

Optimal Australia Absolute Trust

Optimal
FUND MANAGEMENT
AUSTRALIA

Monthly Report | January 2017

	Month	Qtr	Year	Life (p.a.)
Return (net)	-1.0%	0.2%	3.7%	8.3%
Series 1 NAV				\$10.747
Positive months			75%	92%
Worst month			(2.3%)	(2.3%)
Volatility				3.7%
Sharpe ratio				1.23

Monthly key contributors - by sector

Longs

Positive Healthcare, staples, telco, gold

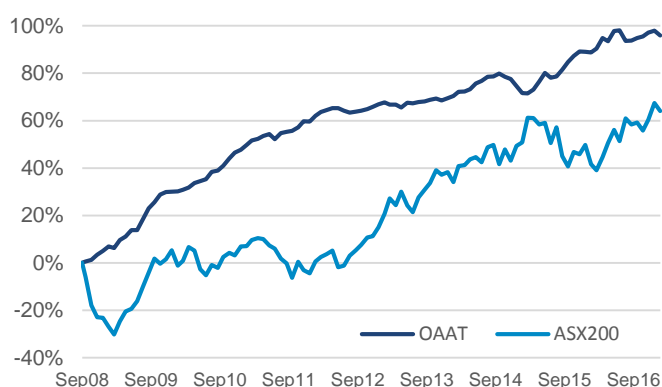
Negative Media, NBFI, transport

Shorts

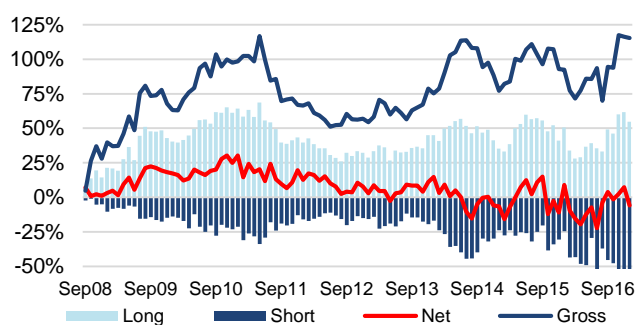
Positive RETIs, banks, Index futures

Negative Resources

Cumulative performance



Fund investment profile (% NAV)



Portfolio settings

% of NAV	Long	Short
Equities	54.7%	-31.7%
Debt / Hybrids	0%	0%
Derivatives		-28.9%
Gross exposure		115.3%
Net exposure		-5.9%

Concentration by position	Long	Short
Top 5	29.1%	-20.8%
Top 10	44.8%	-30.6%
Top 15	52.6%	-30.6%

Fund Strategy and Outlook

The Trust's key objective is to compound investor returns over time through alpha generation, with an overarching focus on capital preservation.

The Trust recorded a net return of -1.0% (Series 1 units) in January.

We see markets at something of an inflection point. Investors are desperate to believe in a Trump pro-growth agenda. This view has been reality-checked in recent weeks, with "border adjustment" policies departing sharply from the market's central (and crowded) script: tax cuts and fiscal stimulus. In Australia, the RBA's growing reticence to cut rates further is taken as a "reflation" signal, but in reality has more to do with the risks around our property bubble. February's earnings season will remain a key test for our market. With our key focus on protecting capital, the Fund currently has slightly net short exposure.

Views on the new US administration remain polarised, ranging from the sanguine to the frankly alarmist – that nationalism, protectionism, and militarism are no recipe for stability, let alone growth. This has resulted in some schizophrenic price behaviour. Policy delivery remains a key test for investors, and will likely be an ongoing source of market volatility.

Bonds have rallied in recent weeks, with a growing risk-off mindset trumping concerns over incipient inflation, set against a backdrop of a possible step-change in the US fiscal position combined with monetary tightening and much less certain geopolitics. Interest-rate sensitive stocks have done well, yet gold has still rallied hard. Materials, in contrast, continue to lead the Australian market, building on 60%+ rolling-year gains.

Against that backdrop, we retain a cautious position with respect to net market exposure, and will continue to focus on stock opportunities. Valuations are elevated at current prices, and continue to discount faster earnings growth.

