

Monthly Performance % - as at 29 July 2011

	NAV	July	YTD	AUM
Offshore Feeder	US\$12.35	3.69%	1.31%	US\$90M
Topix - <i>Topix Return is in USD unhedged using WM London 4pm close</i>		3.66%	-1.64%	

Nearing the middle of August, it seems strange to be writing about July when the first two weeks of August have been so eventful in markets, something akin to reading an account of a World Cup football game written with the scores level after extra time but prior to the penalty shoot-out.

July was indeed a quiet month with the Topix index down just under 1% while the Nikkei 225 actually rose 0.17% - dragged into positive territory by gains from its two largest constituents, Fast Retailing (up 5.2%) and Fanuc (up 9.2%). August has been anything but quiet, as markets try and assess the financial straightness that the USA and parts of Europe are in.

The questions are familiar to those who have invested in Japan for the past twenty years but the answers are similarly unappealing. Who owns the government debt? How will they finance the Budget deficit? Is it good policy to incur public debt to offset the decline in demand brought about by the retirement of private debt? It is easy to agree with the purists who call for bail-outs to stop and subsidies to end. Everyone should just take their medicine and once the system has been “purged”, move on from the mess with a clean balance sheet and suitable exchange rates and price levels.

The problem with all that is that I don't believe a political system (or group of political leaders) exists that would stand such a violent recalibration of wealth and welfare. The willingness to accept such a severe fall in living standards for many is not apparent to us, so rather than take that bitter medicine, we are more likely to look for long-term solutions that make the pain less extreme, but longer-lasting.

Japan has just released its June quarter GDP figures and the earthquake/tsunami effect was evident in a decline of 0.3% in real QoQ numbers. The decline was far smaller than the consensus estimates of -0.6%, and was almost all due to the expected decline in exports as production slowed after the March natural disasters.

The export decline should reverse in the current quarter and a strong QoQ GDP number can be expected. Less expected - and the most interesting information amongst the releases - is the relatively solid showing from consumption. The self-imposed “restraint” period after the earthquake seems to have been less restrained than feared, and retail sales and housing starts have both been quite firm – running counter to the received wisdom that Japanese consumption is a dead horse, and not about to be resuscitated.

In our portfolio, the biggest headache we have had is with Nintendo. This stock – like so many Japanese equities – has seen its share price round trip from the depressed lows in 2003 to lofty peaks in 2007 and is now back to where it was priced in the nadir of mid-2003. In that eight year period, it has earned Y1,234bn (over \$16bn) in after tax profits or a cumulative Y9,620/share. It has also been unusually generous with its dividend policy, paying out Y5,570/share in aggregate – and still boosting book value per share considerably. At the current share price (Y11,720 as we write), it trades below 1.2x PBR which is significantly lower than the 1.5x it got down to in 2003 and the lowest since Bloomberg records began.

Despite the value, we are waiting for Nintendo to reveal how they plan to adapt to a new world where more and more of their traditional users are welded to their smartphones and can access many games this way. Other game software developers in Japan have teamed up with SNS providers like Gree and DeNa to allow the SNS subscribers to play their games via these sites on their mobile phones and the early results are impressive. Nintendo needs to do something similar, or offer a convincing alternative that has appeal to their users in a world where both hardware and habits have changed.

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### Recent 3 month Fund Exposure

% of NAV in	May 11	Jun 11	Jul 11
Long Stock Positions	90.29	92.51	92.50
Short Stock Positions	-	-	-
Index Futures	-	-	-
Equity Derivatives	-	-	-
Net Exposure	90.29	92.51	92.50

### 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	23.82%	42.69%
Total no. of positions	35	

### Top Five Positions

JS Group Corp  
Asahi Kasei Corp  
Canon Inc  
Mitsubishi Estate Co Ltd  
Itochu Corp

### Winners

Itochu Corp  
Sumitomo Realty & Development Co Ltd  
Mitsubishi Materials Corp  
Toagosei Co Ltd  
Hitachi Ltd

### Losers

Nintendo Co Ltd  
JS Group Corp  
Nippon Electric Glass Co Ltd  
Yamada Denki Co Ltd  
Don Quijote Co Ltd

### Sector Exposure as at 29 July 2011

	Longs		Longs
Consumer Discretionary	21.38%	Industrials	11.39%
Consumer Non-Discretionary	4.22%	Information Technology	15.91%
Energy	3.05%	Materials	13.09%
Financials	17.55%	Telecommunications	5.92%

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## 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
Below we provide a table detailing the monthly returns of the Fund since its inception in September 2004.														
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						1.31	-1.64

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