

Monthly Performance % - as at 30 April 2012

	NAV	April	YTD	AUM
Offshore Feeder	US\$11.41	-1.81%	4.39%	US\$15M
Topix - <i>Topix Return is in USD unhedged using WM London 4pm close</i>		-2.97%	6.37%	

April was a tough month for equities and the Fund was not spared the pain. Japan's Topix index fell almost 6% in Yen, but 3% in USD, and pared back the year-to-date gain to just over 6%. The Fund return of -1.8% was less bad than that of the market, and helped to narrow the gap YTD with the Topix index. Global macroeconomic issues continue to dominate markets, and conditions have been tough for investors who focus on corporate fundamentals and valuations. As long as European economic woes dominate the headlines, these macro-driven markets will persist, but when these issues are eventually sorted out, investors will be able to gorge themselves on some extremely cheap and appetising equities.

We were in Europe last week and attended the annual conference held by one of our investor clients. They assemble their fund managers to present and discuss their markets and investment outlook and it is always very enjoyable for me to listen to other fund managers talk about their particular investment universe and the opportunities. The European managers had some particularly divergent views and this divergence was at its most stark when discussing the banks. The issues are familiar to any manager of Japanese equities over the age of 35, and from our experience, it is largely guess work when trying to ascertain when a bank's balance sheet has finally been purged sufficiently to form a confident view on net asset values. Europe might deal with its issues more swiftly than Japan did (though I would not stake too much on that) but I suspect that it is too early to be buying banks in Europe now. Credit binges of the scale we saw from Europe's banks in the period from the mid-1990s to 2007 are not unwound quickly, neatly or without a huge amount of pain, or government largesse.

By contrast, Japan's remaining listed megabanks are now over their deleveraging period – although this did take them fifteen years – after going through enormous asset write-downs, equity recapitalisations and massive stock market underperformance. In 1990, the Japanese banking sector was a global force and accounted for a large (approx. 40%) share of international lending and filled most of the top twenty financial stocks by market cap. Today, only one

Japanese bank makes the top 20 by market cap, but the growth opportunities for them have not been as good as this for twenty years.

With Japanese households and companies awash with cash, loans are growing only marginally in Japan, but overseas demand for loans is a new growth area for Japan's banks, whose loan-deposit ratios are barely 60%. Valuations are cheap, dividend yields are attractive at 4-5%, and there is enormous room to improve. The three megabanks' combined assets amass to Y510tn (US\$6.4tn) - as much as Japan's GDP – but they have returns on assets of only 35-50bps due to narrow interest spreads on domestic loans and securities (JGB) holdings. With overseas loans earning spreads as much as three times those of their domestic loans, and growing rapidly to account for almost 20% of total loans, we expect the return on assets to rise and the bank shares to be re-rated in the process.

We are adding to our bank positions in the portfolio and feel that the investment case is growing more attractive – despite the global macro uncertainty.

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## Recent 3 month Fund Exposure

% of NAV in	Feb 12	Mar 12	Apr 12
Long Stock Positions	85.30	91.54	92.61
Index Futures	-	-	-
Net Exposure	85.30	91.54	92.61

## Optimal FUND MANAGEMENT

Should you wish to make an enquiry about the Optimal Japan Absolute Long Fund, please see our website [www.optimalasia.com](http://www.optimalasia.com) or contact us by email at [optimal@optimalasia.com](mailto:optimal@optimalasia.com).

## Position Concentration

	Top 5	Top 10
Longs	23.58%	43.81%
Total no. of positions	33	

## Top Five Positions

Aeon Co Ltd  
 Canon Inc  
 Mitsubishi Electric Corp  
 Toyota Motor Corp  
 Mitsubishi UFJ Financial Group Inc

## Winners

Seria Co Ltd  
 Mitsubishi Electric Corp  
 Aeon Delight Co Ltd  
 Terumo Corp  
 So-net Entertainment Corp

## Losers

Sumitomo Mitsui Trust Holdings Inc  
 JX Holdings Inc  
 Honda Motor Co Ltd  
 Toyota Motor Corp  
 Canon Inc

## Sector Exposure as at 30 April 2012

	Longs		Longs
Consumer Discretionary	24.82%	Industrials	16.91%
Consumer Non-Discretionary	5.01%	Information Technology	12.04%
Energy	6.15%	Materials	3.72%
Financials	18.81%	Telecommunications	5.15%

## Historical Returns- Optimal Japan Absolute Long Fund Monthly Returns in USD (before Performance Fees)%

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	Topix* YTD
2004									-1.60	-1.32	6.18	2.52	5.70	8.16
2005	1.61	2.05	-3.83	-0.47	-1.81	-0.58	1.17	6.66	9.32	-0.75	3.25	8.64	27.25	24.59
2006	3.57	1.22	3.55	2.74	-4.40	-1.32	-1.55	-0.29	-1.51	3.73	1.48	1.94	9.14	0.94
2007	1.50	3.69	-1.88	0.33	1.71	1.49	1.27	-4.97	2.18	-1.04	-5.37	-6.57	-7.97	-6.37
2008	-6.00	2.60	0.15	4.21	1.40	-9.57	-3.85	-7.26	-5.49	-5.14	-4.01	8.78	-22.95	-28.24
2009	-5.28	-11.56	3.78	4.75	9.49	2.12	3.11	4.76	-3.58	-2.26	-2.78	-0.38	0.38	2.85
2010	2.58	0.19	4.19	1.88	-8.25	-3.15	3.36	-2.39	5.77	3.79	0.36	8.26	16.65	13.67
2011	1.31	3.89	-9.20	1.72	-0.51	1.02	3.69	-6.40	-3.98	2.70	-4.91	0.83	-10.34	-14.55
2012	2.84	2.31	1.04	-1.81									4.39	6.37

\* Topix Return is in USD unbedded using WM London 4pm close

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