

Optimal Benchmark Independent Fund

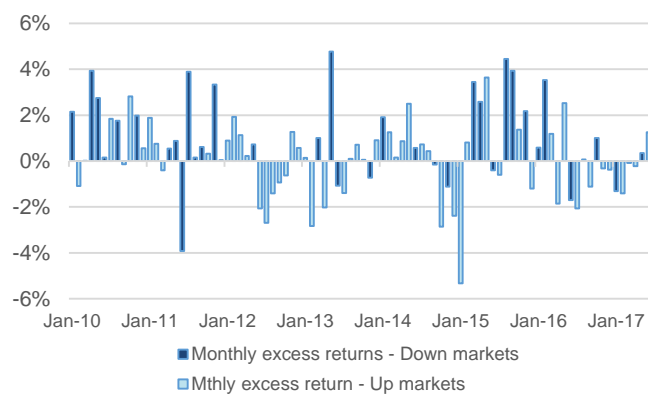
Monthly Report | June 2017

Performance	5yr (p.a.)	1yr	Qtr	Month
Series 1 NAV				1.0931
Fund Return (a)	14.7%	9.3%	-0.2%	1.47%
ASX300 Accum	11.7%	13.8%	-1.6%	0.22%

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

Monthly attribution and top active investments	
Attribution	
Positive	Under-weight banks, under-weight materials
Negative	Over-weight retail, over-weight telecoms
Top active	WOW, CYB, HT1, HVN, BHP

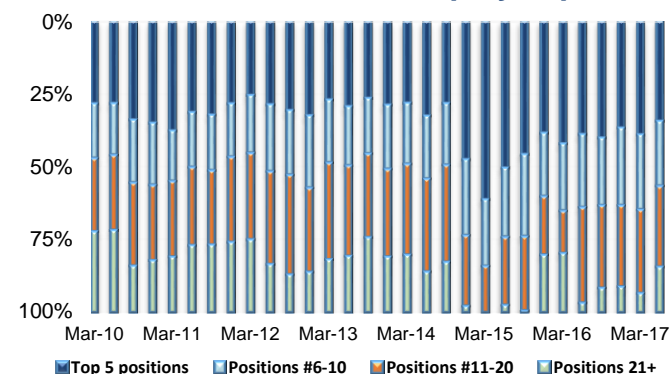
Performance: monthly excess returns



Sector weightings

	ASX300	OBIF	Active
Consumer discretionary	5.2%	13.2%	8.0%
Consumer staples	7.2%	9.9%	2.7%
Energy	4.4%	7.2%	2.8%
Financials	36.2%	38.6%	2.4%
Healthcare	7.1%	8.1%	1.0%
Industrials	7.5%	2.3%	-5.2%
IT	1.4%	4.7%	3.3%
Materials	16.0%	9.4%	-6.6%
Real Estate	8.8%	4.5%	-4.3%
Telecommunications	3.8%	2.1%	-1.7%
Utilities	2.4%	0.0%	-2.4%

Stock concentration - % of equity exposure



Fund Strategy and Outlook

This fund aims to deliver consistent growth over time, with a strong focus on capital preservation and low downside capture.

The Fund recorded a +1.47% net return in June, +125bps relative to the ASX300 Accumulation index.

The ASX300 Accum Index rose 0.2% in June, but posted its first negative quarter in over a year. Underlying volatility has edged up, albeit from very low levels. Investors seem rightly disconcerted by the recent move in bond yields, as central banks floated the possibility of monetary stimulus withdrawal. A\$ and US\$ 10-year yields are now up 35 bps in two weeks, and the move in Euro zone yields much greater again – if this is the reaction to a possibility, the inevitable reality could be very ugly indeed.

Locally, the RBA appears to want to keep rates on hold, pinned by its concerns over a persistently weak labour market and risks in the housing market. APRA's macro-prudential regulation has led to banks rationing and repricing of (mainly investor) credit. Consumers seem vulnerable to even small changes in the credit landscape, given the squeeze on disposable income and levels of household leverage.

While on the RBA, Governor Lowe's recent analysis of public policy offered little comfort: "politics has become increasingly polarized as parties exploit those losing out from proposed reforms to gain electoral advantage... government risk-aversion is increasing ... Australia hasn't cemented a significant economic reform since the GST in 2000". Recent reactive policies (bank deposit taxes and gas "security" mechanisms) seem very unlikely to be positive for investment or equity risk premia.

