

# Optimal Australia Absolute Trust

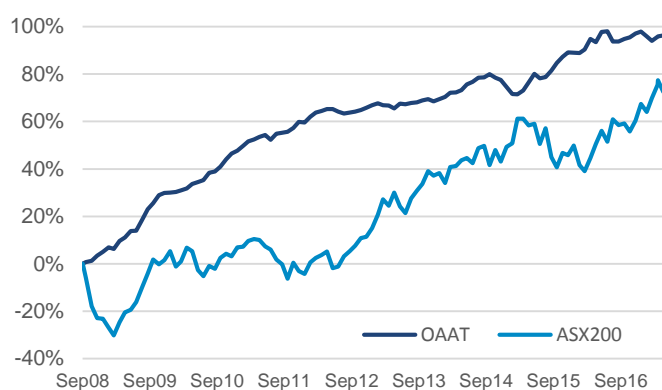
**Optimal**  
FUND MANAGEMENT  
AUSTRALIA

## Monthly Report | May 2017

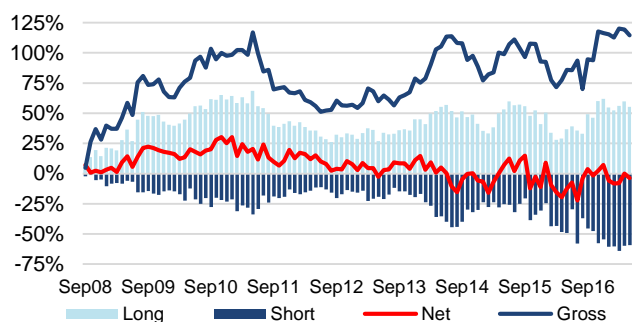
	Month	Qtr	Year	Life (p.a.)
Fund return (net)	0.2%	1.2%	(0.8%)	8.0%
Series 1 NAV				10.767
Positive months			75%	80%
Worst month			(2.3%)	(2.3%)
Volatility				3.7%
Sharpe ratio				1.1

Monthly key contributors - by sector	
<b>Longs</b>	21 stocks
Positive	Diversified financials, resources, energy
Negative	Retail, Telco, Media
<b>Shorts</b>	12 stocks
Positive	Banks, healthcare, index futures
Negative	Transport, resources, REITs

### Cumulative performance



### Fund investment profile (% NAV)



### Portfolio settings

% of NAV	Long	Short
Equities	55.4%	-29.7%
Debt / Hybrids	0%	0%
Derivatives		-29.5%
<b>Gross exposure</b>		<b>114.6%</b>
<b>Net exposure</b>		<b>-3.8%</b>

Concentration by position	Long	Short
Top 5	27.3%	-18.3%
Top 10	43.7%	-28.2%
Top 15	51.5%	-28.2%

### Fund Strategy and Outlook

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

The Trust recorded a net return of +0.2% in May.

Equity markets released the pressure-valve a little during May, with the ASX200 index down 3.4%. Notably weak sectors included banks (the Govt's jump to the left in the budget was unhelpful), housing-related stocks (with construction activity and home prices peaking) and retailers (with growing evidence of softer consumer activity and fear of the 'Amazon effect'). May's retracement simply took the market back to where it was a couple of months ago. At that point, we believed the markets were already at the expensive end of fair value, and we think there is a little more weakness to come.

Bond markets, both locally and abroad, continue to signal that economic growth data is unconvincing. This is especially the case in the Australian economy which features a continuing absence of real wage growth, sliding commodity prices (especially iron ore), and high (likely unsustainable) levels of household debt – fuelled by record low interest rates and a residential property boom that has enriched a generation of leveraged borrowers. Australian consumers have been living beyond their cash flow means for some years, and recent data shows what can happen if the home equity drawdown slows – but by no means stops or (God help us all) reverses.

Our strategy remains anchored to our core belief that investor returns over time are as much a function of capital preservation during times of market weakness as they are of participating in market rallies.

We continue to actively position the fund to be slightly net short beta exposure, and our long positions remain tactically weighted to stocks which feature little dependence on the domestic economy, strong balance sheets and free cash flows, and defensive valuations.

# Optimal Australia Absolute Trust

## Performance Review

Our short positions did most of the heavy lifting for investors in May as the market traded lower, generating a return of over +1% for the month. We actively reduced the Fund's net market exposure during May (to around 4% net short), most substantially through individual stock shorts, adding to the portfolio insurance from short our index futures position as we seek to protect investor capital.

Our shorts in the financial and healthcare sectors in particular made positive contributions to the fund's performance. Earnings results from the banks in May were somewhat underwhelming, and the Government's liability tax, while still poorly defined at this stage, adds to the sense that the major banks will have to work very hard to stand still, even prior to any consideration of the impact of weaker credit conditions.

At a fundamental research level, May is always a busy period for us, as we seek to engage with as many companies of interest to us as possible prior to management going into the June blackout period.

This year has been even busier than usual, with a particular focus on the retail sector, where a number of stock prices have very quickly retraced into consideration under our fair value process. The consumer and structural risk headwinds here are obvious, but in a market largely bereft of value (and in a group so heavily short-sold), we consider one or two of these stocks to be well worth some additional work.

There were no great changes in our conviction longs. The Henderson/Janus merger has closed on schedule, and the stock was a positive contributor to returns. We maintain a favourable view on the ability of management to deliver cost-out and better leverage the merged distribution footprint. Another of our international-facing financials, CYBG, did less well following its earnings report and pre-UK election uncertainty. We view CYBG's merits as almost the complete inverse of our domestic banks regarding earnings visibility (again from cost-out), trend in ROE, and capital requirements – albeit we could do with a little less political volatility.

## 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%	0.07%	0.17%		(0.93%)
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 and Contact:

<b>Initial series NAV</b>	\$10.767	<b>Distribution frequency</b>	Yearly (bi-yearly in FY 2016)
<b>Strategy</b>	Long-short Australian equities	<b>Minimum investment</b>	Wholesale investors only, \$100k
<b>Objective</b>	Positive returns in all market conditions. Overarching focus on capital protection	<b>APIR Code</b>	OPT0001AU
		<b>ISIN</b>	AU60OPT0014
<b>Firm AUM</b>	\$115m	<b>Fund Inception</b>	15/9/08 (@ \$10.00 per unit)
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