

**Monthly Performance % - as at 31 March 2015**

	NAV	March	YTD	Strategy AUM
Offshore Feeder	US\$15.725	-0.37%	5.76%	US\$63M
<i>Topix Return is in USD unhedged using WM London 4pm close</i>		0.94%	9.61%	

Three months into 2015 and Japanese equities have had three positive monthly returns and a total gain of almost 10%. March was a welcome reprieve from the deluge of company quarterly reports that we had to endure during February, but April's news flow will once again take a turn for the tedious as we get into the "previews period" for the vast majority of companies with a March fiscal year-end. In the search for a perfectly informed market and price discovery, the investment community now has only four months of the year (March, June, September and December) when they are not previewing or reviewing quarterly results and this cannot be a productive way to spend the other eight months. Have collective investment returns become any better due to this development? We suspect not.

We believe that with ample cash flow, huge cash reserves and the might of the Government behind a push to improve corporate governance, Japanese companies will embark on a massive tidy-up operation that will see a wave of mergers, acquisitions, divestments and accelerated share buy-backs. Much attention has been given to the introduction of the Corporate Governance Code in the middle of this year and the stated goal of lifting the market's RoE. Noteworthy examples over the past few weeks include:

\*DMG Mori Seiki announcing that their tender offer for the shares in Mori Seiki AG (formerly Gildermeister) had reached more than 50% of shares out.

\*Sell down of Sony's stake in Olympus

\*Sell down by H2O of their stake in Takashimaya

\*Partial sale of shares in Sumco owned by Mitsubishi Material and Nippon Steel & Sumitomo Metal

\*Proposed merger of Family Mart and Uny

\*Business tie-up between Nintendo and DeNa

This might not seem especially significant in the context of markets where M&A and corporate actions such as these are commonplace, but in Japan, this is a major change. The value of listed companies' M&A spending in Japan (measured as a % of market cap) is only about one quarter of that in the US & the UK and less than half that in Germany, so this government project to lift shareholder returns is very likely to spur a lot of activity such as those noted above. With the jobs market tighter now than it has been for over a decade, it should encourage consolidation in some of the most over-crowded sectors in the domestic economy (food, construction) and help advance supply side reforms.

In terms of market leadership, the strong outperformance of financial sectors during February could not be maintained in March and for the first quarter as a whole, the best gains came from other domestic sectors led by pharmaceuticals, services, retail and foods – and Nintendo. Real Estate – which often moves with the banking stocks - has been a bright spot however and has continued to push higher in April. Aside from our large positions in the three major developers, we have added a couple of smaller developers (Pressance and Sun Frontier) after recent company visits. Unlike the real estate boom in 2003-07 when foreign capital was dominant, there is a better spread among foreign and domestic investors now and while confidence is growing, there is little evidence of "bubble" conditions.

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#### Recent 3 month Fund Exposure

	Jan 15	Feb 15	Mar 15
Long Stock Positions	90.25	93.55	93.91
Index Futures	-	-	-
Net Exposure	90.25	93.55	93.91

#### Performance Statistics

Last 12 Months	17.79%
3 Yr Annualised Return	10.61%
5 Yr Annualised Return	7.04%
Annualised Return Since Inception	4.37%

#### Position Concentration

	Top 5	Top 10
Longs	28.61%	47.40%
Total no. of positions	31	

#### Top Five Positions

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

#### Winners (Qtr)

Mitsubishi UFJ Financial Group Inc  
Sony Corp  
H.I.S. Co Ltd  
Sumitomo Mitsui Financial Group Inc  
Kajima Corp

#### Losers (Qtr)

Komatsu Ltd  
Hitachi Ltd  
Tsukui Corp  
Mizuho Financial Group Inc  
Mitsui Engineering & Shipbuilding Co Ltd

#### Sector Exposure as at 31 March 2015

	Longs
Consumer Discretionary	14.98%
Consumer Non-Disc	-
Energy	3.08%
Financials	37.26%
Health Care	1.77%
Industrials	24.00%
Information Technology	12.82%
Materials	-
Telecommunications	-
Net Exposure	93.91%

#### March Qtr Sector Performance – P&L

	Longs
Consumer Discretionary	2.86%
Consumer Non-Disc	-
Energy	-0.01%
Financials	2.77%
Health Care	-0.23%
Industrials	0.68%
Information Technology	0.14%
Materials	-0.08%
Telecommunications	-
	6.13%
FX Forwards	0.10%
FX and Other	-0.47%
Total	5.76%

#### Performance Contribution

	Longs	FX Forwards	Other	Total
March 2015	-0.26%	0.31%	-0.42%	-0.37%

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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 <sup>*</sup> YTD
<b>(Inception September 2004)</b>														
2015	-2.45	8.82	-0.37										5.76	9.61
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](http://www.optimalasia.com) or contact us by email at [optimal@optimalasia.com](mailto:optimal@optimalasia.com).

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