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Performance Review

Several of the Fund's stronger (long) investments in December gave up much of their gains in January, including Hendersons, Clydesdale, APN and Orocobre. The first two stocks confronted a severe headwind in the form of further weakness in the GBP. The damage here is very much done. GBP now trades at close to 30-year lows against most currency crosses, and in our view this further strengthens our conviction in the deep discounts that we see to our fair value assessment for these companies, both of which feature the sort of high-quality cost-driven earnings growth that we continue to emphasise across our portfolio.

The earnings reporting and predecessor "confession" periods are always challenging. In this instance, we realised strong gains from CSL's upgrade, and were hit by Brambles' downgrade. Digging deeper, CSL very much reaffirmed our read on the company's underlying business conditions. In contrast, Brambles' issues (sharp de-stocking in the US retail supply chain

in December), was the exact opposite, and we suspect that there is more to this story yet to emerge.

Woolworths continued to perform strongly for us, and we look forward to the company's pending 2Q report, which we expect to confirm sales momentum that will be solid in absolute terms, and better again in relative terms. Other solid long performers included Newcrest, Link and Vocus Communications.

Short-selling remains a core risk-management discipline for us as a means of hedging long portfolio risk. A number of our core shorts in retail and financials worked well for us during the month. Conversely, our early-stage (and small) short markers in materials were a drag on performance. Our view is that the intersection of passive investor re-weighting, a pause on Trump 'reflation', and an iron ore price that confounds near-term fundamentals should lead sector stock prices to retrace to our (lower) fair value targets.

Optimal Australia Absolute Trust – monthly returns

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY
FY17	(2.28%)	0.02%	0.56%	0.35%	0.95%	0.29%	(1.00%)						(1.11%)
FY16	0.31%	1.52%	1.79%	1.42%	1.01%	(0.11%)	0.02%	0.77%	2.34%	(0.69%)	2.29%	0.11%	11.21%
FY15	1.03%	0.06%	0.64%	(0.71%)	(0.53%)	(1.53%)	(1.88%)	(0.08%)	0.98%	1.96%	2.04%	(1.09%)	0.80%
FY14	0.36%	0.14%	0.43%	0.32%	(0.52%)	0.54%	0.57%	1.06%	0.04%	0.57%	1.38%	0.63%	5.64%
FY13	(0.54%)	0.26%	0.29%	0.37%	0.57%	0.66%	0.46%	(0.50%)	(0.06%)	(0.70%)	1.22%	(0.18%)	1.86%
FY12	1.69%	0.29%	0.29%	0.97%	1.63%	(0.09%)	1.51%	1.03%	0.46%	0.46%	0.00%	(0.60%)	7.88%
FY11	2.34%	0.36%	1.45%	2.23%	1.66%	0.86%	1.36%	1.26%	0.50%	0.74%	0.57%	(1.38%)	12.57%
FY10	4.00%	3.88%	2.00%	2.68%	0.78%	0.09%	0.17%	0.52%	0.68%	1.45%	0.59%	0.57%	18.75%
FY09			0.67%	0.59%	2.19%	1.47%	1.81%	(0.56%)	3.10%	1.37%	2.43%	0.09%	13.90%

Note: returns are net of all fees and assume reinvestment of distributions. Fund inception date 15/9/08

Optimal Australia Absolute Trust – distribution history

Y/e June	2009	2010	2011	2012	2013	2014	2015	2016
Series 1 units	\$1.23	\$1.31	\$2.03	\$0.41	\$0.12	\$0.34	\$0.46	\$0.71

Fund Facts

Initial series NAV	\$10.747	Distribution frequency	Yearly (bi-yearly in FY 2016)
Strategy	Long-short Australian equities	Minimum investment	Wholesale investors only, \$100k
Objective	Positive returns in all market conditions. Overarching focus on capital protection	APIR Code	OPT0001AU
		ISIN	AU60OPT0014
Firm AUM	\$108m	Bloomberg	OPAUSAB AU Equity
Last distribution	\$0.265 per unit (July 2016)	Fund inception	15/9/08 at \$10.000 per unit

This report is prepared for investors in the Optimal Australia Absolute Trust. Returns and prices are quoted net of all expenses, management fees, and accrued performance fees. This is neither an offer to sell nor a solicitation of any offer to buy Units in the Trust. Any such offering can only be made to qualifying 'wholesale investors' pursuant to the Fund's Information Memorandum, and the relevant Subscription Application.