

**Monthly Performance % - as at 30 June 2016**

	NAV	June	YTD	Strategy AUM
Offshore Feeder	US\$ 12.202	-10.75%	-19.87%	US\$42M
<i>Topix Return is in USD unhedged using WM London 4pm close</i>		-2.39%	-5.59%	

Maybe markets really do care about politics. First we had Brexit and the violent moves in the Asian markets on June 24<sup>th</sup> when the result became known. Japan sold off more than any of the markets, and then failed to bounce with any conviction and on July 8<sup>th</sup> - last Friday - had closed within half of one percent of its closing lows on June 24<sup>th</sup>. There had been no economic or policy news that could explain the weakness after Brexit other than the fact that the Yen strengthened along with other purported “safe haven” assets. Back at Y100/\$ on July 8<sup>th</sup>, the Yen’s gain of almost 20% against the dollar since December 2015 was threatening to sink any reflationary hopes that Mr Kuroda had held out for.

Then politics resurfaced, this time in the guise of Japan’s Upper House election on Sunday July 10<sup>th</sup>, which gave Mr Abe’s LDP and its coalition members a solid victory and a super majority (more than two thirds) of the seats in both houses of the Diet. This is allegedly important.

There had been almost no comment on the election leading up to the vote, and little acclaim once results were in on the night of July 10<sup>th</sup>, but Japanese equities have shot up and are now almost back to their pre-Brexit level. With the Yen at Y103 and change, the unhedged Topix index in USD is indeed higher than it was before the UK’s leave decision. If politics has shown it matters, currency movements have shown that they too cannot be ignored.

Mr Abe’s keen political instincts cannot be underestimated and with the equity market down 20% and the Yen near 100/\$, he needed to provide some adrenalin to the ailing patient. With the super majority now in hand he has announced that a significant fiscal stimulus will be detailed very soon and financed presumably by JGB issuance at negative rates. In the current world of scepticism towards central banks and more monetary easing, this move will be welcomed and we suspect there will be nary a squeak about Japan’s debt/GDP level. That would be quite a change from pre-Abe and pre-NIRP days.

June was a brutal month in Japanese equities and particularly for financials and economic sensitives. The best performing Topix sector was pharmaceuticals with a fall of 4.5% while all four financial sectors fell by between 15.8 and 20.1%. Eighteen out of the 33 Topix sectors suffered double digit declines and our portfolio was hurt by our holdings in industrials and financials. DMG Mori (a leading machine tool maker formed by the merger of Japan’s and Germany’s best) fell 29% and is priced on a price to cashflow ratio of 3.75, a PER of 9x and a PBR of 0.8x. Kasai Kogyo – an auto parts maker we revisited a month ago – fell 25% and is even cheaper on an EV/EBITDA of 2.3x and a PER of 4.3x. In July so far, DMG is up 8% while Kasai is up 5%. There is a lot of ground to make up.

We have been here before – in fact too many times for anyone’s liking – and the last time we faced so many bargains and sentiment was so pessimistic was in late 2012 before Mr Abe reappeared with Abenomics. Like then, foreigners have been recent net sellers of Japanese equities. While it is true that on various fronts, progress in Japan has been disappointing, there are other areas where improvement is obvious and the most important of these is in corporate governance. Boards are changing and shareholder interests are being observed, and served, better than they were four years ago. Many companies still have abject corporate governance practices, but many former miscreants are changing for the better. We will continue to focus on these prodigal companies while avoiding the unreformed.

**DISCLAIMER:**

This material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our opinions only. The material is based upon information, which we consider reliable, but we not represent that it is accurate or should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities.

### Recent 3 month Fund Exposure

	Apr 16	May 16	Jun 16
Long Stock Positions	93.01	90.28	94.34
Index Futures	-	-	-
Net Exposure	93.01	90.28	94.34

### Performance Statistics

Last 12 Months	-27.18%
3 Yr Annualised Return	-3.17%
5 Yr Annualised Return	0.49%
Annualised Return Since Inception	1.70%

### Position Concentration

	Top 5	Top 10
Longs	31.99%	54.38%
Total no. of positions	27	

### Top Five Positions

Mitsubishi Estate Co Ltd  
Mitsubishi UFJ Financial Group Inc  
Japan Airlines Co Ltd  
Mitsubishi Electric Corp  
Komatsu Ltd

### Winners (Qtr)

Open House Co Ltd  
Nihon Chouzai Co Ltd  
Fukushima Industries Corp  
Isuzu Motors Ltd  
H.I.S. Co Ltd

