MONTHLY REPORT TO SHAREHOLDERS OF OPTIMAL JAPAN ABSOLUTE LONG FUND

Optimal FUND MANAGEMENT

Monthly Performance % - *as at 31 August 2017*

	NAV	August	YTD	Strategy AUM
Offshore Feeder	US$15.941	-0.82%	6.89%	US$46M
Topix Return is in USD unhedged using WM London 4pm close		0.32%	12.87%	

Traders in equities would have had lean pickings during August with none of the major market indices moving much at all. The Euro Stoxx 600 won the wooden spoon for the worst performer, falling by only 1.05%, while the FTSE 100 jumped by 0.8%. All the other major markets came somewhere in between and most ended within 0.1% of their end July levels. In the world of currencies, participants go ballistic when markets move by seemingly tiny increments - which shows the leverage underlying the bets made in this market – but to our eyes, August was soporific, with the Yen and Euro basically unchanged. Only Sterling moved to any extent – down by 2.1% against the Dollar – but still up more than 5% against the US currency in 2017 to date.

What did happen in August? North Korea continued to dominate the headlines with its missile launches and experiments with nuclear payloads and everyone seems to agree that pre-emptive military action by the USA is not a good idea. The stakes are certainly higher than they were when Imperial powers would send a gun boat or two up the Yellow River to quell unrest, and no one wants to risk retaliation from North Korea by resorting to arms. The consequences would be massive and tragic – clearly for those on the Korean Peninsula – so we can expect more threats from the West and who knows what from Pyongyang. In spite of the heightened tension, the VIX index has fallen back to the levels of early August before the spike on August 10th that we mentioned in our last report. We have our doubts that it carries a lot of information of what to expect from markets.

On Kabutocho, the Japanese equity market fell 0.07% in August and only four of the Topix 33 sectors moved by more than 5%. Normally airlines rise when oil prices fall, but these two sectors each rose 6.8% while on the losing side, insurance and securities fell 6.1 and 5.5% respectively. Financials fared badly all round with real estate and banks being the next worst performing sectors and our return was hurt by the falls in both Mitsubishi Estate and MUFJ.

On related matters, we spent the week starting August 22nd in Japan and once again were excited by the company meetings we had. Over the last year we have detected a change in the way that Japanese companies are describing their results and objectives and while a long way from perfect, the focus on business and, importantly, shareholder returns is very encouraging. Admittedly, they were starting from a low base, but one of the biggest attractions of investing in Japanese equities is that there is so much potential for shareholders to reap rewards from better corporate governance practices. For years, such hopes were delusional, but there are clear signs that the blithe indifference shown by Japanese companies to shareholder returns has begun to change for the better.

We met with thirteen companies in Tokyo and the Kansai region, covering food production (2), materials (2), machinery (2), semi-conductor production equipment/measuring equipment (2), plant engineer/construction (2) and shipping (1). To varying degrees, these companies are benefiting from the recent acceleration in global economic activity, so one needs to determine how much of the improvement is merely cyclical in nature and how much is more fundamental and due to the board or management's input. There were big contrasts between companies in the same areas (Itoham Yonekyu and S Foods) but we definitely had more positives impressions than negative ones. Following our trip we have made a number of changes, adding positions in five of the companies we visited and a shipping company – though not the one that we met with. These replaced five positions where either the price had gone to fully valued levels, or we felt the outlook was inferior to that of the new stock ideas.

The travails of a value investor in Japan continue in 2017, following welcome but brief respite in the second half of 2016. Indeed the change in market leadership from value back to growth occurred at the start of March, since which time the MSCI Japan Growth index has beaten the MSCI Japan Value index by almost 10%. We have mentioned this in many previous letters as it has been a near-constant feature of the Japanese equity market since the Lehman crisis. In the forty years before 2008, there were only a handful of years when growth had beaten value in Japan, so one might think that the demographic reality of Japan's aging population profile is the explanation for why investors are willing to pay more to own companies with better growth prospects. It is not just a Japanese phenomenon however, and as John Authers writes in his column in last weekend's FT, most of the developed markets have experienced the same conditions with value lagging badly. Demographics – and especially a lack of immigration-fueled population growth - cannot be the only reason.

Technological change and the Amazon-effect of capturing consumers at any cost is a challenge for established business models, but goods still need to be made, marketed and moved. We focus on building a portfolio of companies that have a future and have not yet discounted all of that – and more – in the share price. Japan continues to offer plenty of such companies for the diligent investor.

