

**16-May +2.29 %**  
**Latest 12 Months +9.94 %**

### Key Points:

Optimal Australia is a specialist Australian equity investment manager established in 2008. The investment team of George Colman, Peter Whiting, Stephen Nicholls and Justin Hay have over 100 years combined experience in the Australian equity market.

The Fund's long/short equity strategy portfolio typically has a low but variable net market exposure comprising 40 to 65 stocks broadly selected from within the ASX200.

The Fund's risk profile is shown by 80% of monthly performances to date being positive with the largest drawdown of -4.65%. The Fund's Sharpe Ratio is 1.53 and Sortino Ratio of 3.53 compared with the ASX200 Accumulation Index's Sharpe and Sortino ratios of 0.20 and 0.17 respectively.

### Management Company Overview:

Optimal Fund Management Australia ("Optimal Australia" or the "Manager") was formed in July 2008 by Principals George Colman and Peter Whiting in conjunction with Optimal Fund Management, which had managed Japanese and Asian long/short equity funds since 1998.

Colman and Whiting each have over 30 years equity market experience including 20 years with Citigroup Australia and predecessor County NatWest, where Colman was a Managing Director of Equity Research. Whiting was a Managing Director in the Equities Division combining responsibility for Client Equity Risk with a senior advisory role both in Australia and internationally, with overall responsibility for sales trading.

Colman and Whiting are supported by Senior Investment Analysts Stephen Nicholls who joined the team in 2010, and Justin Hay who joined in October 2013. Nicholls also has 30 years market experience, starting in foreign exchange risk management followed by periods as an investment analyst and portfolio manager with BHP and RACV, and then the equities division at Citigroup Australia. Hay has 15 years' experience with Goldman Sachs, where he was an Executive Director in the Equity Products Group.

As such the investment team combines extensive Australian equity market experience, and indicates disparate yet complimentary skill sets and a long history of working together at Citigroup and County.

### Investment Strategy and Process

The Fund utilises an equity long short strategy investing exclusively in Australian and NZ listed markets. The portfolio has a target holding of 25-40 long and 15-25 short positions, with individual positions generally in the range of 2-5% of NAV, and aims to have 75% of gross equity market risk in the top 100 ASX stocks, and not less than 90% in the top 200. The Fund targets a low but variable net exposure profile, normally providing a

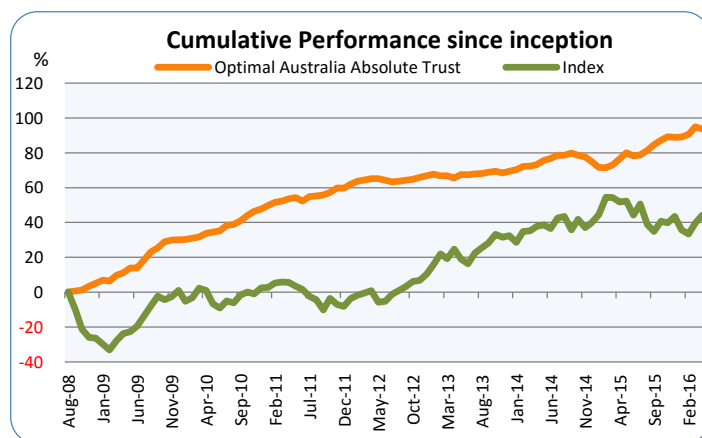


Key Performance Statistics	Optimal	Index*
May-16	2.29	3.09
Annualised Return	9.22	5.26
Latest 3 Months	3.96	11.60
Latest 6 Months	4.67	6.46
Latest 12 Months	9.94	-2.38
Latest 24 Months p.a.	6.18	3.59
Latest 36 Months p.a.	5.72	7.71
Latest 60 Months p.a.	5.10	7.53
% Positive Months	79.57	59.14
Best Month	4.00	7.98
Worst Month	-1.88	-12.61
Largest Drawdown	-4.65	-33.11
Average +ve Return	1.09	3.37
Average -ve Return	-0.65	-3.61
Annualised Standard Deviation	3.68	14.43
Downside Deviation (Since Inception)	1.57	10.67
Sharpe Ratio (Since Inception)	1.53	0.20
Sortino Ratio	3.53	0.17

\*Index is ASX200 Total Return adjusted since Fund's Inception

slight net long bias, and also uses SPI futures and long exchange traded options, primarily to hedge market risk.

