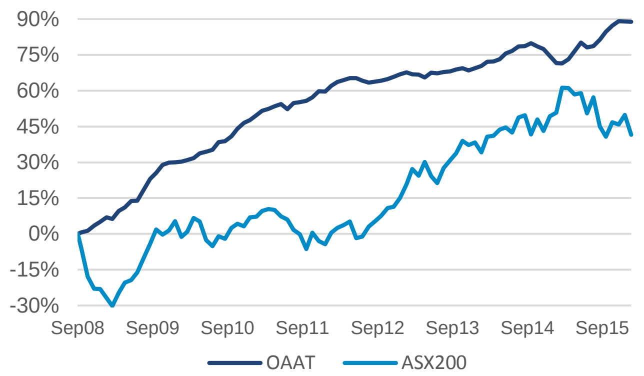
Optimal Australia Absolute Trust

Monthly Report | January 2016

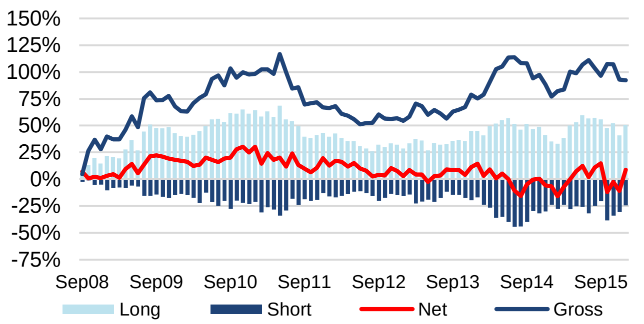
	Month	Qtr	Year	Life (p.a.)
Fund returns	0.0%	0.9%	10.1%	9.0%
Series 1 NAV				$10.622
Positive months			75%	82%
Worst month			(1.1%)	(1.9%)
Volatility				3.7%
Sharpe ratio				1.3

Monthly key contributors - by sector	
Longs	
Positive	Resources, REITs, Comm Services
Negative	Retail, utilities, insurance, banks, property
Shorts	
Positive	Index futures, energy, healthcare
Negative	REITs, telcos, transport

Cumulative performance



Fund investment profile (% NAV)



Risk settings

% of NAV	Long	Short
Equities	50.6%	(24.5%)
Debt / Hybrids	0.0%	0.0%
Derivatives		(17.2%)
Gross exposure		**92%**
Net exposure		**9%**

Concentration by position	Long	Short
Top 5	20.4%	-15.6%
Top 10	32.0%	-23.1%
Top 15	40.7%	-24.1%

Performance Review

Trust units are now priced ex-distribution ($0.444 for Series 1), and recorded a flat return (+0.02%) in January, against a 5.5% fall in the ASX 200 Index.

The Australian market has now gone precisely nowhere since February 2014, but those investors still chasing beta returns saw a type of volatility (in scale and nature) in January that should scare them. Markets were gripped by an emerging (and probably well overdue) crisis of confidence in the ability of central banks to continue to underwrite asset prices. In that context, it's no wonder that risk-aversion is rising sharply.

The Fund entered January with net short exposure, following a sharp, hopelessly optimistic, and short-lived market advance in late December. After five trading days, by which time the Index had already fallen 6.2%, the Fund had made solid gains, and we added market exposure from that point. Our new longs featured a high beta skew, as the Commodity and Materials complex represented, to our eyes, an interesting combination of depressed valuations on collapsing commodity prices, and aggressively negative investor positioning. We were not buying these stocks for any protracted long-term holding period, but for leadership in any market rally.

With the exception of Energy, where we believe the medium-term investment case to be compelling, but short-term price action is dominated by all sorts of technical liquidation activity ('bad volatility'), our portfolio re-alignment was broadly neutral to the Fund's performance. The Fund did give back some ground from our higher-conviction and more defensive stock-specific investments in the retail, media, and utility sectors.

We remain positive on our core investments in this category, and expect forthcoming earnings results to confirm solid earnings growth from these companies, and to lead to broader investor interest. Our stock selection is tempered by modest overall exposure – equities and risk asset markets more generally have an unsettlingly weak tone at present.

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Fund Strategy

We've stressed for some time that markets have been badly distorted by the relentless yield curve compression engineered by central banks, and that unusual risk-seeking investor activity clustered in equity and debt securities represents a source of potential market instability.

'Instability' does not now look too strong a word, looking at equity and commodity market volatility, rising corporate credit spreads, and more recently a trend-break in the USD index. A simplistic but reasonable explanation for the sudden risk-aversion gripping markets is a fear that the 'Central Bank put' has lost its potency. Investors certianly seem less keen to embrace new developments along these lines – hence the very transient reaction to the Bank of Japan joining the negative deposit rate club.

If so, it's likely that market attention will continue to focus on underlying growth rates (low and stuttering); valuations (still very high, courtesy Central Banks); risks from the residual system leverage (US corporate leverage, ex-Tech, is higher than in 2007) and/or dependency on commodity revenues; failing public and regulatory policy; and the inter-linkages in all the above through credit and equity markets. Australia captures many of those themes, so it's no surprise that our market posted returns that were negative in price terms, and cash-like in total return terms, in 2015.

Volatility of this nature always throws up stock opportunities, difficult as some of these are to action. Energy is certainly a focus for us. Relative to some of the bulk commodities, it's much less difficult to quantify the demand-supply imbalance and the marginal cost of supply. Alternative energy source substitution notwithstanding, the demand profile for oil seems stable in the near term, and it's hard to see prices staying below marginal cost on a protracted basis when demand is growing and supply falling.

Our guess is that recent market volatility is here to stay, and that the best days of equity beta are behind us for the time being. We'll continue to focus on stock opportunities, and for the time being, without embracing materially higher levels of 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%						6.00%
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

Initial series NAV	$10.622 (ex-HY distribution)	**Distribution frequency**	Yearly or bi-yearly
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
Strategy AuM	$100m	**Bloomberg**	OPAUSAB AU Equity
Last distribution	$0.444 per unit (Jan 2016)	**Fund inception**	15/9/08 at $10.000 per unit