

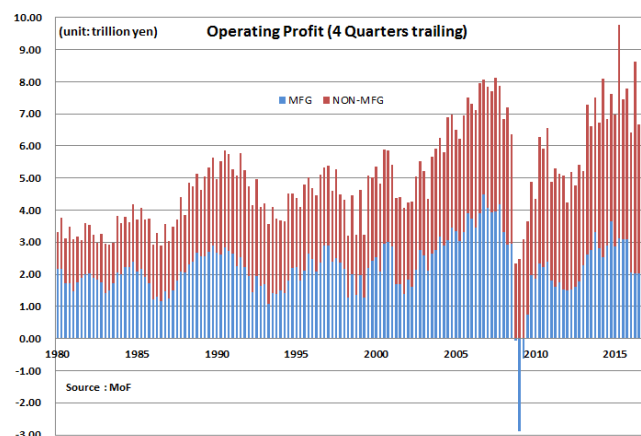
Monthly Performance % - as at 31 March 2017

	NAV	March	YTD	Strategy AUM
Offshore Feeder	US\$ 15.016	-2.46%	0.69%	US\$49M
<i>Topix Return is in USD unhedged using WM London 4pm close</i>		-1.08%	4.26%	

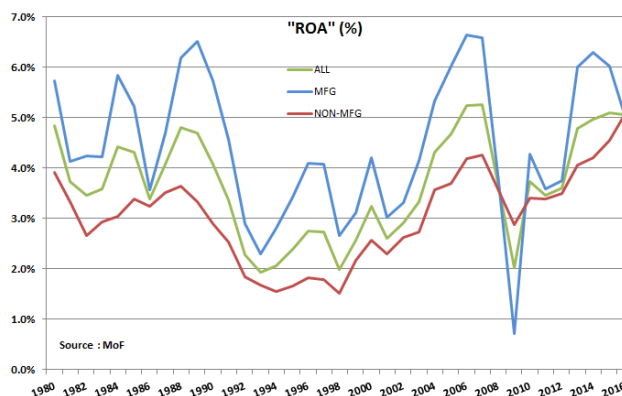
The Japanese equity market was disappointing in March in spite of generally positive news on the economic and corporate front. With the new Trump administration keeping everyone on their toes and elections imminent in France and Germany, it is perhaps not surprising that investors are reluctant to jump aboard. In Japan, 2017 has been less a case of hesitation to invest, and more a year of heavy net selling by foreigners. This is in spite of the surveys which show Japan to be a “favoured” market of institutional investors and the broadly supportive economic news. The selling is probably more indicative of macro investors losing patience with their bet on a weak Yen/ strong Nikkei as the Yen has defied the “smart money” bets and risen against the dollar from 118/\$ into the 110/\$ range over the course of 2017 to date. While a weaker Yen would have been supportive of higher equity prices, it has been encouraging that the decline in the Topix index this year has been limited to 2-3% whereas in the period between mid 2015 and mid 2016 when the Yen strengthened, equities had fallen by more than 20%.

As the jobs market has strengthened in Japan over the past few years, many investors have wondered why wages have not begun to rise more strongly. The February unemployment rate fell to 2.8% (the lowest level in more than 20 years) while the jobs-to-applicants ratio stayed at 1.43. In spite of these indicators of labour market tightness, wages have been rising at less than 1% pa for regular workers, but this understates the price of labour in the more flexible parts of the economy. There is a trade off in the Japanese labour market between job security and wage growth, and full time regular employees have been willing to accept very modest increases in wages in return for peace of mind in knowing that they will keep their job. In the part time jobs data, one sees a better reflection of the tightening demand situation with hourly rates now rising at just under 3% pa.

The ability to keep a lid on wages has no doubt helped Japanese companies to grow profits to record levels in spite of enduring a long period of stagnant economic growth as measured by nominal GDP.



Corporate Japan’s profitability is affected in no small part by the Yen’s exchange rate, but notwithstanding those fluctuations over the years, there has been a long, steady – if unspectacular – rise in profitability levels over the past twenty years and as measured by return on assets, this is now at a record high, surpassing the levels reached towards the end of the high growth era in 1980 and that reached at the end of the much vaunted “Bubble” period, when Japan Inc was going to devour the world.



In both of the charts above a cursory glance will tell you that the improvement in absolute profits and in profitability has come from the non-manufacturing sector. For a mature developed economy like Japan, this is as one would expect, but we still are surprised by the extent of the focus of many investors on Japan’s manufacturing companies. It is inevitable that Japanese manufacturing would lose out to lower-cost rising powers such as China and other developing countries, although Japan remains a global player in certain areas such as autos and machinery. There has been less focus and recognition of the growing profits and improved returns from Japan’s non-manufacturing companies but as one can see from the charts, an investor in Japanese stocks ignores these sectors at their peril.