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

Recent 3 month Fund Exposure			
% of NAV in	**Jun 17**	**Jul 17**	**Aug 17**
Long Stock Positions	97.50	97.47	87.81
Index Futures	-	-	-
Net Exposure	97.50	97.47	87.81

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	32.38%	52.20%
Total no. of positions	25	

Top Five Positions

- Mitsubishi UFJ Financial Group Inc
- Hitachi Ltd
- Panasonic Corp
- Sekisui House Ltd
- Izumi Co Ltd

Winners

- H.I.S. Co Ltd
- Kasai Kogyo Co Ltd
- Sumitomo Metal Mining Co Ltd
- Toray Industries Inc
- Japan Airlines Co Ltd

Losers

- Chiyoda Corp
- Mitsubishi UFJ Financial Group Inc
- Tokio Marine Holdings Inc
- Mitsubishi Estate Co Ltd
- Makino Milling Machine Co Ltd

Sector Exposure *as at 31 August 2017*	
	Longs
Consumer Discretionary	36.67%
Consumer Non-Discretionary	0.37%
Energy	2.40%
Financials	11.63%
Health Care	3.11%
Industrials	13.90%
Information Technology	8.23%
Materials	11.50%
Telecommunications	-

Performance Contribution	Longs	Futures	FX Forwards	Other	Total
August 2017	-0.86%	-	-0.14%	0.18%	-0.82%

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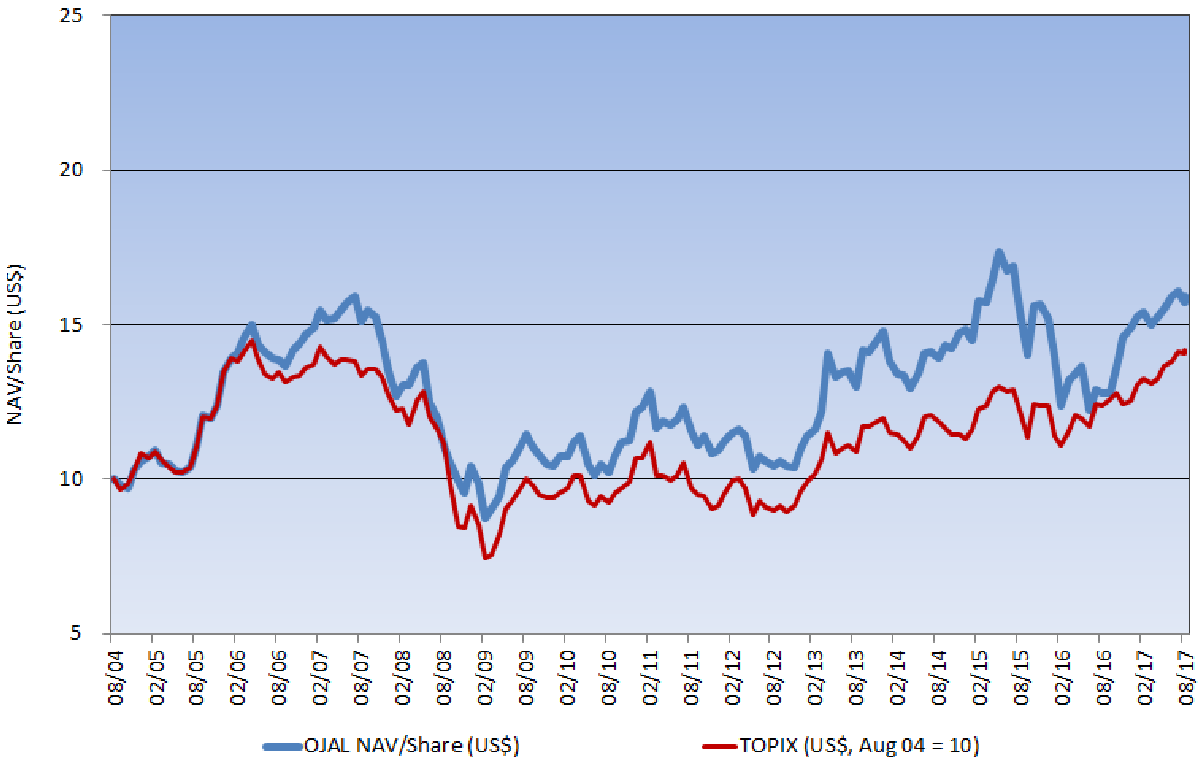
Portfolio Performance *as of 31 August 2017*



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)														
2017	2.13	1.08	-2.46	1.55	1.61	2.76	0.95	-0.82					6.89	12.87
2016	-8.33	-11.28	6.75	1.57	1.82	-10.75	5.75	-0.86	-0.09	6.68	6.84	2.36	-2.06	1.23
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

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