A number of these themes continue to influence our stock selection. We see earnings risk in companies that face the Australian consumer; and considerable risk in the banks and housing exposed sectors. We continue to focus on offshore, structural, and cost-out drivers of earnings growth, and we remain very mindful of valuation risks from interest rate reversion.

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Performance Review

June's result was a pleasing way to close-out an otherwise challenging 12 months for the Fund. Consistent with our history, the fund again demonstrated its ability to preserve capital when either markets are down or, as was the case for much of FY17, when our investment process is not meshing quite so smoothly with prevailing market conditions. The Fund's return profile for FY17 was similarly consistent with our history, with the excess return negatively correlated to the broader market.

Key positive performance contributors for the month of June included Janus-Henderson, Suncorp, CSL, Auto Group and HT1. Conversely, WOW, CTX and STO were the more notable detractors from June's return.

The relentless rise of CSL continues to focus our minds, as the stock is pressing the top end of our fair value range. Our research does, however, continue to highlight strong upside optionality for CSL from competitor production problems, and the company's R&D pipeline and turnaround in its flu business.

With the Janus-Henderson (JHG) merger now approved and in execution mode, our work similarly highlights the synergy value yet to be fully priced into the stock, from both cost-reduction and better utilisation of the merged distribution footprint.

We have for some time had very active research on the alternative energy industry, as well as an investment in lithium producer Orocobre. We took advantage of sector price volatility early in the month to modestly broaden our exposure, to two additional emerging lithium producers, in Pilbara Minerals and Galaxy Resources.

As noted above, volatility has edged higher in recent weeks, not only in equity markets but so too in currency and bond markets. The market continues to shrug off increasingly poor geo-politics, but we expect volatility to continue to rise over in the very short term, fuelled in part by the company reporting period in August, APRA's final position on bank capital requirements, and a key trend reversal in bond market volatility.

Performance summary

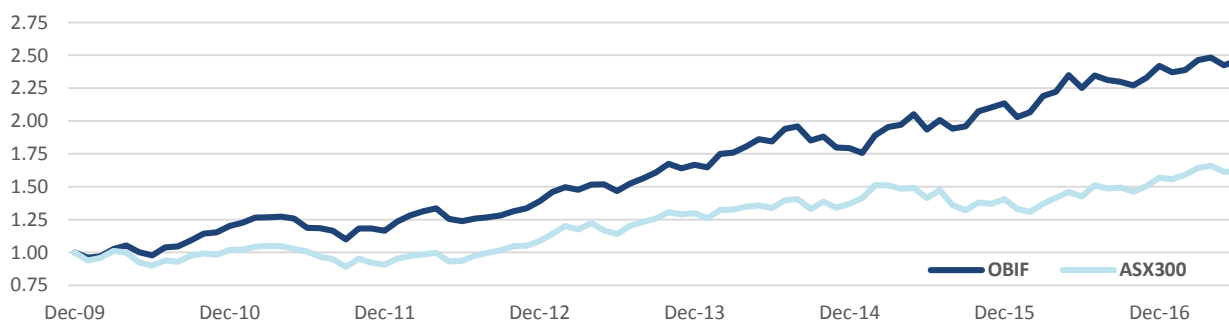
	Jun qtr	1 Yr	3 Yrs	5 yrs
Returns				
OBIF (i)	-0.2%	9.3%	10.1%	14.7%
Market (ASX300)	-1.6%	13.8%	6.5%	11.7%
- Excess return	1.4%	-4.5%	3.6%	3.0%
- Correlation		-0.53	-0.34	-0.42
Analytics				
Information ratio -OBIF		-1.37	0.49	0.45
Tracking error		3.3%	7.2%	6.6%
Sharp ratio - OBIF		2.08	1.03	1.76
Sharp ratio - market		1.71	0.32	0.70

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

Key portfolio changes

Additions / up-weights	
Additions	
BHP, Wesfarmers, Oil Search, Galaxy, Pilbara Mining	
Up-weights	
Telstra, Link, Macquarie, Qube	
Deletions / down-weights	
Deletions	
Westpac	
Down-weights	
HT1, CSL, Caltex, Woolworths, Clydesdale	

Cumulative returns since inception



This report is prepared for investors in the Optimal Benchmark-independent Fund (the Fund). 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 Fund. Any such offering can only be made to qualifying 'wholesale investors' pursuant to the Fund's offering materials, and the relevant Subscription Application.