Ironically, it was our stocks in the non-manufacturing sectors that hurt us most in March. Mitsubishi Estate (the blue chip real estate developer) and H.I.S. (the travel and theme park operator) together accounted for more than 1% of our negative return while stocks in retail (Baroque), housing (Iida) and banking (MUFJ) also dragged us down. Real estate has been a baffling under-performer for some time, but we believe the firm underlying market and discounts to adjusted NAV will ultimately produce a good return for the Fund.

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Recent 3 month Fund Exposure

	Jan 17	Feb 17	Mar 17
Long Stock Positions	90.47	92.69	89.61
Index Futures	-	-	-
Net Exposure	90.47	92.69	89.61

Performance Statistics

Last 12 Months	13.59%
3 Yr Annualised Return	4.00%
5 Yr Annualised Return	5.26%
Annualised Return Since Inception	3.28%

Position Concentration

	Top 5	Top 10
Longs	34.22%	58.63%
Total no. of positions	23	

Top Five Positions

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

Winners (Qtr)

DMG Mori Co Ltd
Panasonic Corp
Temp Holdings Co Ltd
Japan Airlines Co Ltd
Toray Industries Inc

Losers (Qtr)

Mitsubishi Estate Co Ltd
H.I.S. Co Ltd
Iida Group Holdings Co Ltd
Hitachi Ltd
Sekisui House Ltd

Sector Exposure as at 31 March 2017

	Longs
Consumer Discretionary	46.44%
Consumer Non-Disc	-
Energy	-
Financials	20.46%
Health Care	-
Industrials	7.64%
Information Technology	5.75%
Materials	9.32%
Telecommunications	-
Net Exposure	89.61%

March Qtr Sector Performance – P&L

	Longs
Consumer Discretionary	-1.12%
Consumer Non-Disc	-0.11%
Energy	-
Financials	-1.31%
Health Care	-
Industrials	1.46%
Information Technology	-0.27%
Materials	0.22%
Telecommunications	-
	-1.13%
FX Forwards	-2.19%
FX and Other	4.01%
Total	0.69%

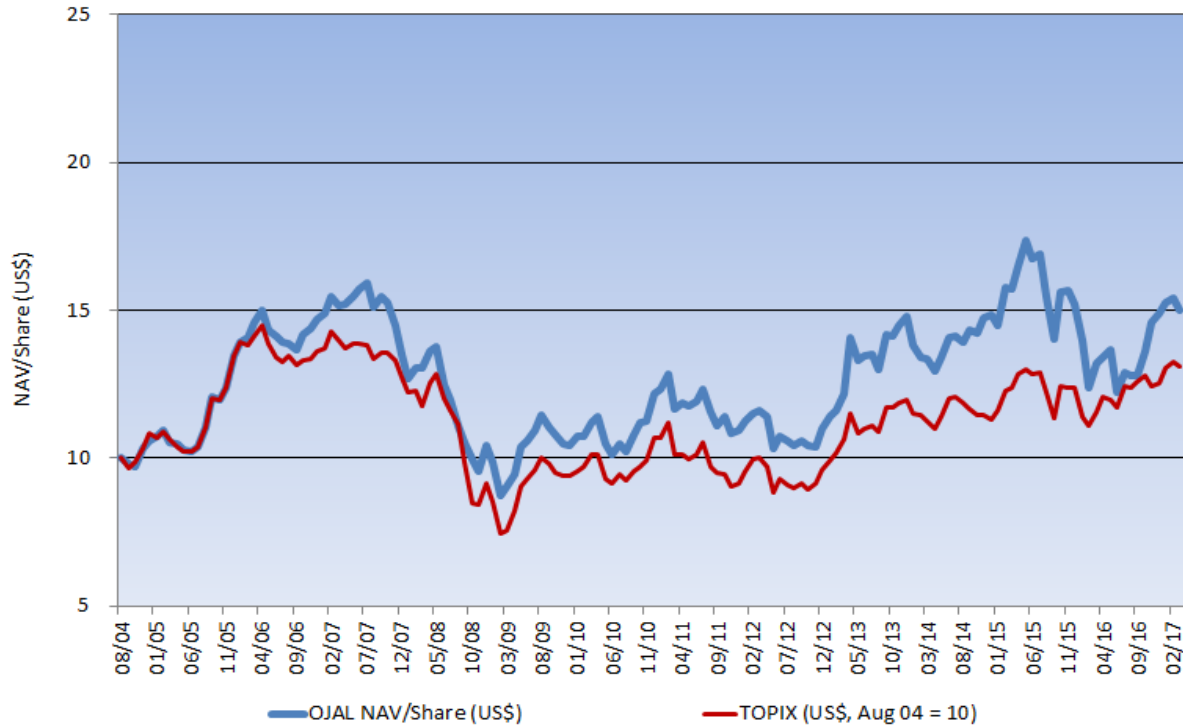
Performance Contribution

	Longs	FX Forwards	Other	Total
March 2017	-2.52%	-0.16%	0.22%	-2.46%

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Portfolio Performance as of 31 March 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										0.69	4.26
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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