

20 October 2023

Dear Investor,

CHANGE OF MANAGER AND FUND ALTERATIONS FOR THE WATERMARK ABSOLUTE RETURN FUND ARSN 631 094 534 (THE “FUND”)

Background

On 30 August 2023, Equity Trustees Limited (“RE”) received written notice from Watermark Funds Management Pty Limited (“Investment Manager” or “Watermark”) that Justin Braitling, the Principal of Watermark, is planning to retire. To ensure the continuity of the Fund, the Investment Manager has notified the RE that it proposed to retire as Investment Manager of the Fund, with the investment management of the Fund being transitioned to Blackwattle Investment Partners Pty Limited (“New Investment Manager” or “Blackwattle”).

In transferring management responsibilities, all front and back-office staff of Watermark (other than Braitling) have already or will soon join the New Investment Manager, ensuring some measure of continuity in the investment process and management of the Fund. The Fund’s administrator (Apex) and the Responsible Entity (EQT) will also remain the same.

While Blackwattle will employ a similar long/short investment process to Watermark, there will be changes that investors should consider.

The Fund currently employs a ‘Variable Beta’ strategy where the Fund’s market exposure or ‘beta’ is actively managed. The Investment Manager has retained very low market risk settings in recent years.

Blackwattle intends to pivot the Fund to a ‘small companies’ extension’ strategy (130/30). This strategy will focus more on smaller companies and retain higher market exposures through the investment cycle.

The New Investment Manager can reduce market risk under the revised mandate by holding up to 50% of the Fund’s capital in cash, the balance will be invested in the Australian share market.

To give the New Investment Manager time to adjust to the new strategy, the Fund will enter a 6-month transition period allowing the New Investment Manager time to bring up the Fund’s market exposure and deploy the capital in the new investment universe. This includes a blended benchmark (50% RBA cash rate/ 50% S&P/ASX Small Ordinaries Accumulation Index) for the first 6 months from the 20 October 2023, at which point it will revert to S&P/ASX Small Ordinaries Accumulation Index.

In this transition period, the New Investment Manager will retain at least 50% of the Fund’s capital in cash and may reduce the Fund’s market exposure further using SPI



futures (or similar), to a maximum fully hedged position (Market Neutral) if deemed appropriate.

The proposed changes to the Fund are described in Appendix 1 ("Fund Changes") below.

Blackwattle Investment Partners Pty Limited is an existing client of the RE. The RE has completed due diligence on the New Investment Manager. There is no change to the other service providers in relation to the Fund changes.

Blackwattle Investment Partners Pty Ltd

Blackwattle aims to provide investors with long-term outperformance, underpinned by a focus on alignment, investment excellence, transparency and governance.

Blackwattle comprises a growing team of twelve employee-partners, a board led by independent directors and two independent counsels across Investment and ESG.

Blackwattle's highly experienced team has delivered outperformance through market cycles. The investment team (7 persons and growing) has 135+ years investment experience.

The Blackwattle team are aligned with their investors having committed over \$10,000,000 of personal capital into the business and managed portfolios.

For more information on Blackwattle please refer to their website <https://blackwattlepartners.com/>

Timeline

Not before 21 November 2023

- The Fund's name will change to the Blackwattle Small Cap Long-Short Quality Fund.
- The RE expects to issue an updated PDS with the changes outlined in Appendix 1. The Product Disclosure Statement ("PDS") will be available at <https://www.eqt.com.au/corporates-and-fund-managers/fund-managers/institutional-funds/institutional>.
- The Fund will enter into a 6-month transition period whereby the New Investment Manager may reduce the Fund's exposure further below the 50% cash threshold through the use of futures, up to a fully hedged position (Market Neutral) if deemed appropriate.



21 May 2024

- The expected effective date that the transition period will cease and the new strategy should be fully implemented.

Next Steps

No further action is required from unit holders. We are working closely with both the Investment Manager and New Investment Manager over the next 30 days to implement the new strategy and to update the PDS to reflect the changes from on or after 21 November 2023.

If you have questions, please contact:

Russell Beasley, Deputy Executive General Manager, Fund Services
Equity Trustees Limited, ACN 004 031 298
Level 1, 575 Bourke Street, Melbourne VIC 3000
Phone: +61 3 8623 5303
Website: eqt.com.au

