

# ARCO Investment Management Absolute Trust (Optimal Australia Absolute Trust)

Monthly report: August 2017

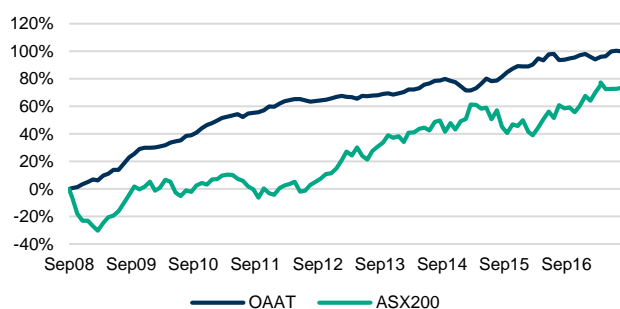
Markets stared-down not only a volatile reporting season but also a stronger AUD and escalating geo-political tensions – but for how much longer? The Absolute Trust recorded a modest, negative return for the month of August, (its first in 6 months), and remains defensively positioned.

Performance	Month	Qtr	1 Year	3Yr pa	Life (pa)
Fund return (net)	(0.29%)	1.82%	3.16%	3.80%	8.02%
Positive months			83%	70%	79%
Worst month					(2.3%)
Volatility					3.7%
Sharpe ratio					1.11

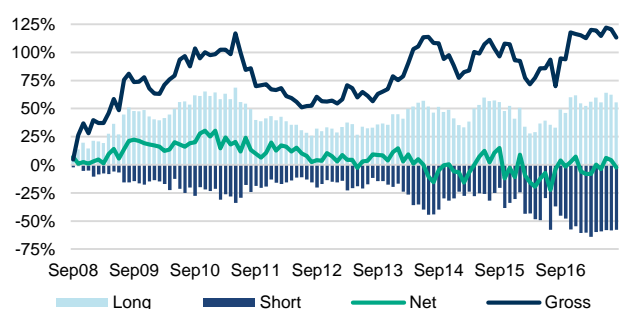
## Monthly key contributors – by sector

Longs	
Positive	Resources, banks, NBFi's, energy
Negative	Retail, telecommunications, insurance
Shorts	
Positive	Healthcare, NBFi's
Negative	Transport, REITs, resources, index futures

## Cumulative performance



## Fund investment profile (% NAV)



## Portfolio settings

% of NAV	Long	Short
Equities	55.4%	-25.5%
Debt/ Hybrids	0%	0%
Derivatives		-32.3%
Gross exposure		113.1%
Net exposure		-2.4%
Concentration by position	Long	Short
Top 5	25.9%	(17.1%)
Top 10	41.8%	(25.43%)
Top 15	51.0%	(26.8%)

## Fund strategy and outlook

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

August was always going to be a relatively volatile month for local stocks as reporting season dominated diaries and financial headlines. Escalating geo-political tensions added further uncertainty. Equity markets have moved into a choppy, sideways grinding pattern as stretched valuations and elevated risks trade off against ultra-low interest rates.

Typifying the tone of reporting season were a number of relatively strong corporate earnings results, with around a third of reporting companies beating their consensus forecast, though a number of them subsequently priced lower on the back of their earnings guidance, capital management pitch or 'surprise' dividend announcement.

Any company's capital management is always going to be in the market's spotlight - not so much what it *has* done, but more importantly what it *plans* to do. Shelving buy-backs (CSL), lifting capex guidance (mining services stocks) and lowering dividend payout ratios (TLS, HVN) will translate quickly into company re-valuation and consequent price action.

Broadly, we remain sceptical about the major banks and healthcare stocks, cautious about the major resource companies and REITs and selectively interested in the consumer discretionary and telecommunications stocks – most especially in stocks that we believe the market punished too harshly for their results and pushed their prices below our fair value range.

As a manager that focuses constantly on preserving investor capital over time, we also remain vigilant of the macro drivers of our equity market. Whilst we note the broad synchronisation of economic growth beyond our borders, we are also of the view that escalating geo-political tensions and a patchy US economic growth story present real risks to investor portfolios at present and need to be taken seriously. As such, the Fund is positioned relatively defensively with a net -2.4% market exposure at the end of August.

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## Performance review

The long portfolio contributed positively to the fund's performance during August, (and continues to drive 75%+ of the fund's return over time).

Of particular note during the month was the strong contribution from Orocobre. We remain positive on the economics of its existing lithium asset and the potential for treble-gearing its existing equity base over additional production.

Similarly, our long-held positions in CYBG and JHG further rewarded investors in August and are symptomatic of our preference for companies with significant self-help and/or offshore earnings exposure.

CTX and STO were solid contributors to the fund's August return, though our long exposure to the insurance (SUN), transport (QUB) and retail (WOW) sectors were detractors for the month.

Our short positions negatively impacted the fund's performance in August, reversing their positive contribution over recent months.

Whilst our selective shorts in the healthcare sector were accretive, our shorts in the resource and REIT's sectors had a negative performance impact, so too our index futures shorts which we continue to use to hedge the portfolio against broader market risks.

Through August, we also moved to exit our position in CSL, trim our holding in WOW and take advantage of tactical opportunities we feel were created during the reporting season to build modest positions in CBA and Telstra which were aggressively sold down.

More broadly, the reporting season delivered its usual mix of frustration, disappointment and delight. Now our attention focuses on reviewing the chorus of capital management strategies proffered during the past few weeks – as always, the devil will be in the detail and delivery – and the market impact of actions on the Korean peninsula plus inaction from the US Congress.

## Absolute Trust – monthly returns

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY
FY18	0.24%	(0.29%)											(0.05%)
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 15/09/08.

## Absolute trust – distribution history

Y/e June	2009	2010	2011	2012	2013	2014	2015	2016	2017
Series 1 units	\$1.23	\$1.31	\$2.03	\$0.41	\$0.12	\$0.34	\$0.46	\$0.71	\$0.43

## Fund facts

Initial series NAV	\$10.528	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
Firm AUM	\$118m	ISIN	AU60OPT0014
		Fund Inception	15/9/08 (@ \$10.00 per unit)

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