

# Optimal Australia Absolute Trust

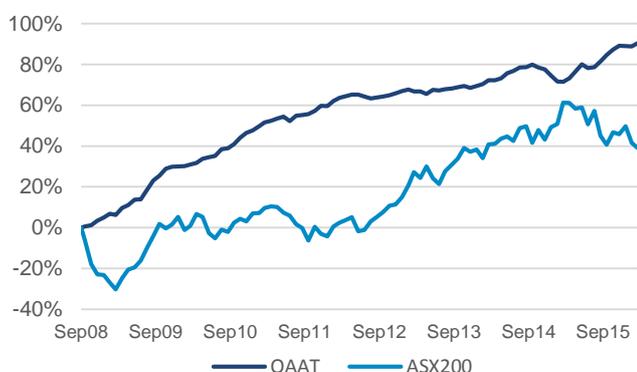
**Optimal**  
FUND MANAGEMENT  
AUSTRALIA

## Monthly Report | February 2016

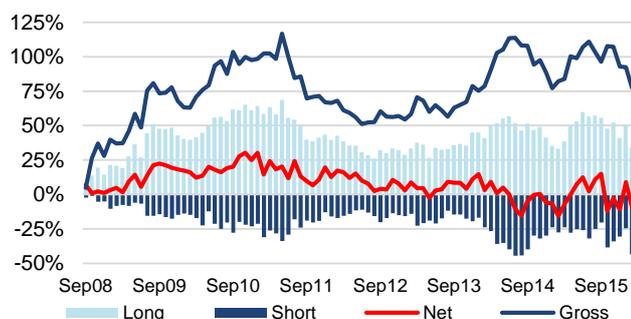
	Month	Qtr	Year	Life (p.a.)
Fund returns	0.8%	0.6%	11.0%	9.0%
Series 1 NAV				\$10.704
Positive months			83%	83%
Worst month			(1.1%)	(1.9%)
Volatility				3.6%
Sharpe ratio				1.35

Monthly key contributors - by sector	
<b>Longs</b>	
Positive	Resources, retail, staples, industrials
Negative	Retail, media, energy
<b>Shorts</b>	
Positive	Banks, telecoms, index futures
Negative	Healthcare, REITs, transport

### Cumulative performance



### Fund investment profile (% NAV)



### Risk settings

% of NAV	Long	Short
Equities	33.9%	(26.7%)
Debt / Hybrids	0.0%	0.0%
Derivatives		(16.8%)
<b>Gross exposure</b>		<b>80%</b>
<b>Net exposure</b>		<b>(10%)</b>

Concentration by position	Long	Short
Top 5	21.6%	-18.1%
Top 10	31.1%	-26.7%
Top 15	34.2%	-26.7%

### Performance Review

The Trust recorded a +0.8% return in February, against another tough month in Australian equities, with the ASX 200 Index down by 2.5%.

The start of 2016 has been characterised by “bad volatility”, and February was a month in which it would have been very easy to lose money. The credit cycle has clearly turned, with worsening spreads and liquidity in the lower reaches of the debt markets now impacting senior credit and CDS pricing. Confidence in the ability of central banks to continue to underwrite asset prices has faltered badly, as the lack of any real economy traction becomes ever more evident. For these reasons, we were prepared to work with smaller gross exposure.

Our stock selection worked well during the month, as mean reversion finally paid. In the Australian market, February was a veritable blood-bath for momentum investing, which has attracted an enormous following. Recent Losers beat prior Winners by 13%, and almost every other trailing pattern of sectoral leadership reversed sharply. Resources outperformed Banks by 15%, Industrial cyclicals beat Defensives by 7%, and Value beat Growth by 12%. These are very significant divergences by historical standards. Passive beta racked up a -14% twelve-month (accumulation) loss.

The Fund entered February with net long exposure, at 9% of NAV, and with a higher beta skew towards the Resources complex, as investor positioning here had reached a negative extreme. No multiple and no commodity exposure was low enough to be investible, apparently. In the face of January's outright capitulation, it was hard to put these positions on, and so we were a little quick to take profits. No great loss: this rally, violent as it has been, is but another in a series of false starts.

Earnings season presented its usual share of challenges. The Fund's strike rate on our higher conviction investments was generally good, despite one bad earnings miss in retail.

# Optimal Australia Absolute Trust

## Fund Strategy

“Bad volatility” across most asset classes continued to rise during February. Expectations for growth are whipping around violently – from fear of recession and further monetary policy experimentation in the USA three weeks ago, to renewed confidence in economic expansion after a handful of better data points.

China’s policy settings underlying its new growth rate of 6.5-7% through 2020 seem to represent the central planning equivalent of a gambler ‘doubling-down’. Leverage remains the key tool, with higher deficit spending and further money supply expansion. This contrasts sharply with the reaction to last year’s Plenary Session, when the market cheered reform, but echoes the more-is-better theme of recent policy initiatives in Japan and in Europe.

The macro outlook, if not outright faltering, is certainly not well balanced. Markets are, however, addicted to trading ‘policy responses’, and may continue to do so. It’s precisely that reliance on external policy (and the associated signalling) that most worries us. Relentless yield curve compression engineered by central banks

has caused many distortions in markets, including unusual risk-seeking investor activity clustered in equity and debt securities. Now that central banks are largely out of bullets, the out-workings of these policies could well be expected to lead to further market instability.

Australian economic data continues to surprise us for its apparent resilience, although we believe it remains a case of flattering to deceive. December quarter GDP growth of 3.0% annualised looks strong, but real gross domestic income continued to languish at half that level and real net national income fell by 1.1% annualised. Australia still strikes us a low-growth economy in the grip of a major structural adjustment, but the national disposition towards leverage in general (and property in particular) are disguising that reality for many consumers.

Our guess is that recent market volatility is here to stay, and that despite the odd bounce, the best days of equity beta are behind us for the time being. We’ll continue to focus on stock opportunities, with limited exposure to market risk.

## Optimal Australia Absolute Trust – monthly returns

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD
FY16	0.31%	1.52%	1.79%	1.42%	1.01%	(0.11)%	0.02%	0.77%					6.85%
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>	\$10.704 (ex-Jan distribution)	<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>	OPAUSAB 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.