The investment strategy, which is identical for both the local and offshore fund, is based around the team's fundamentally



Performance - Net of Fees (%)													Optimal Australia Absolute Trust												
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD												
2016	0.02	0.77	2.34	-0.69	2.29	-	-	-	-	-	-	-	4.78%												
2015	-1.88	-0.08	0.98	1.96	2.04	-1.09	0.31	1.52	1.79	1.42	1.01	-0.11	8.07%												
2014	0.57	1.06	0.04	0.57	1.38	0.63	1.03	0.06	0.64	-0.71	-0.53	-1.53	3.22%												
2013	0.46	-0.50	-0.06	-0.70	1.22	-0.18	0.36	0.14	0.43	0.32	-0.52	0.54	1.50%												
2012	1.51	1.03	0.46	0.46	0.00	-0.60	-0.54	0.26	0.29	0.37	0.57	0.66	4.54%												
2011	1.36	1.26	0.50	0.74	0.57	-1.38	1.69	0.29	0.29	0.97	1.63	-0.09	8.07%												
2010	0.17	0.52	0.68	1.45	0.59	0.57	2.34	0.36	1.45	2.23	1.66	0.86	13.64%												
2009	1.81	-0.56	3.10	1.37	2.43	0.09	4.00	3.88	2.00	2.68	0.78	0.09	23.81%												
2008	-	-	-	-	-	-	-	-	0.67	0.59	2.19	1.47	5.00%												

driven research and stock picking ability. Coupled with active position management and the risk management framework, the process is designed to protect capital and avoid negative performance. Colman, Nicholls and Hay are responsible for fundamental research, which at a minimum requires a clear knowledge of company earnings, valuation and capital structure in order to understand the investment risk.

Central to the process is a research-based assessment of each stock's fair value range. Positions may be initiated in the expectation of a reversionary move in the stock price toward fair value, after full consideration of both fundamental and non-fundamental factors.

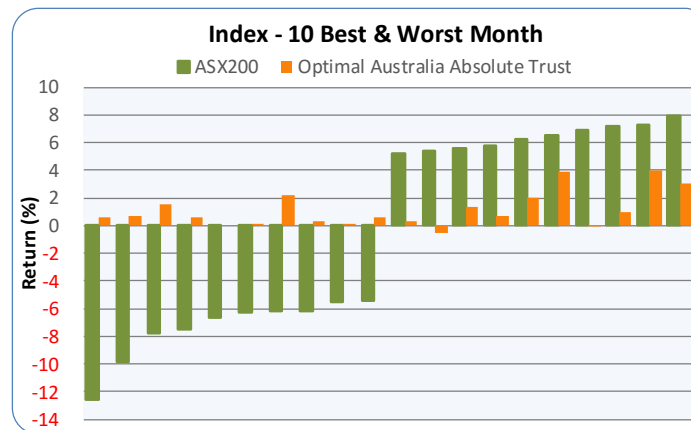
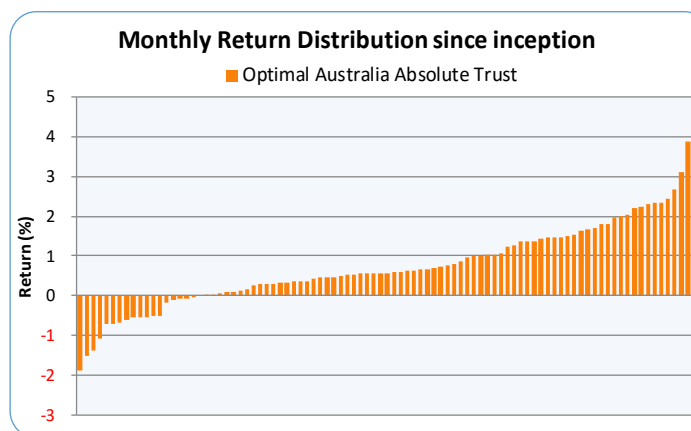
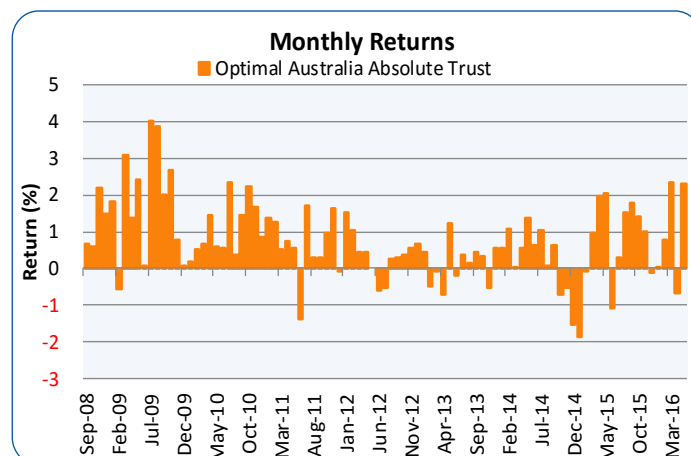
Opening a position requires the unanimous agreement of Colman and Whiting, with the latter responsible for the position's implementation. Whiting also provides active input into the portfolio's construction, and is responsible for rebalancing positions within the fair value range.

