

Monthly Performance % - as at 29 July 2016

	NAV	July	YTD	Strategy AUM
Offshore Feeder	US\$12.904	5.75%	-15.26%	US\$44M
<i>Topix Return is in USD unhedged using WM London 4pm close</i>		6.28%	0.34%	

As noted in our last monthly, June was a brutal month in Japanese equities but July saw markets calm down and Topix regained over half of its June loss. It was needed, as not only had the market been down almost 20% in the first half year, but the pain had been magnified as defensive, low-beta and thus, expensive stocks had done much better at the expense of cyclical, financial and thus, cheap stocks. The correlation between declining bond yields and rising defensive equities has been close to perfect, and the move in the 10Yr JGB yield from -0.27% in early July to today's -0.09% has mirrored a sell-off in over-priced defensives and a rally from sectors such as the financials, autos, machinery and electricals.

Notwithstanding the very easy monetary policy of the BoJ, Mr Abe announced a widely anticipated economic stimulus package on July 28th. The headline number is Y28tn (almost 6% of GDP) but as is customary with Japan's stimulus packages – and there have been a dozen since 1998 – the commentariat deemed that the real effective fiscal boost will be more like Y5 to 6tn (only 1% of GDP). It is a convoluted and questionable exercise to decipher just what portion of the fiscal package is new, real, or just promises that will never be kept, but we think the fact that Japan is willing to expand monetary and fiscal policies at the same time is interesting, and a likely bell-wether for other countries' economic policy makers.

Following widespread outrage at his spending habits and accusations of misuse of public funds, the Tokyo Governor Yoichi Masuzoe resigned in mid June and triggered an election for the second most important political office in Japan. The result of the election held on July 31 was a win to a former journalist and Minister of Defence, Yuriko Koike. In a year when female political candidates have had – or are likely to have – success at the polls, Ms Koike becomes the first woman to hold the position as Governor of Tokyo. Her former Prime Minister Junichiro Koizumi described her as being both charming and courageous, qualities which will be called upon in a difficult role made more challenging by the

need to have Tokyo primed and ready for the 2019 Rugby World Cup and 2020 Olympic Games.

With more than 80% of the Topix index constituent companies having reported their June quarter results, it is very clear that the strong Yen has hurt the profits of the manufactures. Quarterly recurring profits for this group have fallen 22% year on year, and their full year forecast is for a decline of 8%, while the non-manufacturing sectors expect full year recurring profits to be up 5%. Overall, and taking account of the record level of share buy-backs, net profits and earnings per share are expected to rise, leaving Japan looking cheap compared to many markets.

Talking of cheap, there is nothing as cheap as the Japanese real estate sector. Either it is telling us that the real estate market has peaked and is about to fall, or it is a sector one needs to own – in size. Between real estate developers, home builders and building materials, we have a large bet on this area. The small developers are priced at between 6-8x the current year PER, while Sekisui House is on 10x, is buying back its stock and has a dividend yield of nearly 4%. Mitsubishi Estate - our largest position - is trading at a large discount to NTA and relative to the Topix index is close to the lowest PBR level since 2004. Meanwhile Tokyo office rents have climbed for the 31st successive month and the vacancy rate is below 4% for the first time since late 2005. Combined with a 33% year-on-year surge in demand for new housing loans in the June quarter - thanks to NIRP we suspect – these low valuations scream “Buy” to us.

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Recent 3 month Fund Exposure

% of NAV in	May 16	Jun 16	Jul 16
Long Stock Positions	90.28	94.34	98.85
Index Futures	-	-	-
Net Exposure	90.28	94.34	98.85

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	33.18%	56.69%
Total no. of positions	28	

Top Five Positions

Mitsubishi Estate Co Ltd
Mitsubishi UFJ Financial Group Inc
Komatsu Ltd
Japan Airlines Co Ltd
Hitachi Ltd

Winners

Mitsubishi UFJ Financial Group Inc
Nidec Corp
Nishio Rent All Co Ltd
Komatsu Ltd
Hitachi Ltd

Losers

H.I.S. Co Ltd
Japan Airlines Co Ltd
Nihon Chouzai Co Ltd
Mitsubishi Electric Corp
Sekisui House Ltd

Sector Exposure as at 29 July 2016

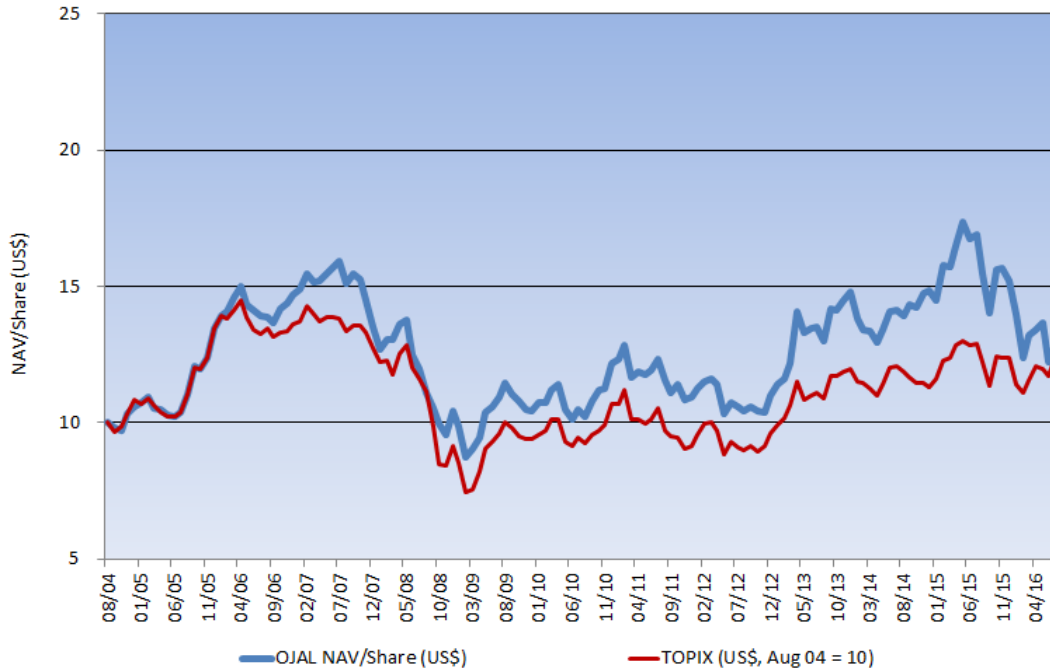
	Longs	Net
Consumer Discretionary	28.26%	28.26%
Consumer Non-Discretionary	1.42%	1.42%
Energy	-	-
Financials	23.47%	23.47%
Health Care	-	-
Industrials	38.63%	38.63%
Information Technology	7.07%	7.07%
Materials	-	-
Telecommunications	-	-

Performance Contribution	Longs	Futures	FX Forwards	Other	Total
July 2016	5.84%	-	-0.48%	0.39%	5.75%

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Portfolio Performance as of 29 July 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 [*] YTD
(Inception September 2004)														
2016	-8.33	-11.28	6.75	1.57	1.82	-10.75	5.75						-15.26	0.34
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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