

**Monthly Performance % - as at 31 August 2016**

|  | <b>NAV</b> | <b>August</b> | <b>YTD</b> | <b>Strategy AUM</b> |
|--|------------|---------------|------------|---------------------|
| Offshore Feeder  | US\$12.793 | -0.86%        | -15.98%    | US\$43M             |
| <i>Topix Return is in USD unhedged using WM London 4pm close</i> |            | -0.41%        | -0.07%     |                     |

The Olympics are over, Brexit is almost three months ago and the US has had its Labor Day holiday so everyone should be back at their desks and surveying the investment landscape. Is the view any clearer now than it was at the start of the summer? Judging from the daily stream of commentary and conjecture, probably not. Although economic data coming out of the US continues to be largely positive, the Presidential election campaign has taken attention away from that and will dominate media output for a couple of months yet. Japan has had a largely uneventful time over the past month or so – economically speaking that is – with indicators showing an uneven and limited uptick in economic activity and relative quiet on the policy and political front. Japan’s relations with China are apparently at a low point with neither side showing any desire to accommodate or concede, but both governments have more pressing issues to deal with than flag-planting in the East China Sea so we don’t expect that to have a large impact on investment returns for Japanese equity participants.

In the Japanese equity market August witnessed a continuation of the trend we mentioned last month where rising bond yields accompanied better returns from cyclicals at the expense of “low-vol” sectors. Pharma, railways and foods were in the bottom five sectors while steel, non-ferrous metals and banks were all in the top five. For an index that managed only a 0.5% gain, there was considerable disparity between the best sector (steel) return of 10% and the bottom (pharma) of -10%. Our biggest position MUFJ was a welcome positive contributor but the real estate sector continues to languish (-2.5%) and provided our biggest detractor Open House, which gave up in August all the price gains it had made in the prior three months.

We will be in Japan next week and have visits organised with a number of our portfolio holdings that had very poor returns in August. We will see Isuzu, JR Central and Sekisui House, in addition to Japan Airlines, Hitachi, Trust Tech, Japan Hotel REIT, Nihon Chouzai, MUFJ, Ebara and HIS. Our visit takes place one week before the Bank of Japan meets to flesh out just what it plans to do as part of its “comprehensive assessment” of monetary policy settings. We have had brokers tell us for the past two or three weeks how they believe that investors are in wait-and-see mode in advance of this September 21<sup>st</sup> announcement and we are also interested in what the BoJ decide.

From an investment point of view, it strikes us as counter-productive that so many money managers seem to be in the thrall of central bank announcements and reluctant to make decisions until after the fact. Hopefully the BoJ’s experiment into the world of NIRP will not be extended deeper into negative territory, but aside from the bank sector share prices, it is still far from clear that the NIRP has been a net negative for the economy as a whole. Low rates alone are not likely to change the preference of Japanese individuals for safe, low (or negative) yield assets. A heightened awareness of good capital allocation and shareholder interests among Japanese managers and boards will have more impact on investor preferences that any amount of cajoling by the BoJ and we will be focusing on these points when we meet with company management next week.

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**Recent 3 month Fund Exposure**

| % of NAV in          | Jun 16 | Jul 16 | Aug 16 |
|----------------------|--------|--------|--------|
| Long Stock Positions | 94.34  | 98.85  | 93.00  |
| Index Futures        | -      | -      | -      |
| Net Exposure         | 94.34  | 98.85  | 93.00  |

**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                  | 32.99% | 55.55% |
| Total no. of positions | 26     |        |

**Top Five Positions**

Mitsubishi UFJ Financial Group Inc  
Mitsubishi Estate Co Ltd  
Hitachi Ltd  
Japan Airlines Co Ltd  
Nishio Rent All Co Ltd

**Winners**

Komatsu Ltd  
Mitsubishi UFJ Financial Group Inc  
Mitsubishi Electric Corp  
Lixil Group Corp  
Hitachi Ltd

**Losers**

Open House Co Ltd  
Isuzu Motors Ltd  
Nihon Chouzai Co Ltd  
Central Japan Railway Co  
Izumi Co Ltd

**Sector Exposure as at 31 August 2016**

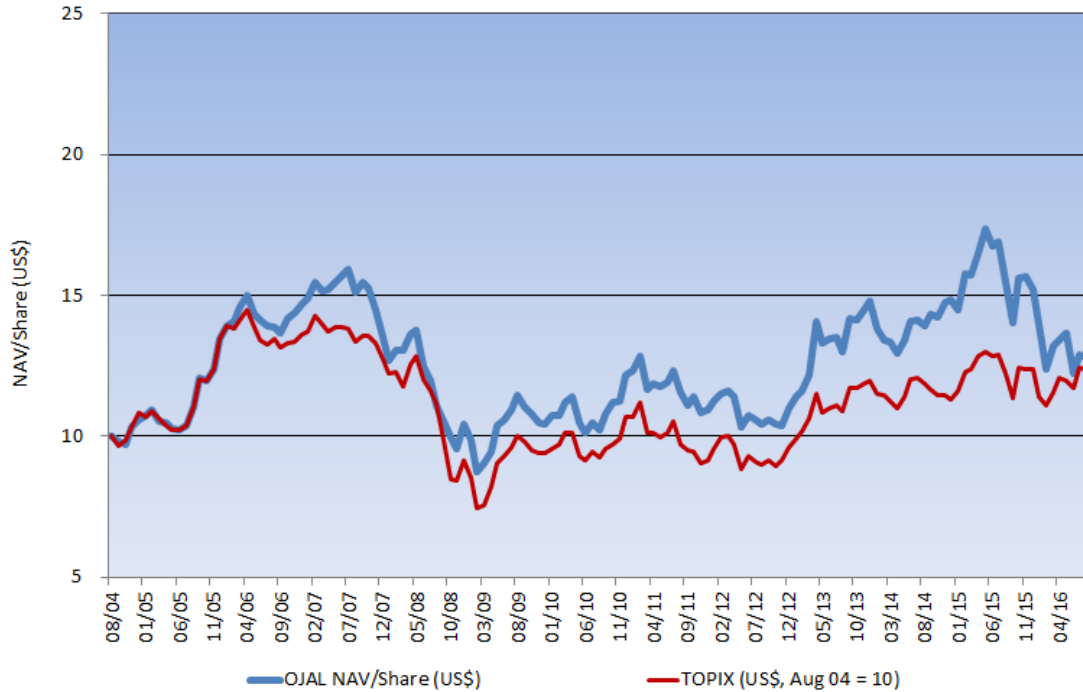
|                            | Longs  | Net    |
|----------------------------|--------|--------|
| Consumer Discretionary     | 26.95% | 26.95% |
| Consumer Non-Discretionary | 2.24%  | 2.24%  |
| Energy                     | -      | -      |
| Financials                 | 22.74% | 22.74% |
| Health Care                | -      | -      |
| Industrials                | 28.65% | 28.65% |
| Information Technology     | 7.49%  | 7.49%  |
| Materials                  | 4.93%  | 4.93%  |
| Telecommunications         | -      | -      |

| Performance Contribution | Longs  | Futures | FX Forwards | Other  | Total  |
|--------------------------|--------|---------|-------------|--------|--------|
| August 2016              | -0.65% | -       | 0.90%       | -1.11% | -0.86% |

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**Portfolio Performance as of 31 August 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  | 1.82  | -10.75 | 5.75  | -0.86 |       |       |       |       | -15.98 | -0.07                  |
| 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

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