



WATERSHED

FUNDS MANAGEMENT



FUTURE PLANNERS

Financial Services

Watershed Core Share Portfolio

Quarterly Report December 2015

Investment Profile

A Professionally Managed Portfolio of Australian Shares

The Watershed Core 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 Core Share Portfolio is to provide market-leading, tax effective returns over the medium to long term from a concentrated portfolio of high quality Australian shares and listed Exchange Traded Funds. The Portfolio aims to outperform the S&P/ASX200 Accumulation Index over a rolling three-year period.

Key Portfolio Features

Inception	5 Aug 2010
Benchmark	S&P/ASX200 Accumulation Index
Authorised Investments	ASX200 shares Listed ETF's
Number of Stocks	15-30
Cash Allocation	2-20%
Tracking Error	5% to 9% per annum
Investment Horizon	At least 5 years

The Portfolio is designed for investors who...

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

Performance

Gross Performance (%)	1m	3m	6m	1yr	2yr	3yr	4yr	5yr	Inception *
WFM Core Share Portfolio	4.17%	12.59%	0.00%	5.22%	6.89%	10.57%	13.06%	7.28%	7.26%
S&P/ASX 200 Accum Index	2.73%	6.48%	(0.53%)	2.56%	4.07%	9.19%	11.86%	6.97%	
Relative Performance	1.44%	6.11%	0.53%	2.66%	2.82%	1.38%	1.20%	0.31%	

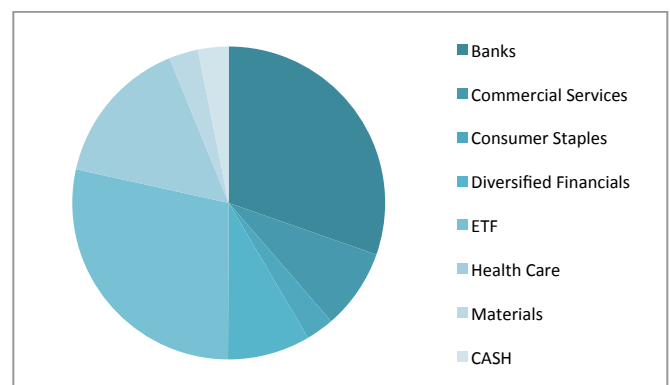
*Inception since August 2010

Portfolio Structure

No.	Company Name	ASX Code
1	Betashares GEAR	GEAR
2	Commonwealth Bank	CBA
3	Westpac Bank	WBC
4	ANZ Bank	ANZ
5	Ramsay Health Care	RHC

GICS Sector

Banks	29.88%
Commercial Services	8.16%
Consumer Staples	2.76%
Diversified Financials	8.34%
ETF	31.43%
Health Care	14.64%
Materials	2.86%
CASH	1.93%
TOTAL	100%





Quarter in Review

Performance Summary

- The Australian share market rebounded to close up 6.48% in the December quarter due to a large Christmas rally.
- The Watershed Core Share portfolio increased by **12.59%** in the December quarter, outperforming the index by **6.11%**, and **moving performance across all periods back ahead of the broader market.**
- There were no changes to the portfolio for the quarter.

Portfolio Adjustments

During the quarter we: made no changes to the portfolio

BOUGHT: NA

SOLD: NA

INCREASED: NA

Quarterly Performance Attribution

Top Contributors	Key Detractors
SEEK	Sonic
CSL	NAB
CBA	ANZ

As mentioned above, the ASX200 Accumulation Index had a strong December quarter, offsetting weakness from the September quarter and ensuring it closed the year in positive territory (+2.56%).

After ample warning and delay the Fed finally raised the Fed Funds rate from a range of 0-0.25% to 0.25-0.5% in December. This was the Fed's first rate hike in seven years and signals their confidence in the ongoing recovery of US economy. Given continuing deflationary risks and stuttering global growth, we expect future Fed hikes to be cautious and gradual.

While the Fed enacted its first rate hike in seven years central banks in China, Europe and Japan continued to

ease in the face of sub-par growth and deflationary threats. We expect to remain in a low rate environment for the remainder of 2016, which is ultimately supportive of markets.

Of particular resonance to our domestic markets was the slowdown in China with Chinese GDP growth for the quarter and year expected to come in at its lowest level for 25 years. This slowdown in Chinese growth and associated slowing demand for resources saw commodity prices continue to plunge. Our decision to hold no resource, energy or mining services companies proved correct with BHP (-19.62%) even in a strong market.

Falling commodity prices and an on-going mining slump domestically continued to see growth remain sub-par. This saw the RBA cut the cash rate to a record low of 2% in December. Against this backdrop bond yields are likely to remain low which should be positive for equity markets and continue to benefit asset managers where we maintain a healthy exposure via Henderson Global and AMP.

Rising US interest rates and weak commodity prices will help maintain downwards pressure on the value of the \$A through 2016. Our prediction that we would see a falling Australian dollar in 2015 and preference for overseas earners paid handsomely during the quarter with SEEK (+28.76%), CSL (+18.06%) and Ramsay Healthcare (+14.29%) providing very strong investment returns.

The quarter also highlighted the threat of ongoing geopolitical risks with the November terrorist attacks in Paris, the escalating war in Syria, the refugee crisis in Europe and tensions in the South China Sea all causing periodic fear and market sell-offs.

We have seen these sell-offs as an opportunity to increase our market exposure, principally through our holding in the Betashares GEAR ETF. We actively monitor this position and will look to profit over time from increasing global market volatility. We increased the cash weighting to almost 30% when the ASX 200 was 5,900 in March and will continue to retain increased market exposure below 5,300 given our current economic and market outlook.