Monthly Performance % *- as at 29 August 2014*				
	NAV	**August**	**YTD**	**Strategy AUM**
Offshore Feeder	US$13.935	-1.38%	-5.91%	US$79M
Topix Return is in USD unhedged using WM London 4pm close		-1.89%	-0.72%	

We spent the second last week of August in Japan visiting companies, meeting strategists and trying to find some shade. In what has been a poor summer, we found the one week when nary a cloud appeared and the sun shone with a vengeance. It was great. Needless to say, there were not so many people visiting Japan and we were able to organise meetings at will.

The economic news recently has not been great but the companies we met were all pretty positive about current conditions and the outlook into 2015. We saw more service sector companies than manufacturers, and there was close to unanimity that pockets of labour shortages were real and wages were trending up. They had better rise, because prices (represented by the CPI) were up in July by over 3% yr/yr , and Abenomics is unlikely to have a happy ending if wages stagnate while prices rise.

Fortunately, last week we learned that July's "Labor cash earnings" were up 2.6% yr/yr which was the highest rate of increase since 1997. If you strip out food and energy, the CPI rose 2.3% so on that measure, workers finally had a real increase in purchasing power, but given most workers also use energy and consume food, the headline CPI's 3.4% rise outpaced the rise in earnings. Headline inflation is expected to decline as the effects of the April consumption tax increase dissipate, but hopefully, workers' earnings will continue to see growth. Consumption, while being a smaller part of GDP in Japan than in the USA, is still the largest part of the economy, and the government is clearly well aware that they need to provide workers with reasons to open their wallets. With sound balance sheets and continued double digit earnings growth expected this and next year, Japanese companies have few excuses not to increase employees' pay and a failure to do so will be a major impediment to the success of PM Abe's economic recovery plans.

Further positive signs in the labour market were evident in the June quarter when the number of workers who shifted from part-time or casual status to full time workers increased by 22% compared with the previous year and was the highest quarterly number since the September quarter of 2009. Even more promising was the fact that 65% of the total of such workers (990,000) were aged between 15 and 34, which should lead to greater consumer confidence. The job offers to applicants ratio is also the best it has been for a decade, and labour market tightness was mentioned by a number of companies that we met.

It seems rather short to us, but until the reshuffle made last week, Abe's cabinet had remained unchanged for 21 months and had thereby set a record for the longest period of stability of any Japanese government for many decades. We doubt that the changes in ministerial personnel will make a great deal of difference to policy, but the increase in women cabinet members is a positive, and judging by the jump in his approval ratings, most Japanese clearly agree. His cabinet now has five women ministers (four more than the number in Australia's conservative Government's cabinet) and they hold ministries as important as Justice and Trade & Industry, as well as one for the Falling Birthrate. We will be interested to see what policies Minister Haruko Arimura has in mind to tackle that challenge. Many other countries with declining birthrates might be watching too.

Of the companies we visited this time, most were in domestic service sectors, but we also saw an electric arc furnace steel maker, a textile/materials company and a tire maker. The last company (Toyo Tire) is a small but very profitable niche player in global terms with a heavy reliance on the North American SUV market. It is focused and committing capital in areas where it has a strong position and excellent returns on investment. The electric arc furnace company (Tokyo Steel) is in an industry that is over-crowded and operating at about 60% of its capacity. Demand is largely from the building and construction sector and is not going to grow sufficiently to see operating rates pick up but unless in financial distress, the industry is unlikely to scrap capacity of its own free will and mergers seem to be viewed as a last resort of the weak. Low returns and low valuations are the norm for this sector, and we see little reason to spend time considering them as investments. The textile/materials company (Teijin) was a classic case of a Japanese company that has a mixture of largely unrelated business divisions that range from loss-making to highly profitable. The sum of the parts is unexciting, but also tantalising because one can see what it could be if management were willing to make some tough decisions and break the mold. We will follow the company in case that day comes – and felt from the meeting that this is not a pipe-dream – but were not convinced that it is worth investing in at present.

Of the others, the tone was largely positive. At the very least, there is certainly a cyclical pick-up in demand and in certain cases there was evidence of longer-term changes.

We did have one quintessential Japanese company visit moment at a water and sewage consulting engineering firm that we liked the look of but had never previously visited. Arriving at the tiny reception area after a sweltering walk in midday heat from the subway station, we were greeted by the company representative with these words: "We don't have any IR materials and normally don't meet investors because our capital is more than enough and we don't really care about the stock market, but please come in. Would you like a cold drink?" It then turned out to be a really good meeting and a very interesting business. They are one of two firms that dominate the area and government demand to earthquake-proof Japan's water and sewage pipes will guarantee them strong orders for many years to come. That, however, has to be balanced against an attitude of seeming total indifference to returns on equity or to shareholders, and we decided it was a perfect case of good company, poor investment. There are still quite a lot of these sorts of companies in Japan, but the number is falling and finding ones that do care about shareholders is more common than it used to be. The times are a'changing.

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Recent 3 month Fund Exposure

% of NAV in	Jun 14	Jul 14	Aug 14
Long Stock Positions	94.32	92.70	92.54
Index Futures	-	-	-
Net Exposure	94.32	92.70	92.54

Optimal FUND MANAGEMENT

Should you wish to make an enquiry about the Optimal Japan Absolute Long Fund, please see our website www.optimalasia.com or contact us by email at optimal@optimalasia.com.

Position Concentration

	Top 5	Top 10
Longs	30.48%	52.54%
Total no. of positions	28	

Top Five Positions

Sumitomo Mitsui Financial Group Inc
Mitsubishi UFJ Financial Group Inc
Mizuho Financial Group Inc
H.I.S. Co Ltd
Komatsu Ltd

Winners

Fujifilm Holdings Corp
Nippon Corp
Tsukui Corp
Kubota Corp
Komatsu Ltd

Losers

Toyo Tire & Rubber Co Ltd
Nippon Television Network
H.I.S. Co Ltd
Mitsubishi Estate Co Ltd
Stanley Electric Co Ltd

Sector Exposure *as at 29 August 2014*

	Longs		Longs
Consumer Discretionary	23.15%	Health Care	1.79%
Consumer Non-Discretionary	-	Industrials	21.65%
Energy	2.54%	Information Technology	8.44%
Financials	32.01%	Materials	2.96%

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
(Inception September 2004)														
2014	-6.55	-3.03	-0.52	-3.07	3.71	4.69	0.57	-1.38					-5.91	-0.72
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

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