

**Monthly Performance % - as at 31 March 2016**

	NAV	March	YTD	Strategy AUM
Offshore Feeder	US\$ 13.219	6.75%	-13.19%	US\$50M
<i>Topix Return is in USD unhedged using WM London 4pm close</i>		4.25%	-6.81%	

In the month since our last letter, the Japanese market has worried back and forth between Topix levels of 1270 and 1370. As we write, it sits right in the middle of this range but with a Yen/USD rate of 108 as compared with 113-114 a month ago. The stronger Yen over the year thus far has led to greater caution from investors – especially foreign ones – who have been consistent sellers of Japanese equities all year. It is estimated that almost one third of the total foreign net buying since PM Abe’s second coming in late 2012 has been sold in the past few months, and if the April Merrill Lynch Global Fund Manager Survey is to be believed, foreign fund managers are on balance underweight Japan for the first time since December 2012. Foreign pessimism is also evident in the net outflows from the US listed Japanese equity ETFs where weekly selling of \$200mn+ has been the pattern all year.

It has all added up to a very ugly quarter for Japanese equity investors, and a particularly disappointing one for our funds. The Topix index (in Yen) was down 13% and in USD, was off almost 7%. We mentioned the Bank of Japan’s February decision to introduce negative interest rates in last month’s letter, and perhaps the most dramatic unintended consequence of this policy shock was the 29% decline in the Topix banks sub-index during the quarter. While banks are trading cheap in many markets around the globe, we would suggest few are so egregiously cheap as the Japanese majors. They have found some support in the past week, but remain massive underperformers, and massively undervalued in our view.

While investment managers profess to be underweight Japan relative to their benchmarks, they are also underweight banks. At the peak of the 1980s Bubble era, Japanese banks accounted for more than 30% of the market’s capitalization – which from memory is similar to the levels that financials reached in the US and in the UK at their peak before the Lehman crisis and their subsequent downfall. In Australia, banks still account for 30% of the index and financials more broadly, closer to 40%. The banks are a protected species however, which might go some way to explain their lofty RoEs and valuations.

Nowadays, the Japanese banks account for a mere 7.3% of Topix and financials as a whole (ex - real estate) only 12%. Two decades of deflation has not been kind to Japanese banks and we accept that they are not best of breed in a global context the way Japanese car makers are, but MUFJ at 0.5x Price-Book is a bargain for the ages. It is one of our largest positions (5%) and with SMFG (6%) remains a core holding in the portfolio.

Many Japanese market participants are expecting – and hoping – that the BoJ will take action to redress the damage that has been wrought since they embraced NIRP. We have our doubts.

The BoJ has already taken very drastic action with its aggressive buying of JGBs from the private sector and while they might expand their securities purchase programme in other areas (such as equity ETFs or J REITs), it is not likely to be on anything like the scale of their bond buying. Loan growth is not bad at just over 2% yr-on-yr and yet the loans to deposits ratio remains at a multi-decades low around 77%. It is still too soon to say whether the NIRP will spur further demand for loans (we think it unlikely) but the economy is not staggering like a drunk as it stands today. More likely will be looser fiscal policy in the form of a supplementary Budget, a postponement of the next planned hike in consumption tax (from 8 to 10%) and maybe even changes to tax to encourage companies to spend cash hoards (or to penalise them if they do not) and to make overseas bond purchases more attractive. We never felt that there was a pressing need for the Yen to weaken beyond Y120-125/\$, but can’t imagine that the government would be happy to see it strengthen any further.

The pessimism among investors towards Japanese equities is reaching levels we last saw in late 2012. There will be no Third Coming for Mr Abe this time around, but the situation is set for a recovery in Japanese stocks after a very poor eight months since last August.

