

Monthly Performance % - as at 27 February 2015

	NAV	February	YTD	Strategy AUM
Offshore Feeder	US\$15.784	8.82%	6.15%	US\$66M
<i>Topix Return is in USD unhedged using WM London 4pm close</i>		5.81%	8.58%	

As mentioned in the January report, we were in Japan at the start of March and spent most of the week at a conference held by one of the large Japanese brokers. We had 18 one-on-one meetings and attended a number of large presentations. The conference came hot on the heels of two similar ones organized by rival firms and means a lot of foreign investors have been in Japan of late and based on our experience, will have left with a generally positive impression of change in corporate Japan. There was a lot of talk about targeting higher RoEs, addressing lazy assets and the incoming Corporate Governance Code (starting June) and once a consensus forms in Japan and inertia is cast aside, momentum gathers at an impressive pace.

We also had meetings outside the conference and found the same positive outlook in the private equity world. Not many large foreign PE firms have really made a commitment to Japan so far, but it does seem that years of preparation are paying off for the ones who have. There is a widely held view (which we share) that Japan will definitely see more and more in-bound tourism in the years ahead – much of it from Asia – and assets that can meet tourist demand are certainly under the microscope at these PE firms. In a related move, the process of selling licences to companies to operate the regional airports of Japan is about to start with Sendai airport and Kansai (Osaka) International likely to be the first up for sale. With many well-equipped airports around regional Japan, any would-be operator would presumably be seeing the opportunity for bringing more traffic from nearby countries and developing capacity to take more tourists and we expect foreign interest in bidding for these airport licenses to be strong.

February saw a welcome respite from the long period of poor performance from financial sectors and in a month when the Topix index rose 7.7% (in Yen), the best three sectors were Other Financials (+19.3%), Banks (+16.6%) and Securities Houses (+14.4%). Real Estate came in sixth with a gain of 11.7%, so the Fund benefited considerably with these sectors accounting for about two thirds of the total gains from our long positions. March has seen a partial reversal from the financials but having met with two of the major banks last week, we are very comfortable

with the Fund's big positions here.

In the presentation material from SMFG (our largest position) there was an interesting table entitled "Japanese National Wealth" which had been compiled by the Government's Cabinet Office as at the end of 2013. Although this is a depiction of stock (not flow), it does put the discussion of Japan's large public debt into context and we find it interesting on various levels. First, despite the General Government liabilities being shown at 1,167 trillion yen – or 241.6% of GDP – the net worth of General Government was zero, with assets matching their liabilities. Households are the dominant holders of wealth, with net worth almost five times that of the GDP, while non-financial corporations held a net worth about 10% larger than GDP. What it all means is capable of endless interpretation, but it does put the Bank of Japan's holdings of JGBs (now at Y271tn) into some perspective – accounting for about 8% of total Financial corporations assets. We reproduce the table for you to read as you like.

Balance sheet of Japan (as of Dec. 2013, JPY tn)^{*1}

Closing assets	9,295	Closing liabilities plus net worth	9,295
Households	2,687	Households	359
Financial assets	1,656	Non-financial corporations	1,490
Non-financial assets	1,031	of which: Stocks	678
of which: Land	676	Financial corporations	3,202
Non-financial corporations	2,045	of which: Stocks	201
Financial assets	1,028	To Nominal GDP 241.6%	
Non-financial assets	1,017	General government	1,167
of which: Land	267	Closing liabilities	6,246
Financial corporations	3,296	Net worth	3,049
General government	1,168	Households	2,328
of which: Financial assets	577	Non-financial corporations	555
Financial assets	6,571	Financial corporations	94
Non-financial assets	2,724	General government	0

^{*1} Source: Cabinet office
SMFG SUMITOMO MITSUBISHI FINANCIAL GROUP

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Recent 3 month Fund Exposure

% of NAV in	Dec 14	Jan 15	Feb 15
Long Stock Positions	94.71	90.25	93.55
Index Futures	-	-	-
Net Exposure	94.71	90.25	93.55

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	29.32%	48.02%
Total no. of positions	29	

Top Five Positions

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

Winners

Sumitomo Mitsui Financial Group Inc
Mitsubishi UFJ Financial Group Inc
Kajima Corp
Sony Corp
Nomura Holdings Inc

Losers

Japan Airlines Co Ltd
Hitachi Ltd
Tsukui Corp
Nippo Corp
H.I.S. Co Ltd

Sector Exposure as at 27 February 2015

	Longs		Longs
Consumer Discretionary	18.07%	Health Care	1.88%
Consumer Non-Discretionary	-	Industrials	24.95%
Energy	3.30%	Information Technology	8.50%
Financials	36.85%	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											6.15	8.58
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

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

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