

Optimal Australia Absolute Trust

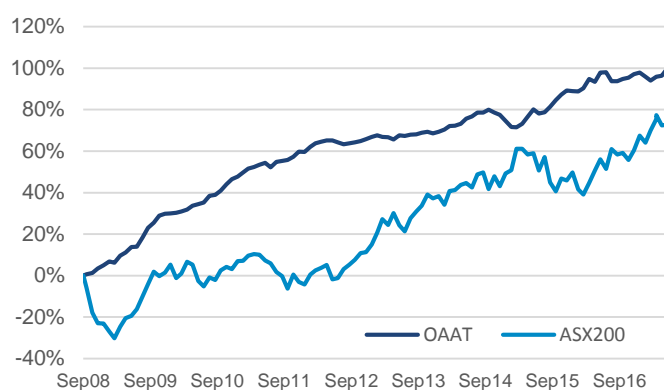
Optimal
FUND MANAGEMENT
AUSTRALIA

Monthly Report | June 2017

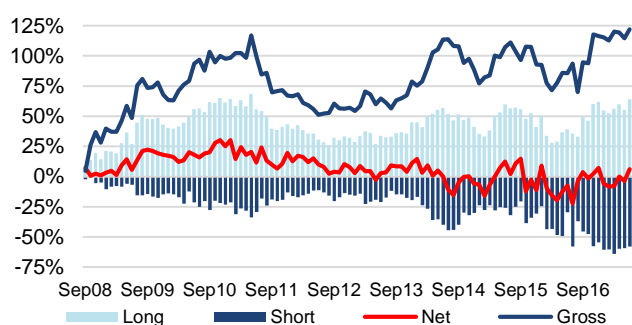
	Month	Qtr	Year	Life (p.a.)
Fund return (net)	1.88%	2.11%	0.93%	8.19%
NAV (cum-distn)				10.969
Positive months			75%	80%
Worst month			(2.3%)	(2.3%)
Volatility				3.7%
Sharpe ratio				1.2

Monthly key contributors - by sector	
Longs	25 stocks
Positive	Healthcare, Media, NBFIs, retail
Negative	Resources, Energy, REITS
Shorts	11 stocks
Positive	REITs, Banks, Index Futures
Negative	Healthcare

Cumulative performance



Fund investment profile (% NAV)



Portfolio settings

% of NAV	Long	Short
Equities	64.0%	-26.8%
Debt / Hybrids	0%	0%
Derivatives		-31.2%
Gross exposure		121.9%
Net exposure		6.0%

Concentration by position	Long	Short
Top 5	25.9%	(17.1%)
Top 10	41.8%	(25.4%)
Top 15	51.0%	(29.0%)

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 +1.9% in June.

The ASX200 Accum Index rose 0.2% in June, but posted its first negative quarter in over a year. Underlying volatility has edged up, albeit from very low levels. Investors seem rightly disconcerted by the recent move in bond yields, as central banks floated the possibility of monetary stimulus withdrawal. A\$ and US\$ 10-year yields are now up 35 bps in two weeks, and the move in Euro zone yields much greater again – if this is the reaction to a possibility, the inevitable reality could be very ugly indeed.

Locally, the RBA appears to want to keep rates on hold, pinned by its concerns over a persistently weak labour market and risks in the housing market. APRA's macroprudential regulation has led to banks rationing and repricing of (mainly investor) credit. Consumers seem vulnerable to even small changes in the credit landscape, given the squeeze on disposable income and levels of household leverage.

While on the RBA, Governor Lowe's recent analysis of public policy offered little comfort: "politics has become increasingly polarized as parties exploit those losing out from proposed reforms to gain electoral advantage... government risk-aversion is increasing ... Australia hasn't cemented a significant economic reform since the GST in 2000". Recent reactive policies (bank deposit taxes and gas "security" mechanisms) seem very unlikely to be positive for investment or equity risk premia.

A number of these themes continue to influence our stock selection. We see earnings risk in companies that face the Australian consumer; and considerable risk in the banks and housing exposed sectors. We continue to focus on offshore, structural, and cost-out drivers of earnings growth, and we remain very mindful of valuation risks from interest rate reversion.

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Performance Review

June's result was a pleasing way to close-out a very challenging year for the Trust. Consistent with our history, the fund again demonstrated its ability to preserve capital when either markets are down or, as was the case for much of FY17, when our investment process is not meshing quite so smoothly with prevailing market conditions.

Both our long and short positions made positive contributions to performance in June. Key positive contributors included Janus-Henderson, Suncorp, CSL, Auto Group and HT1 on the long side; as well as REITs and selective financial shorts.

The relentless rise of CSL continues to focus our minds, as the stock is pressing the top end of our fair value range. Our research does, however, continue to highlight strong upside optionality for CSL from competitor production problems, and the company's R&D pipeline and turnaround in its flu business.

With the Janus-Henderson (JHG) merger now approved and in execution mode, our work similarly highlights the synergy value yet to be fully priced into the stock, from both cost-reduction and better utilisation of the merged distribution footprint.

We have for some time had very active research on the alternative energy industry, as well as an investment in lithium producer Orocobre. We took advantage of sector price volatility early in the month to broaden our exposure to two additional emerging lithium producers, in Pilbara Minerals and Galaxy Resources.

As noted above, volatility has edged higher in recent weeks, not only in equity markets but so too in currency and bond markets. The market continues to shrug off increasingly poor geo-politics, but we expect volatility to continue to rise over in the very short term, fuelled in part by the company reporting period in August, APRA's final position on bank capital requirements, and a key trend reversal in bond market 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%	1.88%	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:

Initial series NAV	\$10.969 (cum July-17 distribution)	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	\$117m	Fund Inception	15/9/08 (@ \$10.00 per unit)
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