

Monthly Performance % - as at 31 July 2017

	NAV	July	YTD	Strategy AUM
Offshore Feeder	US\$16.072	0.95%	7.77%	US\$46M
<i>Topix Return is in USD unhedged using WM London 4pm close</i>		2.11%	12.51%	

We always try and get our monthly reports out by the 10th of the month and had it not been delayed this time by one day, we could have started by talking about the twenty year lows being made by the Vix index. This indicator of market tranquility was shaken up by the escalation of threat and counter-threat between North Korea and the USA and jumped 44% on August 10th. The current level is still low and in any event, the index does not measure risk per se, but rather the changes in implied volatility reflected in S&P 500 option prices. Its downward trend since the Lehman Crisis is inversely correlated with the relentless rise in the US equity market and tells us little about valuations and opportunities. With many away on summer holidays – and the computers in charge in their absence - the markets are more susceptible to big moves based on bad news and with valuations quite rich after eight years of rising stock prices, there is clearly even more risk of a spike down. Let's all hope that sanity prevails.

For investors in Japan, the past few weeks have been dominated by the daily release of company financials for the June quarter. In the majority of cases, this represents the first quarter of the financial year (ending March 2018) and the results have been encouraging. Japanese companies are never eager to blow their own trumpet, and in fact will generally highlight the cloud and ignore the silver lining, but the number of companies announcing upward revisions to their full year estimates outnumbers those revising down by a factor of 7. June quarter sales in aggregate are up 7% over the year earlier while operating profits are up by 11% and net profits by 26%. The full year consensus is for operating profits to rise by just over 9%, with profit growth in the manufacturing sector outstripping that of the non-manufacturers, even though the latter have been more positive in revising up their full year estimates than the former. So far, so good.

In Japanese politics, Mr Abe's star is on the wane but fortunately, his rivals have been faring even worse. The Democratic Socialist Party – which held the reins of government only a few years ago – seem to have disintegrated with their leader Renho resigning abruptly after less than a year in the role. PM Abe's Liberal Democratic Party has seen a drop in its approval rating to around 40% but given that the opposition party's rating is in single digits, a change of government is not on. Mr Abe reshuffled his cabinet – a time-honoured practice when approval ratings fall to a certain level – but the most interesting political question for Japan

watchers is whether Abe can hold onto his position as leader of the LDP until the Tokyo Olympics in August 2020. That will really test his leadership skills.

In encouraging signs that shareholder returns and capital allocation are becoming higher priorities for Japanese companies, we saw a slew of corporate announcements towards month end which had immediate positive impact on the shares of the companies concerned. Alps Electric, which already owns just over 40% of the shares of Alpine Electronics, announced a bid for the remaining shares in a share swap arrangement which sent Alpine's stock up 22% on the following day (July 28).

Following this came the announcement by Nissan Shatai that it would implement a selective stock buy-back and purchase the 8.5% of its shares held by Ontario Teachers' Pension Plan Board. This was announced with the agreement of the holder, but interestingly, the deal must also have the approval of its largest shareholder Nissan (43%) and second largest holder Effissimo (19.7%) and we expect the treasury stock to be cancelled. The shares rose 13% the following day.

Finally we had the venture capital company Jafco announce that it would buy back the shares held by its sponsor Nomura Holdings (17.6%) and Nomura affiliate NRI (10.2%). The company already has just over 8% in treasury stock but following the purchases will cancel the shares and some of its existing treasury stock to reduce the level to 5%. Jafco's shares jumped by 15% on July 28th after the announcement.

In spite of the strong Yen (actually the weaker USD) during July, we had positive contributions from our manufacturers while the domestic sectors were the biggest drags on the Fund return. It was a relatively quiet month overall, with the dispersion between the return of the market's best sector (steel +7.4%) and the worst sector (paper -3.6%) smaller than in the usual month. We are entering the time of year when returns in Japan have been poor, but aside from the seasonality argument, we see no good reason to become bearish and remain close to fully invested.

As we said in last month's letter, low real interest rates and corporate governance reform makes for strong tail winds for Japanese equities.

