Optimal Benchmark Independent Fund

Optimal FUND MANAGEMENT AUSTRALIA

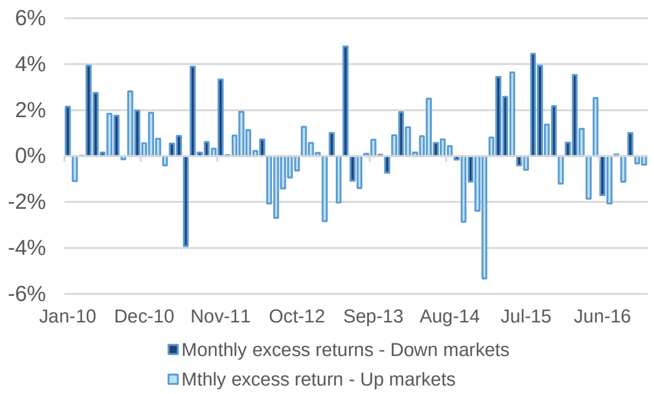
Monthly Report | January 2017

Performance	5yr (p.a.)	1yr	Qtr	Month
Series 1 NAV				$1.0344
Return (a)	15.7%	13.3%	5.3%	4.0%
ASX300	11.8%	11.5%	5.2%	4.4%

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

Monthly attribution and top active investments	
Attribution	
Positive	Healthcare, staples, builders, telco
Negative	Media, NBFI, transport, resources
Top active	WOW, LNK, APN, CYB, HGG, CSL

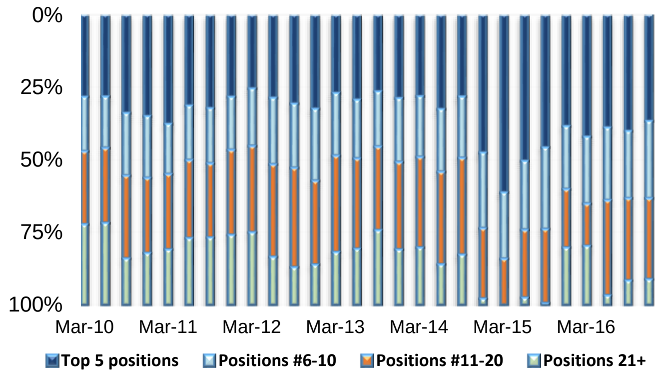
Performance: monthly excess returns



Sector weightings

	ASX300	OBIF	Active
Consumer discretionary	5.0%	16.6%	11.6%
Consumer staples	6.8%	9.4%	2.6%
Energy	4.3%	7.5%	3.2%
Financials	37.2%	35.3%	-1.9%
Healthcare	6.6%	6.9%	0.3%
Industrials	6.5%	5.8%	-0.7%
IT	1.3%	9.1%	7.8%
Materials	17.1%	6.0%	-11.0%
Real Estate	8.3%	0.0%	-8.3%
Telecommunications	4.4%	3.3%	-1.1%
Utilities	2.6%	0.0%	-2.6%

Stock concentration - % of equity exposure



Fund Strategy and Outlook

The Fund recorded a -2.1% net return in January, against a -0.8% return for the ASX300 Accum index.

We see markets at something of an inflection point. Investors are desperate to believe in a Trump pro-growth agenda. This view has been reality-checked in recent weeks, with “border adjustment” policies departing sharply from the market’s central (and crowded) script: tax cuts and fiscal stimulus. In Australia, the RBA’s growing reticence to cut rates further is taken as a “reflation” signal, but in reality has more to do with the risks around our property bubble. February’s earnings season will remain a key test for our market. With our key focus on protecting capital, the Fund currently has slightly net short exposure.

Views on the new US administration remain polarised, ranging from the sanguine to the frankly alarmist – that nationalism, protectionism, and militarism are no recipe for stability, let alone growth. This has resulted in some schizophrenic price behaviour. Policy delivery remains a key test for investors, and will likely be an ongoing source of market volatility.

Bonds have rallied in recent weeks, with a growing risk-off mindset trumping concerns over incipient inflation, set against a backdrop of a possible step-change in the US fiscal position combined with monetary tightening and much less certain geopolitics. Interest-rate sensitive stocks have done well, yet gold has still rallied hard. Materials, in contrast, continue to lead the Australian market, building on 60%+ rolling-year gains.

Against that backdrop, we retain a cautious position with respect to net market exposure, and will continue to focus on stock opportunities. Valuations are elevated at current prices, and continue to discount faster earnings growth.

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Performance Review

Several of the Fund's stronger-returning investments in December gave up much of their gains in January. These stocks included Hendersons, Clydesdale, APN and Orocobre.

The first two stocks confronted a severe headwind in the form of further weakness in the GBP. The damage here is very much done. GBP now trades at close to 30-year lows against most currency crosses, and in our view this further strengthens our conviction in the deep discounts that we see to our fair value assessment for these companies, both of which feature the sort of high-quality cost-driven earnings growth that we continue to emphasise across our portfolio.

The earnings reporting and predecessor "confession" periods are always challenging. In this instance, we derived a strong benefit from CSL's upgrade, and were hit by Brambles' downgrade. Digging deeper, CSL very much reaffirmed our read on the company's underlying business conditions. In contrast, Brambles' issues (sharp de-stocking in the US retail supply chain in December), was the exact opposite, and we suspect that there is more to this story yet to emerge.

Woolworths continued to perform strongly for us, and we look forward to the company's pending 2Q report, which we expect to confirm sales momentum that will be solid in absolute terms, and better again in relative terms. Other solid long performers included Newcrest, Link and Vocus Communications.

Performance summary

	Dec qtr	1 Yr	3 Yrs	5 yrs
Returns				
OBIF (i)	5.3%	13.3%	16.2%	15.7%
Market (ASX300)	5.2%	11.5%	6.5%	11.8%
- Excess return	0.1%	1.9%	6.8%	4.0%
- Correlation		-0.23	-0.33	-0.39
Analytics				
Information ratio - OBIF		0.32	1.44	0.59
Tracking error		5.9%	7.2%	6.7%
Sharp ratio - OBIF		1.86	1.44	1.89
Sharp ratio - market		1.38	0.27	0.68

Key portfolio changes

Additions / up-weights
Additions
Nil
Up-weights
CSL, Woolworths, Caltex, Vocus, Westpac

Deletions / down-weights
Deletions
AMP, Scentre Group
Down-weights
Orecobre, Reliance Worldwide, ANZ

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

Cumulative returns since inception