Optimal Benchmark Independent Fund

Optimal FUND MANAGEMENT AUSTRALIA

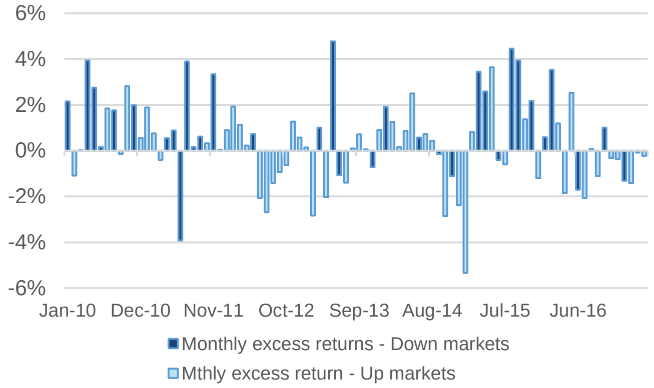
Monthly Report | April 2017

Performance	5yr (p.a.)	1yr	Qtr	Month
Series 1 NAV				$1.0611
Return (a)	13.2%	11.7%	4.8%	0.76%
ASX300	10.9%	17.4%	6.7%	0.98%

(a) Model portfolio gross returns to Jun16; actual net returns thereafter

Monthly attribution and top active investments	
Attribution	
Positive	Resources, staples, cons svcs, pharma
Negative	Media, retail, telco, real estate
Top active	WOW, CYB, HVN, CTX, APN, HGG, CSL

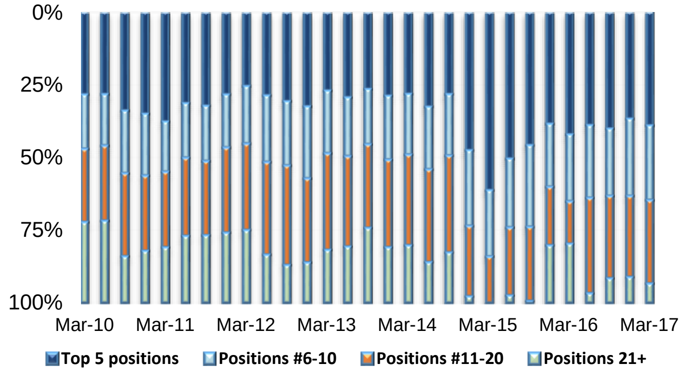
Performance: monthly excess returns



Sector weightings

	ASX300	OBIF	Active
Consumer discretionary	5.0%	16.4%	11.4%
Consumer staples	7.0%	9.6%	2.6%
Energy	4.2%	8.6%	4.4%
Financials	37.9%	35.9%	-2.1%
Healthcare	6.7%	7.8%	1.1%
Industrials	6.6%	2.1%	-4.5%
IT	1.2%	4.5%	3.3%
Materials	16.2%	6.4%	-9.8%
Real Estate	8.4%	3.3%	-5.2%
Telecommunications	4.2%	5.4%	1.3%
Utilities	2.6%	0.0%	-2.6%

Stock concentration - % of equity exposure



Fund Strategy and Outlook

The Fund recorded a 0.8% net return in April, broadly in line with the ASX300 Accumulation index.

Broad equity market strength continued in April, with the ASX 300 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 Fund's cash flex at the higher end of the mandated range.

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.

Optimal Benchmark Independent Fund

Performance Review

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.

Performance summary

	Apr qtr	1 Yr	3 Yrs	5 yrs
Returns				
OBIF (i)	4.8%	11.7%	11.2%	13.2%
Market (ASX300)	6.7%	17.4%	7.2%	10.9%
- Excess return	-2.0%	-5.7%	4.1%	2.3%
- Correlation		-0.00	-0.34	-0.40
Analytics				
Information ratio - OBIF		-1.33	0.56	0.34
Tracking error		4.3%	7.3%	6.7%
Sharp ratio - OBIF		2.18	1.16	1.52
Sharp ratio - market		2.11	0.35	0.31

Key portfolio changes

Additions / up-weights
Additions
Telstra
Up-weights
Harvey Norman, Suncorp, AMP, CYBG, CSL

Deletions / down-weights
Deletions
Sky City
Down-weights
Westpac, Link, ANZ, APN, Vocus

(i) Note: returns are model portfolio gross of all fees and costs to Jun16, actual portfolio net of all thereafter.

Cumulative returns since inception