

Performance % - as at 30 March 2012

	NAV	March	YTD	AUM
Offshore Feeder	US\$11.62	1.04%	6.31%	US\$15M
Topix - <i>Topix Return is in USD unhedged using WM London 4pm close</i>		0.52%	9.63%	

The gain of 17.3% in the Topix index was the best first quarter return since 1988 when the Bubble era was drawing to its close. The index had jumped from 1726 to 2148 in the March quarter of 1988, whereas it closed on March 30<sup>th</sup> this year at 854m and highlights - if highlighting is what we need - just what an extraordinary two decades we've been through since then. In March 1988, the Yen was worth 125 per USD and as recently as August 2007 it was still at that level, but has since resumed its forty year ascent and is now around 80. The relative strength in the Yen against the major currencies and (of course) the JGB bull market have been the only winners for a Japanese investor since then, but we won't know whether these long trends have reversed until well after the turning point. In any case, a 17% return to start the year is certainly cause for celebration - and even the market's USD return of 9.6% is not to be sneezed at.

A lot of the impetus for the strong first quarter is the better sentiment for equities in other major markets and the growing confidence among investors that the US economy is recovering. A stronger US economy is welcomed by all, and especially so at a time when there are concerns about growth in the Chinese economy. We have read that some sell-side strategists are already of the view that China is in a hard landing situation, with car sales, cement production, steel production and construction all declining. Bulls counter that once China's new leader is in place, policy measures will be loosened to stimulate another round of economic activity. We don't feel well placed to judge on this, but Japan would not be the only country to welcome a solid US recovery if the bearish China view turns out to be the right one.

In Japan meanwhile, economic data has been positive on many fronts. The list is a long one but some of the standouts are the February Leading Index at 96.6 being the highest level since 2007, the National CPI in Feb +0.3% yr/yr, Tokyo Feb condominium sales +13% yr/yr, retail trade in Feb +3.5% yr/yr and housing starts in Feb +7.5% yr/yr. All the data is positive, but the biggest positive of all was the 290,000 new jobs created in February which compares well with the more recent new jobs data from the US in March.

How does the venerable Bank of Japan summarise the situation in light of this plethora of positive releases? As reported in The Blah! of April 11<sup>th</sup>, a month ago the BoJ reported "Japan's economic activity has remained more or less flat, although it has shown some signs of picking up." After careful consideration of the facts, it now reports "Japan's economic activity has shown some signs of picking up, although it has remained more or less flat." Draw your own conclusion.

Overstaffed, over-engineered and under-marketed Japanese consumer electronics firms have not fared well in recent months with first Sharp announcing huge losses and sale of some of its LCD panel operations to Taiwan's Hon Hai and now Sony announcing job cuts and large special losses for the year just ended March 2012. They - and their great rival Panasonic - have tried to be all things to all consumers for too long and have over-engineered appliances that need not be made to the level of functionality that they have provided. Now it is the Korean consumer electronic giants who have made the most of a weak currency to steal the lead, but at some stage it is likely to be a Chinese firm that takes this role. The TV manufacturing business is a brutal one where the biggest players think of profits as dollars per unit rather than a profit margin and aim to turn their assets at ever-faster rates. Sony and Co are too bloated, and seem to have clung to the belief that consumers will pay up for "quality", a notion that they must now realise no longer applies.

We expect that Japanese manufacturers will soon accept that the modern world consists of cautious consumers in the developed countries and eager buyers of low price products in the developing countries. We see cost pressures being a massive issue for Japanese materials and parts suppliers as the manufacturers (car companies, electronics companies etc) seek lower prices from their Japanese suppliers or look to buy foreign substitutes if those prices are lower. It is not necessarily all negative, but we expect to see many companies fail and an increasing number of mergers in the next few years.

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### Recent 3 month Fund Exposure

% of NAV in	Jan 12	Feb 12	Mar 12
Long Stock Positions	91.36	85.30	91.54
Index Futures	-	-	-
Net Exposure	91.36	85.30	91.54

### Performance Statistics

Last 12 Months	-0.26%
3 Yr Annualised Return	8.69%
5 Yr Annualised Return	-5.18%
Annualised Return Since Inception	2.00%

### Position Concentration

	Top 5	Top 10
Longs	23.66%	44.04%
Total no. of positions	32	

### Top Five Positions

Aeon Co Ltd  
 Canon Inc  
 Toyota Motor Corp  
 Honda Motor Co Ltd  
 Sumitomo Realty & Development Co Ltd

### Winners (Qtr)

Sumitomo Realty & Development Co Ltd  
 Mitsubishi Estate Co Ltd  
 Mitsubishi UFJ Financial Group Inc  
 Nissan Motor Co Ltd  
 Hitachi Ltd

### Losers (Qtr)

Skymark Airlines Inc  
 Nippon Telegraph & Telephone Corp  
 NTT DoCoMo Inc  
 Mitsubishi Corp  
 Yamada Denki Co Ltd

### Sector Exposure *as at 30 March 2012*

	Longs
Consumer Discretionary	30.26%
Consumer Non-Disc	4.97%
Energy	8.34%
Financials	17.83%
Industrials	9.64%
Information Technology	9.02%
Materials	6.46%
Telecommunications	5.02%
Net Exposure	91.54%

### March Qtr Sector Performance – P&L

	Longs
Consumer Discretionary	3.91%
Consumer Non-Disc	0.22%
Energy	0.93%
Financials	4.68%
Industrials	1.04%
Information Technology	1.62%
Materials	1.53%
Telecommunications	-0.12%
FX and Other	-7.50%
Total	6.31%

### Performance Contribution

	Longs	Futures	Other	Total
March 2012	2.80%	N/A	-1.76%	1.04%

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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	-6.40	-3.98	2.70	-4.91	0.83	-10.34	-14.55
2012	2.84	2.31	1.04										6.31	9.63

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

## 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).*

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