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Recent 3 month Fund Exposure

% of NAV in	May 17	Jun 17	Jul 17
Long Stock Positions	93.89	97.50	97.47
Index Futures	-	-	-
Net Exposure	93.89	97.50	97.47

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	33.49%	57.39%
Total no. of positions	25	

Top Five Positions

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

Winners

Hitachi Ltd
Nippon Steel & Sumitomo Metal Corp
Toray Industries Inc
Isuzu Motors Ltd
Toyota Motor Corp

Losers

Mitsubishi UFJ Financial Group Inc
Izumi Co Ltd
Zojirushi Corp
Mitsubishi Estate Co Ltd
Kyoritsu Maintenance Co Ltd

Sector Exposure as at 31 July 2017

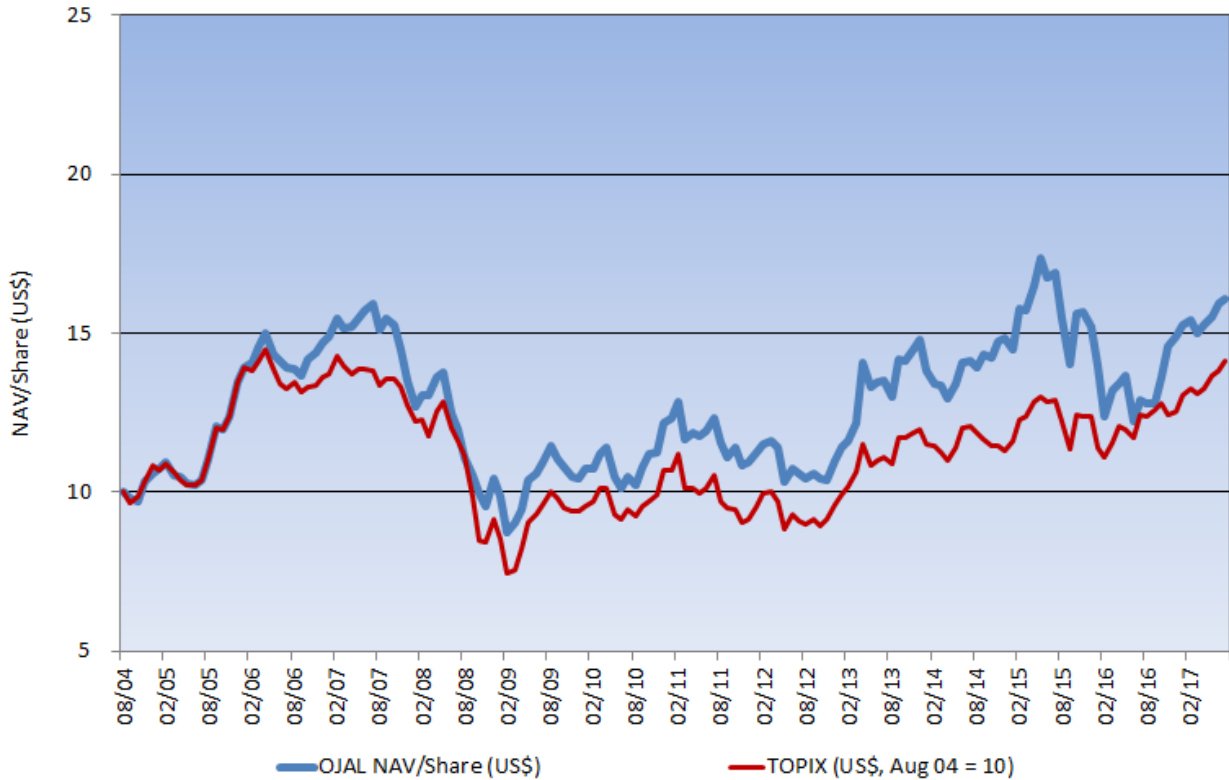
	Longs	Net
Consumer Discretionary	42.09%	42.09%
Consumer Non-Discretionary	3.48%	3.48%
Energy	2.33%	2.33%
Financials	18.11%	18.11%
Health Care	3.09%	3.09%
Industrials	10.54%	10.54%
Information Technology	6.87%	6.87%
Materials	10.96%	10.96%
Telecommunications	-	-

Performance Contribution	Longs	Futures	FX Forwards	Other	Total
July 2017	0.33%	-	-0.84%	1.46%	0.95%

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Portfolio Performance as of 31 July 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						7.77	12.51
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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