Yours sincerely,

Equity Trustees Limited



APPENDIX 1 - Fund Alterations

Change	Watermark Absolute Return Fund	Blackwattle Small Cap Long-Short Quality Fund
Investment Manager	Watermark Funds Management Pty Ltd	Blackwattle Investment Partners Pty Ltd
Fees	Management Fees and Costs: 1.60% Performance Fees: 0.59% Buy/Sell Spread: 0.30%/ 0.30%	No change
Benchmark	RBA Cash Rate	S&P/ASX Small Ordinaries Accumulation Index (First 6 months: 50% RBA cash rate/ 50% S&P/ASX Small Ordinaries Accumulation Index)
Investment Strategy	'Variable Beta' strategy. Actively managed share market exposure. The Fund can be 100% long or 100% short the share market or anywhere in between. The Fund has retained very low market risk settings in recent years.	Extension strategy (130/30). This strategy will retain higher market exposure through the cycle than the Fund has held in current years. Blackwattle can reduce market risk with the new mandate by holding up to 50% of the Funds' capital in cash, the balance will be fully exposed to the market. In 6-month transition period the Fund will retain at least 50% of its invested capital in cash (or near cash equivalents)
Minimum application amount	\$10,000	\$25,000
Minimum Balance	\$10,000	\$25,000
Cut off time	2pm	12pm
Portfolio Structure	Australian Equities, however may also hold up to 20% of its gross exposure in international securities, in sectors such as mining and resources. It will aim to broadly manage the Fund's exposure to currency movements by balancing Long and Short exposures in foreign currencies.	Australian publicly listed securities, cash, listed derivatives. The Fund targets a 130% long / 30% short portfolio structure. For practical purposes this could vary within a range (70% to 150% long and 0% to 50% short), with a typical target net exposure position of 90 to 110%. In the 6-month transition period the Fund's cash weighting will not fall below 50% of the Fund's invested capital.
Hedging	OTC and FX Derivatives	SPI futures; exchange traded derivatives listed on the ASX with the primary aim of



managing risk, including, without limitation, seeking to protect against unfavourable changes in an investment's price brought about by short selling, changes in interest rates, credit risk, equity prices, currencies or other factors.

20 October 2023

Joint Announcement from Watermark Funds Management and Blackwattle Investment Partners.

- Watermark to retire as Manager of the Watermark Absolute Return Fund (WARF or Fund). Blackwattle Investment Partners to assume management responsibility for the Fund.

Dear Investor,

After 30 years of investing in Australian public companies as an institutional investor, I have decided it is time to retire and pursue other interests. I have enjoyed tremendously my years managing money for our investors and believe deeply in the merits of the Fund's strategy.

It was always my intention to hand over management of the Fund to the experienced team at Watermark Funds Management (Watermark). The proposed change of Manager, detailed below, allows for this outcome while also bringing in the considerable resources and experience of Blackwattle Investment Partners (Blackwattle or New Manager).

As part of this transition, all front and back-office staff of Watermark (other than myself) have already or will move across to Blackwattle and continue working on the Fund, ensuring broad continuity in the investment process and management of the Fund. The Fund's administrator (Apex) and the Responsible Entity (EQT) will also remain the same.

It has been my privilege to represent investor capital for the last 30 years, thank you for the support and trust.

Alteration of Strategy

While Blackwattle will employ a similar long/short investment process to Watermark, there are some important changes to the strategy that investors should consider.

The Fund currently employs a 'Variable Beta' strategy where market risk is actively managed. The Fund has retained very low market risk settings in recent years.

Blackwattle will pivot the Fund to a 'Small-companies extension' strategy (130/30). This strategy will focus more on smaller companies and will typically retain higher exposures to the share market through market cycles.

Blackwattle brings a depth of experience in this segment of the market which Watermark does not currently have.

Blackwattle can still reduce market risk under the revised mandate by holding up to 50% of the Fund's capital in cash but the balance will be fully exposed to the share market.

To give investors and the New Manager time to adjust to this new strategy, there will be a 6-month transition period allowing the New Manager time to bring up the Fund's market exposure and deploy the Fund's capital.

In this transition period, the New Manager will retain at least 50% of the Fund's capital in cash (or cash equivalents) and may reduce the exposure further using SPI futures if deemed appropriate (minimum net exposure equal to a market neutral setting).

Blackwattle's proposed changes to the Fund are described in Appendix 1 ("Fund Changes") below.

Blackwattle Investment Partners Pty Ltd

Blackwattle is a new generation, highly aligned, Australian investment manager investing in quality businesses and people.

Blackwattle aims to provide investors with long-term outperformance, underpinned by a focus on Alignment, Investment Excellence, Transparency and Governance.

Blackwattle comprises a growing team of twelve employee-partners, a board led by independent directors and two independent counsels across Investment and ESG.

Blackwattle's highly experienced team has delivered outperformance through market cycles with a combined experience of over 135 years. Their interests are closely aligned with their investors having committed over \$10 million of personal capital into the business and managed portfolios.

Justin's retirement provides opportunity for Daniel Broeren (formerly Co-Portfolio Manager of the Watermark Absolute Return Fund) and Robert Hawkesford to now manage the Fund.

Both Portfolio Managers have combined experience of over 40 years in funds management. Also joining us from the Watermark team is Andy Chuk who will continue to work as an analyst, supporting Daniel and Rob. Cherish Beardmore also joins us from Watermark, who will assist with operations.

