

Monthly Performance % - as at 31 July 2015

	NAV	July	YTD	Strategy AUM
Offshore Feeder	US\$16.874	0.70%	13.48%	US\$65M
<i>Topix Return is in USD unhedged using WM London 4pm close</i>		0.53%	14.10%	

After June's decline, the 2015 Japanese equities rally resumed its steady ascent in July with a modest gain of 1.8%, albeit this was only 0.53% in USD. There was a large difference between the best (airlines) and worst (steel) sectors but even more marked was the type of sectors that did well against the group that did not. All the worst performers were external demand (global growth) sensitive while the best were predominantly from the defensive domestic-demand sectors. The Chinese economy and market both featured prominently during July, leading to lower expectations for growth, and in spite of generally positive indications of continued economic recovery in the US, financial commentators clogged the media with their latest views on whether and when the US Fed would raise rates. It will be a relief when the Fed finally acts and puts us out of this misery.

With the majority of the world's largest investors enjoying summer and holidays, Japan too was afflicted by an extended spell of unusually hot weather. If there was a well-organised and credible opposition party in Japan, investors would have grounds for concern as PM Abe's popularity has been hit in recent months as he pursues changes to Japan's pacifist (and largely passive) constitutional status. As it is, the decline in his approval ratings is overshadowed by the inability of the opposition to attract any support, so we see little chance of this swoon leading to a new election or change of leader. His next major speech will be on August 14th to commemorate the 70th anniversary of the end of the Pacific War, and although many are expecting a hawkish tone regarding foreign policy, there has been an apparent thawing in relations between Japan and China in recent months, so he might surprise with a more constructive and mollifying message. We shall know very soon.

As at the August 7th close, about 75% of Topix listed companies had announced their June quarter results, and the numbers are reassuringly strong. Sales were up 5.1% on the pcp, operating profits up 25.3% and net profits up 37.7%. The consensus for the full year to March 2016 is for net profits to increase by 17.5%, and with accelerating buy-backs, this will translate into a higher rate of growth in EPS. Japanese companies continue to cling to much lower estimates for the full year, but this downbeat approach is a hangover from the bad old days of the deflationary years and will take some time to work through. They are not treated as forecasts so much as worse-case scenarios.

The return of Japan's banks as major providers of cross border finance was confirmed by BIS data showing that in the year to March 2015, Japan was the largest such global player with a share of 14%. It is possibly coincidental, but the last time Japan was the world's largest provider of cross border capital was in 1998. This was the year in which Japan's bank crisis became undeniable (after the bankruptcy of a couple of banks and two securities companies in late 1997) and for the next decade as Japan's banks rebuilt their damaged equity bases, Japan's share of global cross-border finance shrank and only began to recover post the Lehman crisis. We would suggest that the contraction in lending and subsequent expansion since 2008 bears a close correlation with Japan's general price deflation, but whether this is a cause, effect, or mere coincidence is a moot point. If it is not proof, it is at least persuasive.

Consumer Discretionary (Isuzu, Izumi, HIS and Nippon TV) and Financials (Jafco, Nomura and Mitsubishi Estate) were the best sectors for us in July while Industrials (Mitsubishi Electric, Nachi-Fujikoshi, DMG Mori Seiki and Toshiba) and Information Technology (Tokyo Electron and Rohm) were the worst. The valuations of the defensive sectors (the apparent favourites of those investors targeting low portfolio variance) are becoming stretched relative to the market, but still remain well below the extreme levels of 1999 (the IT Bubble period). In a world of economic doubt and uncertainty, food, pharma and retail might continue to attract buyers, but we think they are grossly overvalued and are high risk investments when momentum buying eventually falls out of favour.

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Recent 3 month Fund Exposure

% of NAV in	May 15	June 15	Jul 15
Long Stock Positions	94.22	98.35	97.01
Index Futures	-	-	-
Net Exposure	94.22	98.35	97.01

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	28.14%	50.82%
Total no. of positions	30	

Top Five Positions

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

Winners

Jafco Co Ltd
Nidec Corp
Japan Airlines Co Ltd
Nomura Holdings Inc
Shinmaywa Industries Ltd

Losers

Mitsubishi Electric Corp
Tokyo Electron Ltd
Nachi-fujikoshi co
DMG Mori Co Ltd
Toshiba Corp

Sector Exposure as at 31 July 2015

	Longs		Longs
Consumer Discretionary	15.00%	Health Care	-
Consumer Non-Discretionary	-	Industrials	28.42%
Energy	3.10%	Information Technology	10.15%
Financials	40.34%	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						13.48	14.10
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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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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