



Watershed Emerging Leaders Portfolio Quarterly Report December 2015

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, by undertaking rigorous bottom up stock analysis and active portfolio management.

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	2-40%
Tracking Error	5% to 9% per annum
Investment Horizon	At least 3 – 5 years

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.

Performance

Gross Performance (%)	1m	3m	6m	1yr	2yr	3yr	Inception*
WFM Core Share Portfolio	3.09%	12.72%	24.62%	35.20%	22.66%		21.62%
S&P/ASX 200 Accum Index	3.91%	11.32%	6.98%	10.16%	2.94%		
Relative Performance	(0.82%)	1.40%	17.64%	25.04%	19.72%		

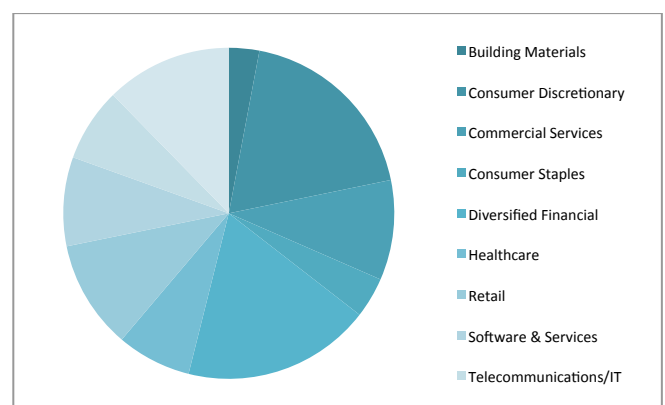
*Inception since August 2013

Portfolio Structure

No.	Company Name	ASX Code
1	BT Investment Management	BTT
2	Magellan Financial Group	MFG
3	IPGA Group	IPP
4	M2 Telecommunications	MTU
5	Burson Group Limited	BAP

GICS Sector

Building Materials	2.97%
Consumer Discretionary	18.80%
Commercial Services	9.77%
Consumer Staples	3.96%
Diversified Financial	18.41%
Healthcare	7.28%
Retail	10.61%
Software & Services	8.69%
Telecommunications/IT	7.18%
CASH	12.33%
TOTAL	100%





Quarter in Review

Performance Summary

- The S&P/ASX Small Ordinaries Accumulation Index rose **11.32%** during the past quarter, slightly underperforming the Watershed Emerging Leaders SMA which increased by **12.72%**.
- The Watershed Emerging Leaders SMA has outperformed the ASX Small Ordinaries Accumulation Index by **17.64%** over the past six months and by a substantial **25.04%** over the past year.

Portfolio Adjustments

During the quarter we:

BOUGHT: Participated in IPO below

SOLD: Lovisa

PARTICIPATED IN: PSC Insurance IPO

Quarterly Performance Attribution

Top Contributors	Key Detractors
PSC Insurance	Billabong
Magellan Financial	GBST
BT Financial	Seven West

As referenced above, the Watershed Emerging SMA had a very strong December quarter, as did the ASX Small Ordinaries Index.

The SMA participated in the December Initial Public offer of PSC Insurance Group Limited (+54%). PSC Insurance operates in business acquisition, establishment and turnaround in the insurance services industry. The float has performed very well with the stock opening on the market at \$1.42 after the \$1 issue price. The stock has since performed well and we are comfortable holding in the near term.

During the quarter we also sold out our position in the jewellery retailer Lovisa. A key board member resignation and the CEO selling down stock had us feeling ill at ease with the business in the short term.

FlexiGroup Limited (+31.82%) announced it had entered into an agreement to acquire Fisher & Paykel Finance, a leading provider of non-bank consumer credit in New Zealand, from Fisher & Paykel Appliances for A\$275 million. Established in 1973, F&P Finance is New Zealand's leading independent non-bank finance business with receivables of NZ\$662 million. It has a high quality portfolio of brands including Q Card and Farmers Finance Card, more than 12,000 partnerships and 430,000 active cardholders.

Village Roadshow (+6.61%) increased its forecast earnings from its film exhibition division, largely on the back of the success of "Star Wars: The Force Awakens". The film has broken opening day records, and we feel this coupled with an improving tourism outlook that should boost visitation to their theme parks, bode well for the stock moving forward.

iCar Asia Limited (+32.41%), owner of ASEAN's number 1 network of automotive portals announced that cash receipts for the third quarter of 2015 had increased by 146% over the prior corresponding period. Interestingly, Carsales.com Limited topped up their holding in the Company to 20.2% during the quarter. We would not be surprised if this stake in the company materialises into a formal bid in the not too distant future.

M2 Group Limited (+20.55%) announced an intention to merge with Vocus Communications to create a full-service, vertically integrated telecommunications business valued at more than \$3BN. The proposal is an all-share ('scrip') transaction, where M2 shareholders will receive 1.625 Vocus shares for each M2 share.

On a negative note, Australian surf wear company Billabong's (-24.62%) turnaround seems to have taken a recent step backwards after a very pleasing result in the second half of fiscal 2015. At their AGM Billabong CEO Neil Fiske told investors that while the business's core brands are relatively healthy and the group is gaining market share, they facing a challenging macro environment in the U.S. and structural issues affecting the action sports category across the globe.

We also maintain a healthy overweight position in cash with the view of patiently deploying that capital only as compelling investment opportunities arise.