Blackwattle is extremely privileged to have them all within our business.

For more information on the transition please join one of the Blackwattle Investor info sessions by registering using the links below or contact Cherish Beardmore cbeardmore@blackwattlepartners.com or 02 7208 9922:

Session 1

Date: 30 October 2023

Time: 12.30pm AEDT

[Please click link to register](#)

https://us06web.zoom.us/webinar/register/WN_0tsLzOdFRB-JF9bkWNTTcA#/registration

Session 2

Date: 6 November 2023

Time: 12.30pm AEDT

[Please click link to register](#)

https://us06web.zoom.us/webinar/register/WN_Rn5flTeAQ1uv6yMxsqUqKw#/registration

A letter from the Responsible Entity (RE), Equity Trustees Limited, will include details of the transition in further detail.

A full Product Disclosure Statement ("PDS") detailing the amended strategy will also provide background information on Blackwattle. The PDS will be made available for unitholders on or around 21 November 2023.

For more information on Blackwattle please refer to their website
<https://blackwattlepartners.com/>

Timeline - on or after 21 November 2023

- The RE expects to issue an updated PDS with the changes outlined in Appendix 1. The Product Disclosure Statement ("PDS") will be available at <https://www.eqt.com.au/corporates-and-fund-managers/fund-managers/institutional-funds/institutional>
- The Fund will enter a 6-month transition period allowing the New Manager time to pivot to the new strategy. During this period the New Manager will retain at least 50% of the Fund's capital in cash or cash alternatives and may reduce the exposure further using futures, up to a fully hedged position (Market Neutral) if deemed appropriate.

Next Steps

No further action is required from unit holders. Blackwattle is working closely with the RE (EQT) to update the PDS to effect the changes from on or around 21 November 2023.

If you have any questions, please contact:

Cherish Beardmore
Operations and Client Specialist, Blackwattle Investment Partners
(Previously Head of Operations Watermark Fund Management)

Phone: (02) 7208 9922

Email: CBeardmore@blackwattlepartners.com

Yours sincerely,



Justin Braitling
Principal
Watermark Funds Management

Watermark has provided and is responsible for the first four paragraphs of this letter, the second paragraph under the heading "Alteration of Strategy" and the information in Appendix 1 in the column headed "Watermark Absolute Return Fund". Watermark, its directors, officers, employees and advisers do not assume any responsibility for the accuracy of any other information in this letter.

Appendix 1 - Fund Changes

Change	Watermark Absolute Return Fund	Blackwattle Small Cap Long-Short Quality Fund
Investment Manager	Watermark Funds Management Pty Limited	Blackwattle Investment Partners Pty Limited
Fees	<p>Management Fees and Fund Costs: 1.60%</p> <p>Performance Fees: 20.5% (inclusive of GST and net of RITC) of any increase in the Class's NAV over any financial year (adjusted for applications and redemptions and before the payment of any distribution) which exceeds the Fund benchmark, subject to the high-water mark.</p> <p>Buy/Sell Spread: 0.30%/ 0.30%</p>	No change
Benchmark	RBA Cash Rate	<p>S&P/ASX Small Ordinaries Accumulation Index</p> <p>(First 6 months: 50% RBA Cash Rate/ 50% &P/ASX Small Ordinaries Accumulation Index)</p>
Investment Strategy	'Variable Beta' strategy. Actively managed share market exposure. The Fund can be 100% long or 100% short the share market or anywhere in between. The Fund has retained very low market risk settings in recent years.	<p>Extension strategy (130/30). This strategy will retain higher market exposure through the cycle than the Fund has held in current years.</p> <p>Blackwattle can still reduce market risk with the new mandate by holding up to 50% of the Funds' capital in cash but the balance will be fully exposed to the market.</p> <p>In the 6-month transition period the Fund's cash weighting will not fall below 50% of the Fund's invested capital</p>
Minimum application amount	\$10,000	\$25,000
Minimum Balance	\$10,000	\$25,000
Cut off time	2pm	12pm
Portfolio Structure	Australian Equities, however may also hold up to 20% of its gross exposure in international securities, in sectors such as mining and resources. It will aim to broadly manage the Fund's exposure to currency movements by balancing Long and Short exposures in foreign currencies.	Australian Publicly listed securities, cash, listed derivatives. The Fund targets a 130% long / 30% short portfolio structure. For practical purposes this could vary within a range (70% to 150% long and 0% to 50% short), with a typical target net exposure position of 90 to 110%. In the 6-month transition period the Fund's cash weighting will not fall below 50% of the Fund's invested capital
Hedging	OTC and FX Derivatives	SPI futures; exchange traded derivatives listed on the ASX with the primary aim of managing risk, including, without limitation, seeking to protect against unfavourable changes in an investment's price brought about by short selling, changes in interest rates, credit risk, equity prices, currencies or other factors.