

Monthly Performance % - as at 30 June 2015

	NAV	June	YTD	Strategy AUM
Offshore Feeder	US\$16.757	-3.54%	12.70%	US\$63M
<i>Topix Return is in USD unhedged using WM London 4pm close</i>		-1.21%	13.50%	

If only we had not celebrated a great month in May and just kept our heads down. I know Greece, China and other real life dramas are probably to blame, but knowing as we do that cause and effect are almost impossible to determine in equity markets, and being superstitious by nature, we can't help feeling that the Gods of equities markets took offence at the hubristic tone of last month's letter. The month was hardly a disaster but a Topix fall of 2.58% (with the banks index -3.15%) took some of the shine off what has generally been a good first half of 2015.

Greece is a small economy and has little trade with Asia. China is the polar opposite. China is the biggest trading partner for most countries in the Asia Pacific area so economic problems in China do matter to Japan. A quick glance at the worst performing Topix sectors in June shows economic cyclicals were punished in June, with tires, steel, shipping, auto and electricals all falling more than 5%. While economy sensitive sectors were hit hard last month, bond yields in the major economies were generally stable and not consistent with the sell-off in cyclicals. Equity investors are often reminded that the bond market is the better indicator of future trends in the economy so perhaps the current sell-off in equities will be seen as a flight of fancy spooked by China's incredible market melt-up/down and that stability - and buyers - will return soon.

There were not a lot of major news events in June but there was a lot of talk about cross-shareholdings and the desirability of these being unwound. Given the introduction of the Japanese Corporate Governance Code on June 1st, it was unsurprising that there was a lot of focus on corporate shareholdings, with both Mizuho Holdings and Sumitomo Mitsui Financial Group making statements indicating they would be cutting back on their equity holdings. While this is a positive in itself as it will reduce their capital adequacy base's sensitivity to equity market crashes, we are more interested in what they would do with the proceeds. The major banks continue to look for overseas acquisitions of lending businesses (usually by way of divestments from European banks

or industrial conglomerates focusing on their "core" business) but we would be happier to see them increasing their dividends or buying back their shares. We'd even be happy to see them pay their employees more, which is likely to happen anyway given the multi-decade highs in indicators of jobs market tightness. Wages and bonuses are increasing but it is certainly not at an explosive pace. The message is taking some time to filter through but with the job market as tight as it is, and with an ageing population, we would bet that the rate of increase will accelerate.

While banks were weak in June, the stocks that hurt us most were Sony, Mitsubishi Electric and our two big real estate developers. Sony shocked the market at the end of the month by announcing a capital raising of over JPY450bn, with the proceeds earmarked in the main for R&D and expansion of the profitable CMOS sensor production capacity. It caused the shares to fall almost 10% on June 30th and apart from the dilution due to the new shares and CB, it also diluted the sense of optimism that had been building steadily about the resurgence of Sony as a company and an investment. Year to date, Sony has been a top 5 contributor to the Fund's return, but a part of that contribution has been eroded by this questionable capital raising. Japan's path to better corporate governance is clearly laid out ahead, but the propensity to score own-goals remains an unfortunate reality.

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Recent 3 month Fund Exposure

	Apr 15	May 15	June 15
Long Stock Positions	94.68	94.22	98.35
Index Futures	-	-	-
Net Exposure	94.68	94.22	98.35

Performance Statistics

Last 12 Months	19.27%
3 Yr Annualised Return	15.98%
5 Yr Annualised Return	10.59%
Annualised Return Since Inception	4.88%

Position Concentration

	Top 5	Top 10
Longs	28.05%	50.09%
Total no. of positions	31	

Top Five Positions

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

Winners (Qtr)

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

Losers (Qtr)

Toshiba Corp
Shinmaywa Industries Ltd
Mitsubishi Estate Co Ltd
Hitachi Ltd
Sun Frontier Fudousan Co Ltd

Sector Exposure as at 30 June 2015

	Longs
Consumer Discretionary	11.91%
Consumer Non-Disc	-
Energy	3.25%
Financials	39.62%
Health Care	-
Industrials	32.41%
Information Technology	11.16%
Materials	-
Telecommunications	-
Net Exposure	98.35%

June Qtr Sector Performance – P&L

	Longs
Consumer Discretionary	0.68%
Consumer Non-Disc	-
Energy	0.16%
Financials	3.94%
Health Care	-0.04%
Industrials	1.80%
Information Technology	0.16%
Materials	-
Telecommunications	-
	6.70%
FX Forwards	2.03%
FX and Other	-2.17%
Total	6.56%

Performance Contribution

	Longs	FX Forwards	Other	Total
June 2015	-3.23%	-1.37%	1.06%	-3.54%

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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							12.70	13.50
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.

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