

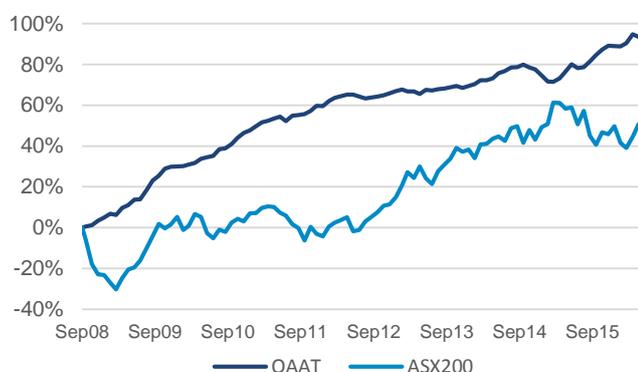
# Optimal Australia Absolute Trust

**Optimal**  
FUND MANAGEMENT  
AUSTRALIA

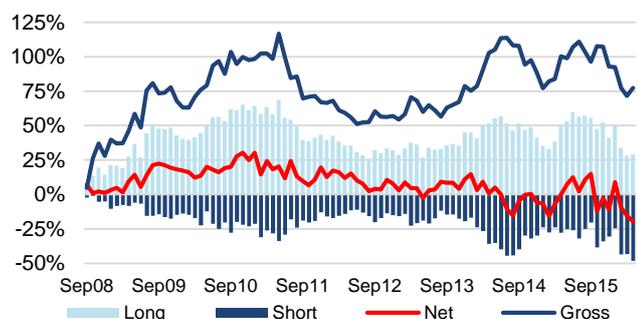
## Monthly Report | April 2016

	Month	Qtr	Year	Life (p.a.)
Fund returns	(0.7%)%	2.4%	9.6%	9.0%
Series 1 NAV				\$10.879
Positive months			75%	84%
Worst month			(1.1%)	(1.9%)
Volatility				3.6%
Sharpe ratio				1.35

### Cumulative performance



### Fund investment profile (% NAV)



### Risk settings

% of NAV	Long	Short
Equities	28.9%	(30.7%)
Debt / Hybrids	0.0%	0.0%
Derivatives		(17.6%)
<b>Gross exposure</b>		<b>77%</b>
<b>Net exposure</b>		<b>(20%)</b>

Concentration by position	Long	Short
Top 5	17.5%	-14.4%
Top 10	25.6%	-24.2%
Top 15	28.7%	-30.0%

Monthly key contributors - by sector	
<b>Longs</b>	
Positive	Resources, food, staples, insurance
Negative	Retail, media
<b>Shorts</b>	
Positive	Property, banks
Negative	Packaging, health care, index futures,

### Performance Review

The Trust recorded a net return of -0.7% in April.

It's been a very strange world in equities for some time. To quote one very experienced market observer: "does anyone still doubt we've wrecked capitalism, when investors are forced buyers of bonds for capital gains, and equities for yield?"

We're not sure about capitalism in general, but "bad news is good" continues to dominate markets, with a huge impact on the pricing of debt and equity securities. Australia suffered a paroxysm of this particular condition with the Reserve Bank's May 2<sup>nd</sup> decision to further cut the official cash rate to an all-time low at 1.75%. A predictable stock market rally followed, despite growing evidence that ultra-low interest rates are failing to help economic growth pretty much anywhere.

What is clear is that this mind-set is increasing market risk substantially, as the air-pocket under many equity valuations bid-up by central bank policies looks greater with each new economic data point, and with each new earnings downgrade. Our sense is that the RBA board, heretofore a notable sceptic with regard to monetary policy experimentation, sees sufficient economic and deflation risk to really scare it – but isn't that really just more good news?

Fund returns for April were impacted by our net short market exposure, averaging 17% of NAV, as well as weaker stock price performance from some of our high-conviction longs in the retail and media sectors. Our tactical positioning in natural resources and some beaten-up ag and defensive consumer exposures worked well, posting solid gains. The market seemed driven by unusually faceless liquidity flows, such that hedging long exposure through short-selling stocks or index futures was a difficult exercise. This is, however, certainly no time to run much unhedged market risk, for reasons touched on above and over page.

# Optimal Australia Absolute Trust

## Fund Strategy

The Australian economy has been something of a parallel universe for some time, but suddenly appears to be looking just like the rest of the world, with low growth and emerging deflationary pressure. Having resisted the temptation to indulge in currency wars and ultra-low interest rates for so long, the RBA threw in the towel, and cut rates on May 2<sup>nd</sup>, with a rebasing of their stance on the inflation outlook suggesting that they may not be finished quite yet.

The irony of this is that the RBA's scepticism over the power of monetary policies to drive growth in the current world economy, and its concern over the risks of QE (Governor Stevens: "a lot easier to start ...than stop") seems to have been born out in both the abrupt slowing in March-April data (poor and weakening in most places) and the commentary of some well-credentialed investors – Stanley Druckenmiller for one: "the current Fed is less "data dependent" than ever... policy makers now spoon feed market participants guidance on rates and pull back on rate expectations in response to any modest dip by the S&P 500..the Fed has "no endgame" and is, in essence, borrowing growth from the future...Instead of lowering, they are raising the odds of the economic tail risk they are trying to avoid "

From a risk management perspective, we find it hard to

dismiss observations of this nature lightly, and will continue to run fully hedged, or net negative, exposure. Relentless yield curve compression engineered by central banks has caused many distortions in markets, including unusual risk-seeking investor activity clustered in equity securities, which represent an important precondition for market instability.

Ground zero in Australia will be property, and the very rapid tightening in bank lending standards and credit creation bear very careful watching. To see a billionaire developer like Harry Trugiboff visiting APRA and ASIC to complain about regulatory policy being really bad for business is more than unusual – it's unnerving. Settlement risk in the apartment market is rising sharply, and it will be interesting to see whether this looming train wreck leads to broader residential contagion.

Politically, much has been made of the conservative Govt's 'attack' on capital formation in the form of super tax breaks. PM Turnbull is smart enough to realise that the electorate sees QE-style policies as an enormous gift to the rich via higher asset prices, seems keen to throw out a bone prior to the July 2<sup>nd</sup> election. That Govt. has made no progress on the expenditure side of the budget (despite the sobering fact that ~50% of Australians have some form of welfare dependency) is a much bigger problem, but for another day...

## Optimal Australia Absolute Trust – monthly returns

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY
FY16	0.31%	1.52%	1.79%	1.42%	1.01%	(0.11%)	0.02%	0.77%	2.34%	(0.69%)			8.60%
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	\$0.444

## Fund facts

<b>Initial series NAV</b>	\$10.879	<b>Distribution frequency</b>	Yearly or bi-yearly
<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>Strategy AuM</b>	\$100m	<b>Bloomberg</b>	OPAU SAB AU Equity
<b>Last distribution</b>	\$0.444 per unit (Jan 2016)	<b>Fund inception</b>	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.