### Losers (Qtr)

Japan Airlines Co Ltd  
Hitachi Ltd  
Nishio Rent All Co Ltd  
Mitsubishi UFJ Financial Group Inc  
Mitsubishi Estate Co Ltd

### Sector Exposure as at 30 June 2016

	Longs
Consumer Discretionary	27.82%
Consumer Non-Disc	1.56%
Energy	-
Financials	21.72%
Health Care	-
Industrials	36.95%
Information Technology	6.29%
Materials	-
Telecommunications	-
Net Exposure	94.34%

### June Qtr Sector Performance – P&L

	Longs
Consumer Discretionary	-2.39%
Consumer Non-Disc	0.31%
Energy	-
Financials	-2.58%
Health Care	-
Industrials	-3.50%
Information Technology	-1.36%
Materials	-
Telecommunications	-
	-9.52%
FX Forwards	-7.86%
FX and Other	9.69%
Total	-7.69%

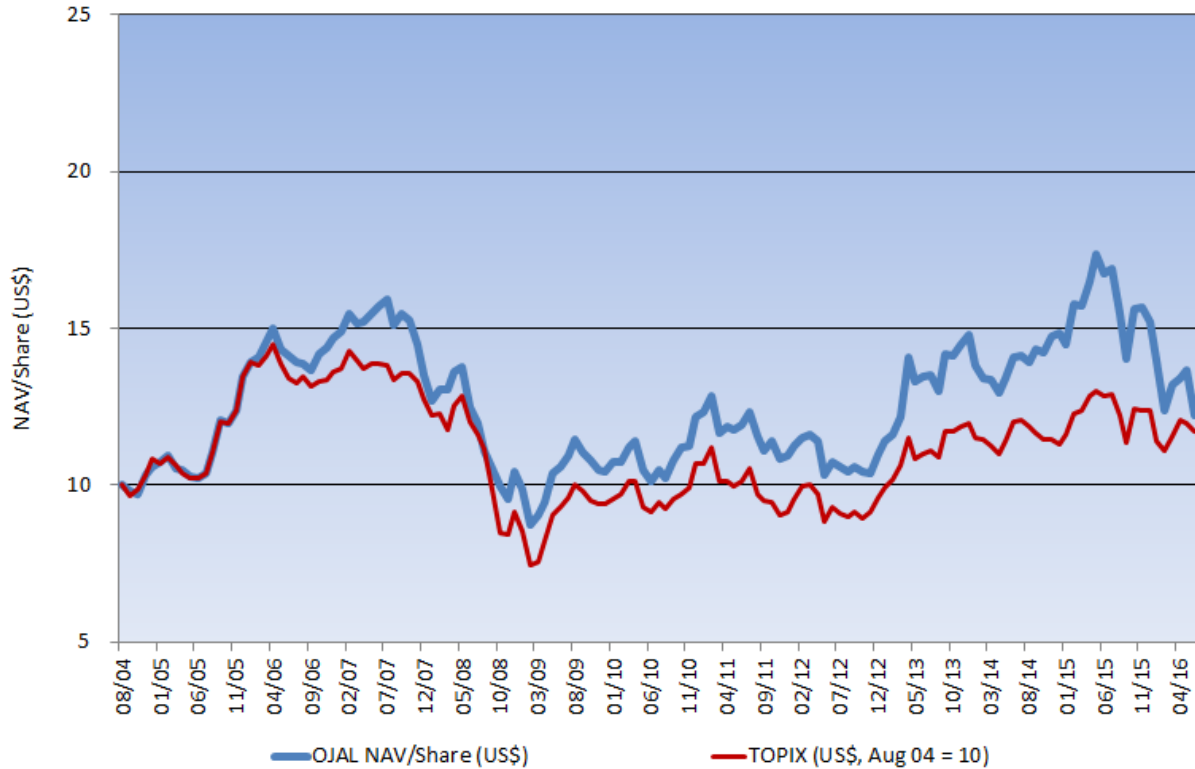
### Performance Contribution

	Longs	FX Forwards	Other	Total
June 2016	-11.40%	-7.61%	8.26%	-10.75%

#### DISCLAIMER:

This material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our opinions only. The material is based upon information, which we consider reliable, but we not represent that it is accurate or should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities.

**Portfolio Performance as of 30 June 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							-19.87	-5.59
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

\* Topix Return is in USD unhedged using WM London 4pm close

**DISCLAIMER:**

This material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our opinions only. The material is based upon information, which we consider reliable, but we not represent that it is accurate or should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities.