

Optimal Australia Absolute Trust

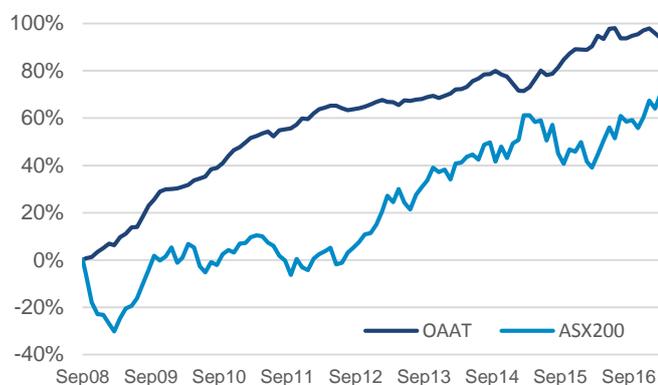
Optimal
FUND MANAGEMENT
AUSTRALIA

Monthly Report | April 2017

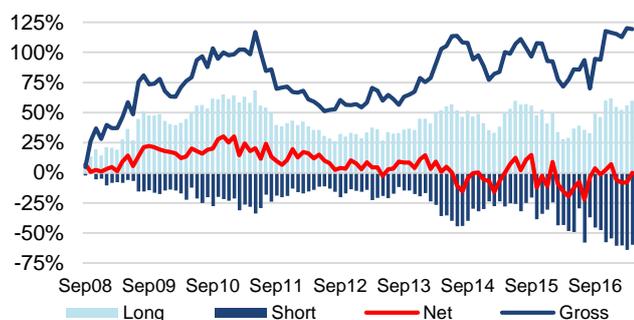
	Month	Qtr	Year	Life (p.a.)
Fund return (net)	0.1%	0.1%	1.3%	8.1%
Series 1 NAV				10.749
Positive months			75%	80%
Worst month			(2.3%)	(2.3%)
Volatility				3.8%
Sharpe ratio				1.1

Monthly key contributors - by sector	
Longs	19 investments
Positive	Healthcare, banks, NBFIs, resources
Negative	Media, telecoms, energy, retail
Shorts	14 positions
Positive	Resources, transport
Negative	REIT's, index futures

Cumulative performance



Fund investment profile (% NAV)



Portfolio settings

% of NAV	Long	Short
Equities	59.7%	-23.7%
Debt / Hybrids	0%	0%
Derivatives		-36.0%
Gross exposure		119.4%
Net exposure		-0.0%

Concentration by position	Long	Short
Top 5	28.0%	-16.3%
Top 10	45.0%	-23.8%
Top 15	55.8%	-24.7%

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 +0.1% in April.

Broad equity market strength continued in April, with the ASX 200 Accumulation index now up almost 18% in a year. We continue to be sceptical about the sustainability of this run, as several key drivers are looking very tired. Bond markets remain unconvinced that global growth and 'reflation' are holding, let alone accelerating, and commodity markets are aggressively selling the same thematic. Politics in the US and Australia are not particularly market-friendly; and global geopolitics less so again. Stock valuations remain elevated, in many cases pushing above the upper end of our fair value targets, driven by relentless liquidity and the ever-growing impact of passive (often ETF) money, reinforcing the need for portfolio insurance.

These considerations strongly temper our view of forward market beta returns, and we can see some real risks to investor capital. As a result, we continue to maintain the Trust's net market exposure in a range of neutral to modestly net short, although exposure levels did creep up during April as we covered a number of our commodity-related shorts (Fortescue, WHC, Aurizon), as stock prices retreated to within our fair-value ranges.

While our search for stock alpha remains driven by our fair value process, we are very conscious of any number of macro headwinds for the Australian economy, quite apart from bulk commodities. These include housing construction (macro-prudential credit restrictions are beginning to bite), retail (continued pressure on consumer income) and dangerously unpredictable energy "policy". Our long investments are heavily weighted to stocks that have relatively little dependence on the domestic economy, or are otherwise desynchronised from it, including offshore financials Clydesdale and Henderson, CSL, Orocobre, and even Woolworths.

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Performance Review

Our long investments during April generated around 30bps of return, on average long exposure of 58% of NAV. Our stock shorts and short index futures position both cost slightly more than 10 bps of performance, but for the reasons outlined previously, we do believe portfolio insurance is very necessary after a year of such stellar market gains.

We've noted a strong theme of avoiding domestic economy dependency within our long portfolio, and a number of stocks in this category continued to drive Fund returns. CSL is only now reaching the upper end of our fair value range in stock price terms and remains a high-quality, high-margin business, with very capable management, as seen in the turnaround in the recently acquired Seqirus flu unit. Suncorp continues to benefit from market-wide strengthening of pricing in personal insurance lines, which is offsetting elevated claims cost pressure to a great degree, and we remain encouraged by management efforts to de-risk/divest the non-core life business.

Our international-facing financials did well in April. Clydesdale Bank benefitted from the solid move upwards in the GBP currency (from near 30-year lows against some crosses), while retaining relatively predictable (cost-out and capital release) levers for higher earnings growth and ROE. Clydesdale works for our process both in absolute terms, and also relative to the low-growth, highly-valued yet very concerning credit concentration/quality and capital issues that the current reporting season is again highlighting for the Australian banks. Henderson Group captures a similar cost-out theme, but the current valuation gives little credit for the latent growth potential in a refreshed and optimised product offering across the merged Janus-Henderson distribution footprint.

Orocobre's recent setbacks are very much of its own making, but the economics of its key resource remain compelling even at reduced production rates, while we remain very positive on the structural underpinnings of the lithium market.

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%			(1.10%)
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	\$10.749	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	Fund Inception	15/9/08 (@ \$10.00 per unit)
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