

Optimal Australia Absolute Trust

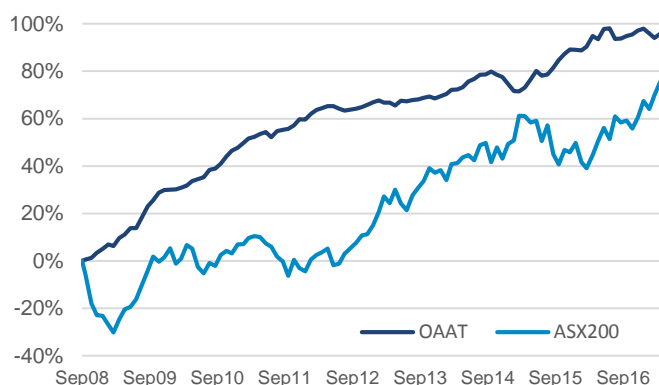
Optimal
FUND MANAGEMENT
AUSTRALIA

Monthly Report | March 2017

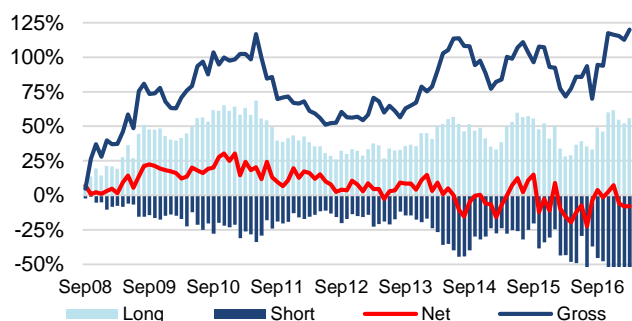
	Month	Qtr	Year	Life (p.a.)
Return (net)	0.9%	-1.1%	0.5%	8.2%
Series 1 NAV				\$10.742
Positive months			67%	79%
Worst month			(2.3%)	(2.3%)
Volatility				3.8%
Sharpe ratio				1.12

Monthly key contributors - by sector	
Longs	
Positive	Banks, non-bank financials, healthcare, staples
Negative	Materials, telecoms
Shorts	
Positive	Materials
Negative	Transport, banks, Index futures

Cumulative performance



Fund investment profile (% NAV)



Portfolio settings

% of NAV	Long	Short
Equities	56.0%	-28.3%
Debt / Hybrids	0%	0%
Derivatives		-35.7%
Gross exposure		120.0%
Net exposure		-8.0%

Concentration by position	Long	Short
Top 5	26.4%	-16.8%
Top 10	43.5%	-27.5%
Top 15	53.4%	-28.3%

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 +0.9% (Series 1 units) in March.

Our stock selection worked well in March, but being net short, such a strong market clearly detracted from our returns. This begs the question: why do we maintain net short risk exposure? There are several reasons. First, this strategy is grounded very much in returns from stock selection (or 'alpha'), and much less from the broader market ('beta'), which we view as a typically quite volatile source of returns. Key to our process is buying stocks that are priced below our research-based 'fair value' assessment. Strong recent market returns have pushed many mid- and large-cap company valuations further into 'expensive' territory in our view. We are finding fewer stocks to buy, and many more we'd rather sell in order to crystallise profits and/or protect investors' capital.

Secondly, and above all else, we focus on investor downside-risk protection. Beta returns have been very, very good for some time now. Equity investors seem convinced that synchronised global growth and 'reflation' is in prospect. Bond investors and commodity buyers see a very different world. Policy execution in the US is not as smooth as investors expect, and geopolitical risk seems elevated. This is far from a risk-free environment.

The Australian market is in any event divorced from the broader growth thematic. The RBA is neatly pinned between its growing sense of panic over the property bubble (where it joins APRA and ASIC in jawing the market) and its inability to raise interest rates due to its concern over the weak state of the wider economy. The earnings story here is much more a company-by-company proposition than any broad market opportunity, in our view. We will look for opportunities as stock prices revert to more attractive levels relative to underlying fair values.

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Performance Review

At a stock level, all our performance during March was driven by our longs. Our stock shorts basically broke even – an acceptable outcome in such a strong market, representing cost-effective insurance for the long portfolio. Our short index futures position was a substantial drag on performance.

Key contributors for us during the month included a number of stocks which have been in the portfolio for some time. Clydesdale Bank retains relatively predictable (cost-out and capital release) levers for higher earnings growth and ROE, and remains well-insulated from the concentration, capital, and credit quality issues that we confront with the Australian banks, which are trading at much higher levels relative to our fair value assessment.

Henderson Group captures a similar cost-out theme and trades below our fair value range – we think due to research inertia and index selling ahead of completion of its merger with Janus. We met with management in March, and now have a better appreciation of the growth potential from the merged distribution footprint.

CSL and Woolworths continued to drive strong returns, although we reduced our position in the latter as the stock price approached the upper end of our fair value range. We also moved to realise our investment in Myer during the month, as we no longer see value at prices that reflect speculation around recent strategic shareholding changes.

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%)	(0.98%)	0.94%				(1.16%)
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	\$10.742	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	\$115m	Bloomberg	OPAUSAB AU Equity
Last distribution	\$0.265 per unit (July 2016)	Fund inception	15/9/08 at \$10.000 per unit

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