Overall market exposure and risk is established according to the investment team's view of equity markets, with position sizes adjusted downwards, and both gross and net risk levels reduced as the outlook for the market direction becomes less clear. Exposure and risk limits are reviewed on a real time basis by the investment team.

The Investment team's complementary skills of research and market knowledge are key to the Fund's performance. However, the investment model also focuses on keeping to a defined and disciplined universe of liquid and well researched stocks, strong risk management, an aversion to crowded or overly complicated trades, and active position management.

The investment team's core philosophies, which are fundamental to the Fund's strategy and implementation, include:

- They are fundamentally driven investors, understanding that successfully extracting "alpha" from the market



requires a deep insight into industry sectors and underlying companies.

- They recognise that although their knowledge, research and view might be correct, they must remain flexible and aware of prevailing market conditions and opinion and the institutional bias which can frequently occur in Australian equity markets.
- Finally, they understand their industry and company valuations, believing that when stock prices move away (up or down) from fair value, opportunities exist for attractive returns.

### Risk Management

The Fund invests in exchange traded stocks, SPI futures and "long" Exchange Traded Options only. Market risk is governed

### Performance Review

□ The Fund has a track record of over 7 years, incorporating market conditions that have been both varied and challenging. Since inception, the Fund has outperformed the underlying market, particularly given the high market volatility in 2008 & 2011 and recently in August 2015 and January 2016.

□ An indication of the Fund's performance is the return of 9.22% p.a. and positive returns every year since inception compared with the ASX200 Accumulation Index return of 5.26% p.a. over the same period.

□ The approach and focus on risk and capital protection is also evident in other Key Risk Statistics including the Sharpe Ratio of 1.53 and a Sortino ratio of 3.53 demonstrating the successful emphasis on capital preservation. This is clearly displayed in the Fund & Index chart (right), with low negative performances.

□ The Fund has significantly lower volatility at 3.68% than the market at 14.43%, and also against the majority of its absolute return peers. Other risk based statistics also indicate the strong risk aversion characteristics of the Fund with downside deviation since inception of 1.57 compare to the Index of 10.73.

by a series of limits on gross and net exposure, position size, and a hard stop loss limit on short positions.

Single positions (long or short) are limited to 15% of NAV at cost for ASX 200 members, and 10% for non-index stocks, although in practice this rarely exceeds 10% and are typically sized between 1% and 5% of NAV.

There are no hard liquidity limits on individual positions, but liquidity and position size are closely monitored by Whiting. Given the Fund's current size and focus on top 100 ASX stocks the absence of a hard liquidity limit is unlikely to be an issue.

The hard stop loss limit on individual short positions cuts in when the price movement creates a 0.5% loss on overall NAV. Although not firm, the manager adopts the same approach to losses in the long portfolio.

Under normal market conditions the portfolio will have a variable but net long bias. If insufficient stocks qualify as short positions based on fair value and risk criteria, the portfolio's net exposure will be lowered using SPI futures.

Positions are sized based on the investment team's assessment of price versus a stock's fair value. Overall the Fund's net and gross exposure is governed by the overall view of market risk, with gross exposure (long + short + derivatives) limited to 200% of NAV and net exposure of 60%. In practice this rarely exceeds 90%, with net month end exposure since inception ranging from -7% to +35%.

### Operational Risk

The Manager has well defined operational processes with daily trade reconciliation between the Prime Broker and Administrator.

IT systems are outsourced, and disaster recovery is addressed by information systems being accessible via the web for key staff. Compliance and operations are the responsibility of the Chief Administration Officer, Ms Sook Fun Chan.

Overall business and key person risk is enhanced by the seniority and knowledge of the investment team of Colman, Whiting, Nicholls and Hay, whose combined market experience totals over 100 years. While the interaction and synergy between these four (and Colman and Whiting in particular) is undoubtedly a part of their success, it also helps to diminish key person risk.

### Marketing and Investor Relations

The Fund's investor base is principally made up of high net worth individuals and family offices with the largest investor representing 25% of FUM. Principals George Colman and Peter Whiting are both significant investors in the Fund on the same terms as external investors. The Manager expects capacity to be limited to \$500m.

### Structure, Terms & Conditions and Fees

Optimal Fund Management Australia (ABN 48 129 937 837) holds AFSL 325159 for wholesale investors only issued on 30 July 2008.

**Trustee:** Optimal Australia

**Administrator:** HSBC, Sydney  
**Prime Broker:** UBS AG, Australian Branch  
**Auditors:** Ernst & Young, Sydney  
**Legal:** King & Wood Mallesons, Sydney

Optimal Australia Absolute Trust	
Strategy	Equity Long/short
Geographic Mandate	Australia
Investor Type	Wholesale
Min. Investment	A\$500,000
Additional Investment	A\$100,00
Management Fee	1.00% p.a
Performance Fee	20% p.a, with high water mark
Hurdle	No
Min. Term	1 Month
Investment/Redemption	Monthly
Inception Date	Sep-08
Fund Size	A\$100 million
Status	Open

**This Report is valid till July 2016**

### About Australian Fund Monitors

Australian Fund Monitors (AFM) is a specialist research and information provider focusing on the Absolute Return and Hedge Fund Sector. Established in 2006, AFM holds AFS licence 324476 to provide general advice to wholesale investors only.

