

**Monthly Performance % - as at 29 April 2016**

	<b>NAV</b>	<b>April</b>	<b>YTD</b>	<b>Strategy AUM</b>
Offshore Feeder	US\$13.427	1.57%	-11.82%	US\$51M
<i>Topix Return is in USD unhedged using WM London 4pm close</i>		4.53%	-2.59%	

Japanese equity market participants have been struggling to swim through the king tide of the annual reporting season, with daily emails in the Inbox well above the usual already elevated levels. There is endless commentary on results and forecasts and rolling aggregations of earnings but as we near the end of the deluge, it is clear that while earnings are slightly lower than forecast for the year that ended March 2016, the companies' own projections for the year ahead are significantly lower than consensus.

In most cases the low forecasts are explained by revised assumptions for a stronger Yen (between Y105-110), and given the Yen/Dollar rate is currently at 108-109, the revised exchange rate assumptions seems fair to us. Very few experts have consistent form in exchange rate forecasting so it would be odd if Japanese auto makers used a rate much different to the current one when projecting their P&L for FY16. For those of us who believe markets are ultimately driven by valuations, the net effect of these revisions is likely to put a lid on market upside. Whereas strategists had Topix EPS estimates of 110-120 for the FY16-17 year with a Yen/Dollar at 120-125, we are now seeing some early rough EPS estimates of 85-95. Based on a PER of 15, this reduces the Topix target level from 1700-1800 down to 1300-1400. This is a fairly crude approximation, but for the time being – and absent any surprising action from the Government on fiscal matters – we believe that it is a reasonable, if conservative, range to expect the market to trade within.

Japanese bonds have well and truly joined the dubious club of sovereign bond markets where the opportunity of taking the “return-free risk” has gone even further towards absurdity. One now pays for the privilege of lending money to the government. Lenders pay and borrowers get paid. Unsurprisingly, Japanese companies are borrowing and total loans are increasing at 2.2%pa. Loans amount to almost exactly 100% of GDP, but despite being paid nil for it, deposits are continuing to grow at a slightly faster rate than loans and now amount to 130% of GDP, having increased steadily from

Y460tn to Y650tn since 2000. We doubt if Mr Kuroda's NIRP is going to arrest this trend, but it certainly seems to be prompting greater purchases of foreign bonds by Japanese investors. The purchases of US Treasuries by Japan in March reached an all-time high (around \$44bn), and while there remains a yield spread to exploit, we are certain that more money will continue to be invested this way. All else being equal, this should lead to a weaker currency, but all else is not equal. Japan's current account surplus has expanded to near the top of its range since the early 1990s and presumably puts upward pressure on the currency. We feel a weaker Yen is the more likely outcome, but it is not a high conviction prediction. As a result we are currently half hedged out of the Yen into the USD but are expecting to go back to fully hedged in the near term.

Autos and Electrical Appliances have joined the list of worst performing sectors in the Topix index year-to-date. Banks are still at the bottom (down 31%) while telcos are the best sector (flat) in a market that has fallen 14% in local currency terms. The Yen's move is certainly a negative for the car makers and electrical goods/services companies, while sectors affected by Chinese excess production and competition are under pressure and we expect will remain so. We have modest exposure to the auto sector through Isuzu (domestic trucks and Thai pick-ups), Kasai Kogyo (interior trims) and ShinMaywa (dump trucks and other specialty vehicles) and hold only Panasonic in the consumer electronics area. In a market where foreigners are selling and predominantly their liquid holdings, the Fund did best from its positions in selected small and mid cap stocks where foreign ownership levels are lower. Our retail stocks (Izumi & H2O) were weak in a sector that has done poorly of late, but business is solid and valuations are now looking cheap. We look forward to some follow up meetings with our companies when we visit Japan at the end of the month.

**DISCLAIMER:**

This material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our opinions only. The material is based upon information, which we consider reliable, but we not represent that it is accurate or should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities.

**Recent 3 month Fund Exposure**

% of NAV in	Feb 16	Mar 16	Apr 16
Long Stock Positions	99.11	95.63	93.01
Index Futures	-	-	-
Net Exposure	99.11	95.63	93.01

**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	29.07%	51.53%
Total no. of positions	28	

**Top Five Positions**

Mitsubishi Estate Co Ltd  
Japan Airlines Co Ltd  
Sumitomo Mitsui Financial Group Inc  
Mitsubishi UFJ Financial Group Inc  
Komatsu Ltd

**Winners**

DMG Mori Co Ltd  
Nishio Rent All Co Ltd  
Nidec Corp  
Open House Co.,Ltd  
Mitsubishi Electric Corp

**Losers**

Izumi Co Ltd  
H.I.S. Co Ltd  
Fanuc Corporation  
Japan Airlines Co Ltd  
Pressance Corp

