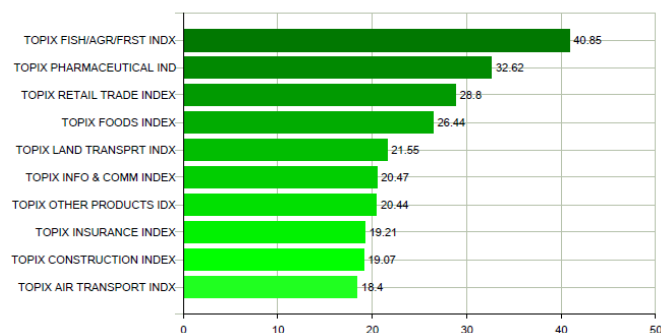


Monthly Performance % - as at 31 December 2015

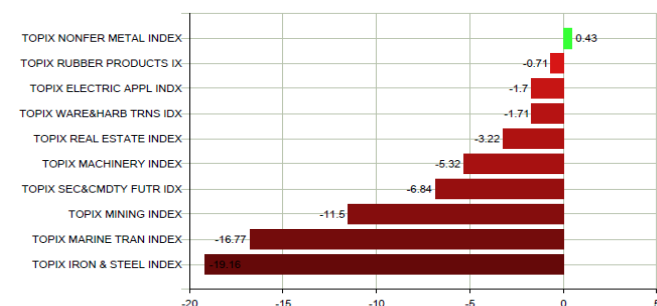
	NAV	December	YTD	Strategy AUM
Offshore Feeder	US\$ 15.227	-2.82%	2.41%	US\$60M
<i>Topix Return is in USD unhedged using WM London 4pm close</i>		0.34%	9.57%	

The 2.1% decline in Topix in December took the market back to the level of March, but still meant that Tokyo was one of the best performing markets in 2015 with a local currency gain of almost 10% and an unhedged USD return of almost 9%. It never really felt that good to us, but compared with most of the world, it was a reasonable year. We wrote about the strong share price performance of defensive sectors last month – and in previous monthly letters – so rather than repeat ourselves, we will let pictures tell the story. The best performing sector – and arguably the sector with the most romantic name, “Fishery, Agriculture & Forestry” - has a mere five constituents, the largest of which is Nippon Suisan which jumped 61% in December alone. Its earnings might represent “low volatility”, but not its share price.

High Performers



Low Performers



Source: Bloomberg

Foreigners’ investment activity in Japanese equities in 2015 ended the year almost flat with the main buyers being Trust Banks (pension funds) and Business Corporations, representing companies buying back their own stock. Individuals were the largest sellers, marking a fourth consecutive year as the largest net sellers, but as the Tokyo Stock Exchange figures do not include individuals’ participation in IPOs or other equity capital raisings, their net selling paints a more pessimistic picture than is warranted.

Short selling continues to represent a very large proportion of total selling in Japan and is indicative - in our opinion at least - of the degree to which speculation and momentum influence price movements and increase volatility. One only needs to look at the slavish response of the Japanese index to the movements in the Chinese market to get an idea of how lacking in independence the Japanese market often is. We are not able to get any reliable evidence of who is behind the aggressive short-selling that has become common in Japan, but indications are that it is often foreign and sees Japanese stocks as a liquid and cheap way of getting short exposure to off-set long positions, whether in Japan or, more likely, in other markets.

The New Year was ushered in with spectacular fireworks but markets decided they did not like the show. The apparent reason – although in financial markets the more apt word might be excuse – was a relatively poor manufacturing PMI in China. No one would deny that China’s economy matters to the world, but given that their services sector indicator was strong, the huge sell-off in Chinese stocks which then triggered their new “circuit-breaker” market closure seemed excessive, and Japan’s subsequent tracking of the decline in Chinese stock prices even more depressing. The old adage that pessimists sound smarter than optimists is undeniably true and nowhere more so than in the overcrowded world of financial market punditry. We think stock markets have hardly been behaving with irrational exuberance as it is and feel that the bearishness is rather stale. In the US, equities are barely 10% higher than they were at the end of 2013, European and UK equities are lower than they were in 1999 and the MSCI EM index is at its lowest point in ten years. The Topix index, lest we forget, finished 2015 lower than it did in 1994, so dividends aside, equity returns in most of the world have not been good this last decade or so.

Our wish list for 2016 is that Japanese companies start using their cash in more expansive ways. With Japanese interest rates at zero (ish), the market’s RoE of 9% is attractive, but it could be quite a bit higher if Japanese companies were not so addicted to their cash hoarding. The good news is that dividends are now widely seen by domestic investors as a good reason to hold Japanese equities, but the bad news is that few companies make dividend payouts in excess of 30%. Mr Abe and Mr Kuroda have done quite enough to allow Japanese companies to regain profitability and build a strong financial platform. The onus is now on Japan’s corporate sector to play their part. The people deserve better.

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

Recent 3 month Fund Exposure

	Oct 15	Nov 15	Dec 15
Long Stock Positions	88.78	82.96	87.60
Index Futures	-	-	-
Net Exposure	88.78	82.96	87.60

Performance Statistics

Last 12 Months	2.41%
3 Yr Annualised Return	11.55%
5 Yr Annualised Return	4.55%
Annualised Return Since Inception	3.78%

Position Concentration

	Top 5	Top 10
Longs	29.33%	48.36%
Total no. of positions	28	

Top Five Positions

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

Winners (Qtr)

Tokyo Electron Ltd
Nishio Rent All Co Ltd
Toridoll.corporation
ORIX Corp
Hitachi Ltd

Losers (Qtr)

Sumitomo Realty & Development Co Ltd
DMG Mori Co Ltd
Shinmaywa Industries Ltd
Pressance Corp
Central Japan Railway Co

Sector Exposure as at 31 December 2015

	Longs
Consumer Discretionary	19.09%
Consumer Non-Disc	-
Energy	1.91%
Financials	30.94%
Health Care	-
Industrials	31.38%
Information Technology	4.28%
Materials	-
Telecommunications	-
Net Exposure	87.60%

December Qtr Sector Performance – P&L

	Longs
Consumer Discretionary	1.99%
Consumer Non-Disc	-
Energy	0.31%
Financials	1.41%
Health Care	-
Industrials	2.86%
Information Technology	2.16%
Materials	-
Telecommunications	-
	8.73%
FX Forwards	-0.01%
FX and Other	-0.23%
Total	8.49%

Performance Contribution

	Longs	FX Forwards	Other	Total
December 2015	-2.68%	-2.36%	2.22%	-2.82%

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.

Strong Business Relationships
Drive long term success

Optimal FUND MANAGEMENT

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	-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

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.

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