### AFM Information and Research Services

**AFM's Information Services** provide comparative performance and factual fund data along with industry information available on [www.fundmonitors.com](http://www.fundmonitors.com) and [www.prismsselect.com](http://www.prismsselect.com).

**AFM Research Services** include AFM Fund Reviews which provide quantitative performance information along with descriptions of various aspects of each specific fund and the fund's manager. AFM Fund Reviews do not contain financial advice but are designed to provide self-directed investors and their advisers with an accurate, balanced and verifiable description of the fund's strategy and the manager's approach to enable the reader to make an informed decision on the suitability of the product for their particular purposes.

### AFM FACTORS Research

**AFM FACTORS Reports** consist of in depth and detailed due diligence reports on specific funds and are designed for use by the research departments of dealer groups, financial advisers, and platforms. FACTORS research provide a quantitative approach to a range of operational and due diligence factors which combined with a detailed qualitative description provides the basis for inclusion of a particular fund on the approved product lists. AFM FACTORS reports are updated quarterly.

### AFM Research Methodology

AFM's research product and methodology has specific benefits and features which differentiates AFM Fund Reviews from other research products.

#### **AFM Fund Reviews do not provide ratings or recommendations:**

We believe that blanket ratings and recommendations can be misleading, and are not able to take into account the financial circumstances or objectives of individual investors.

#### **AFM Fund Reviews are clearly and concisely written:**

This enables investors or their advisors to understand the objective and processes behind each fund's strategy, and structure and operations of the management company. When used in conjunction with the quantitative comparison of the fund's key performance and risk indicators (KPI's) included in each Fund Review, the reader is in a better position to make an informed decision regarding the suitability of the fund for individual investor's requirements.

#### **AFM Fund Reviews are updated every month:**

Out of date research is potentially inaccurate research. Not only can a fund's performance and risk profile change over the course of the year (typically the cycle for much of the managed fund research available) but so can operational details and investment personnel. Each AFM Fund Review contains an expiry date, and each fund manager is not permitted to distribute out of date reviews.

#### **AFM specialises in the absolute return, hedge and actively managed fund sector:**

We believe that this is a specialised area of the managed fund market, and as such requires a specific focus and expertise. The seniority and experience of AFM's research team and our focus explains why we label our product as: "**Trusted, Targeted Research**"

### Disclaimer & Copyright

The information in this report, including financial returns, strategies, and other content (collectively referred to as "Content") has been prepared and issued by **Australian Fund Monitors Pty Limited** (A.C.N. 122 226 724, AFSL 324476) otherwise referred to as AFM. The information and content herein does not constitute financial advice and is for general information purposes only. Users of this report or any Content of AFM's websites (the "Websites") should not act or make any financial decision without first seeking professional advice. Whilst the Content has been prepared with all reasonable care from sources which we believe are reliable, no responsibility or liability is accepted by **AFM** for any errors or omissions or misstatements contained herein. Any opinions, forecasts or recommendations reflect information and assumptions at the date of publication and may change without notice. In preparing the Content it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual user.

### Disclosure of Interest

AFM has or may have, received fees either directly from a company itself or by a third party to provide consultancy services or corporate research. AFM has or may have interests in, or received fees either directly from a company itself or by a third party to provide consultancy services or corporate research. Australian Fund Monitors Pty Limited, its directors, employees or related parties (collectively "AFM") may have investments in, or commercial relationships with, companies or entities which are mentioned in this Report, and which might give rise to a potential conflict of interest.

### Copyright Protection

All Content herein is owned by **Australian Fund Monitors Pty Limited** (A.C.N. 122 226 724) and is protected by copyright. You must not copy, frame, modify, transmit or distribute the content in full or in part, without seeking the prior written consent of the copyright owner. Users are prohibited from copying, distributing, transmitting, displaying, publishing, selling, licensing, creating derivative works or using any content on the web site for commercial or public purposes

Copyright © 2016 by **Australian Fund Monitors Pty Limited** All rights reserved.

### No Warranties

AFM does not make any claims, promises, guarantees, representations or warranties regarding the accuracy, completeness or fitness for purpose of the Content. All information and content in this report is provided on an *as is* basis, without warranty of any kind either express or implied. It is the responsibility of the user to evaluate the accuracy, completeness or usefulness of any information, opinion, general advice or other. Furthermore, AFM does not warrant or represent that this content is error free.