**Sector Exposure as at 29 April 2016**

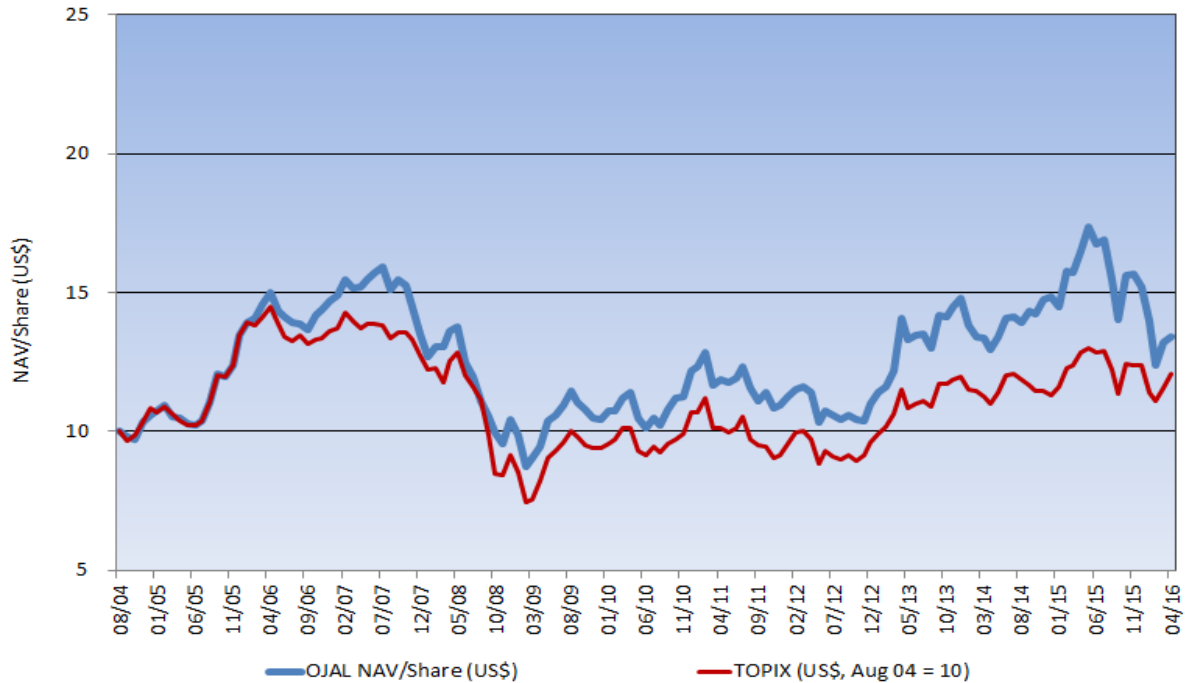
	Longs	Net
Consumer Discretionary	22.20%	22.20%
Consumer Non-Discretionary	0.95%	0.95%
Energy	-	-
Financials	27.03%	27.03%
Health Care	-	-
Industrials	36.47%	36.47%
Information Technology	6.36%	6.36%
Materials	-	-
Telecommunications	-	-

Performance Contribution	Longs	Futures	FX Forwards	Other	Total
April 2016	-1.27%	-	-2.50%	5.34%	1.57%

**DISCLAIMER:**

This material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our opinions only. The material is based upon information, which we consider reliable, but we not represent that it is accurate or should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities.

**Portfolio Performance as of 29 April 2016**



**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 <sup>*</sup> YTD
(Inception September 2004)														
2016	-8.33	-11.28	6.75	1.57									-11.82	-2.59
2015	-2.45	8.82	-0.37	4.95	5.27	-3.54	0.70	-8.52	-9.08	11.21	0.39	-2.82	2.41	9.57
2014	-6.55	-3.03	-0.52	-3.07	3.71	4.69	0.57	-1.38	2.91	-0.65	3.38	0.96	0.40	-5.25
2013	4.19	1.40	5.18	15.67	-5.74	1.13	0.45	-3.56	8.91	-0.35	2.62	2.14	35.00	24.60
2012	2.84	2.31	1.04	-1.81	-9.47	3.97	-1.30	-1.79	1.73	-1.42	-0.57	5.68	0.37	5.01
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
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
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
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
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
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
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
2004									-1.60	-1.32	6.18	2.52	5.70	8.16

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

**SYDNEY:** Level 5, Wyoming, 175 Macquarie St, Sydney NSW 2000 **Phone:** 61 2 8239 3300 **Fax:** 61 2 8239 3333 **Email:** [optimal@optimalasia.com](mailto:optimal@optimalasia.com)

**DISCLAIMER:**

This material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our opinions only. The material is based upon information, which we consider reliable, but we not represent that it is accurate or should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities.