in retailer Billabong International. Billabong's share price has fallen dramatically in recent years due to its high debt levels and some inopportune investments. However its recent result showed signs of stabilisation after it was rescued last year by U.S. private equity. The business still generates in excess of a billion dollars in revenue, and with unrequired assets being sold and debt reduced, we believe this strong global brand has the hallmarks of a successful turnaround story.

Finally, we acquired shares in iCar Asia, the leading automotive advertising portal operator in south East Asia. The company recently provided an update on trading conditions, showing that the company's automotive classifieds portals in Malaysia, Indonesia and Thailand continue to increase their share of market.

The SMA participated in the IPO's of aged care providers Regis Healthcare and Estia Health. We like the supply/demand thematic in the aged care space with 10,000 new beds required annually to meet demand and currently only 4,000 being supplied. We think this will underpin an already strong growth profile and is likely to see the government accommodative to private operators in this space.

We maintain a healthy cash allocation enabling us to participate in market opportunities and forthcoming corporate offerings.