

# Optimal Australia Absolute Trust

**Optimal**  
FUND MANAGEMENT  
AUSTRALIA

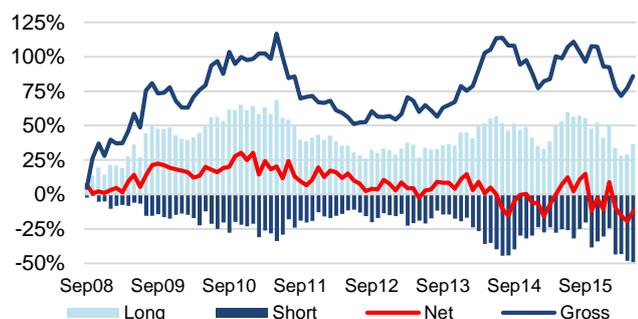
## Monthly Report | May 2016

	Month	Qtr	Year	Life (p.a.)
Fund returns	2.3%	4.0%	9.9%	9.2%
Series 1 NAV				\$11.128
Positive months			75%	85%
Worst month			(1.1%)	(1.9%)
Volatility				3.7%
Sharpe ratio				1.39

### Cumulative performance



### Fund investment profile (% NAV)



### Risk settings

% of NAV	Long	Short
Equities	36.7%	(31.4%)
Debt / Hybrids	0.0%	0.0%
Derivatives		(17.8%)
<b>Gross exposure</b>		<b>86%</b>
<b>Net exposure</b>		<b>(13%)</b>

Concentration by position	Long	Short
Top 5	18.6%	-13.8%
Top 10	30.5%	-24.2%
Top 15	36.4%	-31.0%

Monthly key contributors - by sector	
<b>Longs</b>	
Positive	Resources, media, food, banks
Negative	Contractors
<b>Shorts</b>	
Positive	Steel, resources
Negative	Banks, health care, index futures

### Performance Review

The Trust recorded a net return of +2.3% in May.

*Total global sovereign debt with negative yields surpassed US\$10 trillion for the first time in May.*

- Fitch Ratings

Downward pressure on the yield curve was again the key influence on equity markets in May. "Bad news is good" and "there is no alternative" (to equity dividend yields) remain the key mantras for many investors. As absolute return managers, we are less inclined to buy this premise, as the disconnect between rising market values for risk assets and weaker fundamentals seems only to grow. This disconnect is, of course, far from new, but retains potent preconditions for capital loss.

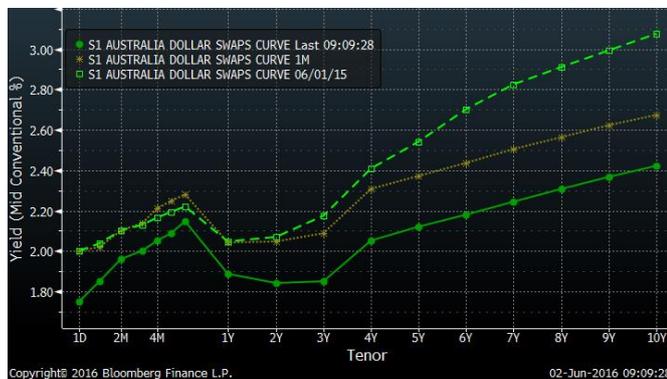
The Australian equity market has now bounced 10% from its February lows. Let's enjoy it while we can: these gains have been driven entirely by the absence of good news on economic or corporate earnings growth; by downward pressure on the yield curve; and by unusually faceless liquidity flows. As earnings are going nowhere fast, equity valuations are moving up sharply, increasing downside risk if there is any fracture in this prevailing investment mind-set, or in the data required to maintain the trend in bond yields – such as the absence of any inflation.

The Fund's returns in May enjoyed no benefit from the broadly stronger market, as we maintained net short market exposure, averaging 16% of NAV. Thankfully, our stock selection worked well. Our longs made a net contribution of over 4% (on average long exposure of 32% of NAV), with some solid gains in our high-conviction positions in alternative energy, food, media, and banks. Hedging market risk (just in case things don't work out) through short selling stocks or index futures remained hard work, but the broad market advance seems to be throwing up quite a number of prospective short opportunities at this juncture.

# Optimal Australia Absolute Trust

## Fund Strategy

The down-shift and flattening in the Australian yield curve after the RBA cut the overnight cash rate May 2nd was dramatic, exaggerating the trend of the last year:



This was again the dominant influence on equity market and sectoral performance in Australia during the month, with strong gains from yield-sensitive and defensive stocks. Banks slightly outperformed the index, despite concerns on credit and capital, as the three majors delivered March half-year results that were 'less bad' than expected.

The economic picture in Australia is very mixed. GDP growth for 1Q at 3.1% YOY seems anomalous when set

against bond yields, monetary policy signals, commodity prices, and tighter bank credit creation – a key indicator for one of the only areas of strength in Property.

US\$10 trillion of negative-yield sovereign debt is a staggering number; even more so when one considers that some of the issuers are not particularly high-quality credits. Negative yield only exists through monetary intervention and fear of deflation: not usually a good recipe for equity returns. There is no playbook on how to value asset classes when the risk-free rate becomes so distorted and manipulated. This remains an equity market where bottom-up company fundamentals means so little, and macro means everything.

The disconnect between rising market values for risk assets and weaker fundamentals may in fact be about to get worse. Last week's US employment data seems to have put paid to any Fed rate rise in June, and the shadow of outright sovereign debt monetisation now overhangs the failure of monetary policy to generate growth. Our mandate is not to invest in the least bad alternative, and we continue to view such thinking (a willingness to pay higher values for lower and riskier growth) and the associated investor crowding as potent preconditions for capital loss.

## 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)%	2.29%		11.1%
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	\$11.128	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	OPAU SAB AU Equity
Last distribution	\$0.444 per unit (Jan 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.