

Optimal Australia Absolute Trust

Optimal
FUND MANAGEMENT
AUSTRALIA

Monthly Report | December 2016

	Month	Qtr	Year	Life (p.a.)
Return (net)	0.3%	1.6%	4.7%	8.6%
Series 1 NAV				\$10.856
Positive months			83%	92%
Worst month			(2.3%)	(2.3%)
Volatility				3.7%
Sharpe ratio				1.23

Monthly key contributors - by sector

Longs

Positive Media, retail, DivFins, banks, gold, gaming

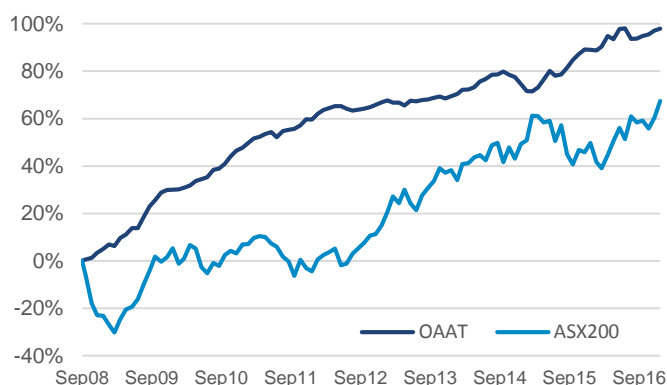
Negative Telecoms, retail

Shorts

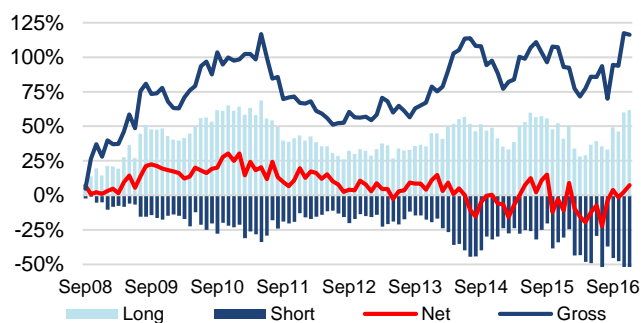
Positive Media transport

Negative Index futures, resources, banks

Cumulative performance



Fund investment profile (% NAV)



Portfolio settings

% of NAV	Long	Short
Equities	61.8%	-26.6%
Debt / Hybrids	0%	0%
Derivatives		-28.0%
Gross exposure		116.4%
Net exposure		7.2%

Concentration by position	Long	Short
Top 5	28.4%	-18.1%
Top 10	45.1%	-26.6%
Top 15	54.8%	-26.6%

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 +0.3% (Series 1 units) in December.

The US-led "buy the election" theme coincided with a useful uptick in global PMI data, leading to very strong advances in most risk markets. In Australia, the Accumulation index is +13.1% from Nov 9th to Jan 9th. This is a big move in short order, ranking as the second largest rolling 7-week gain since the recovery from the crisis lows of early 2009. More recent gains have been indiscriminate: over the 3 weeks from Dec 19th, only three stocks in the ASX 100 were down. Without entering the "great rotation" debate (in which we side with GS: it's probably a mirage), one fact is clear – this market move has absorbed a lot of sideline cash.

Tactically, we'd expect it to get harder from here, and with more volatility. Valuations are elevated at current prices, with earnings still uncertain, as we will likely see in a challenging February earnings season for Australia. The key lesson of 2015 and 2016 was that crowding kills. The Trump-driven "reflation" trade firing markets has become very crowded, very quickly. Impatience on policy delivery looms as a key test for investors.

We continue to fear structurally higher inflation, with energy prices recovering and higher wage growth. Geopolitics seem to represent another risk for bond yields. Higher bond yields require faster earnings growth just for constant equity prices. The recent market narrative is that higher bond yields are a corollary of higher growth. Maybe, but bond yields have been gamed for many years. A reversion to more sensible levels seems well overdue, and this carries many other risks with it. Financial repression as practised by central banks (and the vast "risk-parity" and "structured product" liquidity flows stemming from it), have had a profoundly distortive effect on equity pricing. That game appears very nearly over.

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Performance Review

The Fund's stronger long investments included our recent purchase of APN. This company has emerged from a tortuous restructuring process, to end up with two attractive and now wholly-owned media exposures in radio and Adshel. We were able to make an investment at a discounted valuation arising from technical pressure around its recent capital raising.

Woolworths also performed strongly for us, partly in anticipation of capital liberation through the sale of its non-core interests in petrol retailing. This deal was announced just after Christmas, deleveraging the balance sheet and removing another distraction from management's focus on the core supermarket business.

Other solid long performers included financials, namely ANZ, Suncorp, Hendersons, and Clydesdale. The Fund has limited long exposure to resources and materials,

(and is now slightly short the bulk commodity complex), but our key long holdings in Orocobre and Newcrest did well. The Fund began investing in Vocus Comms into the severe price weakness arising from earnings guidance at its AGM, although this detracted from performance for the month.

In a bullish market with little qualitative differentiation, it was difficult to add value in short-selling. Shorting remains a core risk-management discipline for us, and in such markets we are always looking for fresh short opportunities. We covered all but one defensive short in November, but were still shocked at the extent of outperformance (relative to the broader indices and to other markets) by REITs and utilities, despite only a minor retracement in bond yields. This is another great tell as to the importance of purely passive and yield-seeking money in our equity 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%							(0.11%)
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

Initial series NAV	\$10.856	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	\$108m	Bloomberg	OPAUSAB AU Equity
Last distribution	\$0.265 per unit (July 2016)	Fund inception	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.