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### Recent 3 month Fund Exposure

	Jan 16	Feb 16	Mar 16
Long Stock Positions	96.14	99.11	95.63
Index Futures	-	-	-
Net Exposure	96.14	99.11	95.63

### Performance Statistics

Last 12 Months	-15.94%
3 Yr Annualised Return	2.74%
5 Yr Annualised Return	2.56%
Annualised Return Since Inception	2.44%

### Position Concentration

	Top 5	Top 10
Longs	28.31%	50.51%
Total no. of positions	30	

### Top Five Positions

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

### Winners (Qtr)

Sun Frontier Fudousan Co Ltd  
Pressance Corp  
Izumi Co Ltd  
Tosei Corp  
Zenkoku Hosho Co Ltd

### Losers (Qtr)

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

### Sector Exposure as at 31 March 2016

	Longs
Consumer Discretionary	22.05%
Consumer Non-Disc	0.47%
Energy	-
Financials	31.70%
Health Care	-
Industrials	35.88%
Information Technology	5.53%
Materials	-
Telecommunications	-
Net Exposure	95.63%

### March Qtr Sector Performance – P&L

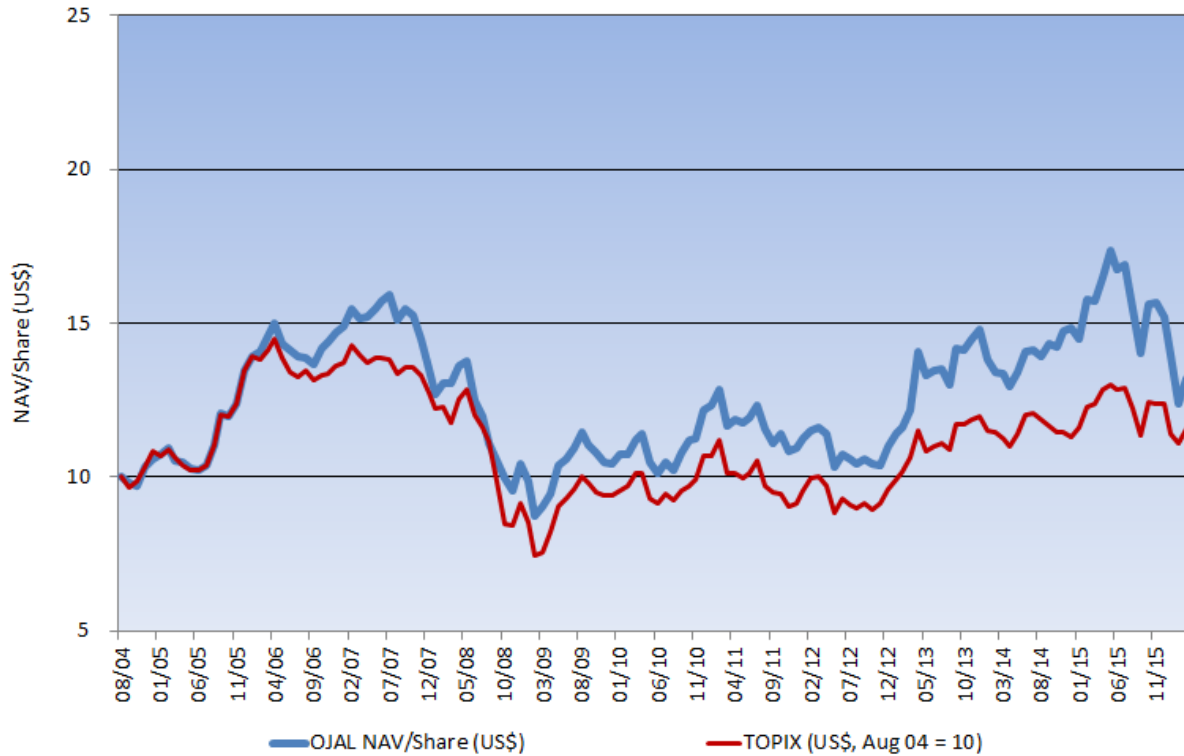
	Longs
Consumer Discretionary	-2.03%
Consumer Non-Disc	-0.02%
Energy	-0.45%
Financials	-6.35%
Health Care	-
Industrials	-4.30%
Information Technology	-1.12%
Materials	-
Telecommunications	-
	-14.27%
FX Forwards	-5.50%
FX and Other	6.58%
Total	-13.19%

### Performance Contribution

	Longs	FX Forwards	Other	Total
March 2016	6.49%	-0.17%	0.43%	6.75%

#### DISCLAIMER:

**Portfolio Performance as of 31 March 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 <sup>*</sup> YTD
(Inception September 2004)														
2016	-8.33	-11.28	6.75										-13.19	-6.81
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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