

Monthly Performance % - as at 31 August 2015

	NAV	August	YTD	Strategy AUM
Offshore Feeder	US\$15.437	-8.52%	3.82%	US\$60M
<i>Topix Return is in USD unhedged using WM London 4pm close</i>		-5.31%	8.04%	

Writing this letter quite a bit later after month-end than our usual monthlies, it feels like talking about events in August is so yesterday, as we now have new facts and events to ponder. If August's weakness was due to emerging markets – and China in particular – current market concerns are more widespread. Was the Fed's decision to hold rates a sign that they fear that a slowdown, or worse, lies ahead? How will Syria and the broader refugee crisis be resolved? Are political winds blowing governments further from the centre to both the right and the left? Or are equity markets weak mainly because valuations had become stretched?

There is little doubt that constant reports and images of millions of people being displaced from their home countries because of war and fear of persecution are disturbing, and it begs many questions that are impossible to answer. Throw into this mix the success of a non-conformist candidate as leader of the opposition in the UK, the fact that Donald Trump leads the race for Republican pre-selection in the USA and the re-election of the far-left Syriza party in Greece, and one has the makings of a less predictable political outlook in the developed world. Japan has had its own political drama playing out in the debates over whether to pass laws allowing the Japanese armed forces to take part in military actions overseas, and Mr Abe's popularity has taken a hit in the process. The laws have been passed and Mr Abe still remains by far the most favoured Prime Minister, but his efforts to win passage of these laws have tarnished his economy-first image and Japanese equities have taken a big hit – now down almost 14% from their August 10th recent high. The Topix index PBR is now back at 1.2x, compared to a peak in early 2006 of 2.1x, and stocks that we could not justify buying only two months ago now appear to be cheap again.

The sell-off in Japanese equities in August was big (-7.4%) and was most severe in the cyclical sectors – both global and domestic. Steel, autos, machinery, rubber and non-ferrous metals were amongst the worst sectors and given turmoil in China and elsewhere, it was not surprising to see them underperform. Somewhat more puzzling was the very poor performance of some of the financial sectors, where macro and company specific news remained largely

benign. Last month we mentioned the fact that we believe that defensive sectors such as food (in particular), pharma and retail are grossly overvalued, but - retail excluded - they continued to beat the market in August. Using the price-to-book ratio relative to the Topix index PBR as a good valuation indicator, all three of these “defensive” sectors are currently trading at the highest level since at least 2003, but one can't say the same thing for their profitability or RoE. While the food sector has seen a solid improvement in both these measures, pharma has deteriorated while retail is largely unchanged.

In a similar analysis in early August, Nomura compared the PERs of domestic-demand related sectors (retailing, food and services) against those of overseas-demand related sectors (machinery, transport equipment and electrical machinery) and found that the relative valuation of the former is at its highest level since the end of the 1980s asset bubble. It is not just in Japan that value investing has trailed growth/momentum.

Given frequent commentary in prior monthlies, the less we say about banks and their underperformance and undervaluation the better. The biggest negative contribution during the month was from SMFG (our largest position), but Isuzu and Hitachi were also big detractors as sentiment towards emerging markets - and global growth more generally - took a hit. On the positive side, there were very few names, but we did take advantage of a 24% decline in Nidec's share price during August to re-invest late in the month and benefited from a small rebound at month-end.

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Recent 3 month Fund Exposure

% of NAV in	June 15	Jul 15	Aug 15
Long Stock Positions	98.35	97.01	99.66
Index Futures	-	-	-
Net Exposure	98.35	97.01	99.66

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	32.09%	53.42%
Total no. of positions	30	

Top Five Positions

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

Winners

Nidec Corp
Kyoritsu Maintenance Co., Ltd
Pressance Corp
Toridoll.corporation
Shinmaywa Industries Ltd

Losers

Sumitomo Mitsui Financial Group Inc
Mitsubishi UFJ Financial Group Inc
Isuzu Motors Ltd
Hitachi Ltd
Nomura Holdings Inc

Sector Exposure as at 31 August 2015

	Longs		Longs
Consumer Discretionary	20.15%	Health Care	-
Consumer Non-Discretionary	-	Industrials	23.66%
Energy	3.13%	Information Technology	10.14%
Financials	42.58%	Materials	-

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)														
2015	-2.45	8.82	-0.37	4.95	5.27	-3.54	0.70	-8.52					3.82	8.04
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

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