MONTHLY REPORT TO SHAREHOLDERS OF OPTIMAL JAPAN ABSOLUTE LONG FUND

Monthly Performance % - *as at 31 May 2013*				
	NAV	**May**	**YTD**	**AUM**
Offshore Feeder	US$13.29	-5.74%	21.15%	US$15M
Topix Return is in USD unhedged using WM London 4pm close		-5.96%	13.12%	

After eight consecutive monthly gains for the Topix index, it should have been no great shock that the market would fall, but the 2.5% index drop in May was an unwelcome reminder that markets don't follow a straight line forever. The month had started strongly for equities as the Yen continued to slide against the USD, but on May 22nd both these trends reversed and stocks fell 11% through to month-end. The Yen sensitive sectors (machinery, precision, electricals, autos etc) did well while the domestic sectors (financials, real estate, railways and, strangely, pharmaceuticals) were big losers.

We mentioned in last month's letter that in early April, we had cut back our holdings in real estate developers. This sector had the largest (-16.4%) fall of any Topix sector during May, so we are pleased to have taken our profits, but even the modest holdings we retained were a drag on the Fund's return.

With a market fall of almost 7% on May 22nd and weakness through until month-end, it was inevitable that some market commentary would conclude that Abenomics had failed. Many people - even now – make their living by commentating on reasons for prices having risen or fallen. It is one thing trying to make a living by predicting the movement in prices, but ascribing the decline in Japanese share prices since May 22nd to the failure of Abenomics is really absurd. It will take a lot longer than six months to make a sensible judgement of his policies given that Mr Abe only took power in December 2012.

Nonetheless, in that short time, apart from the strength in equity and real estate markets, the economic signs have been unequivocally positive. The 2012 December quarter GDP number was revised up from 0.2% to 1.0% Y/Y while the 2013 March quarter figure came in at 3.5% when the consensus had been for 2.7%. Real wages have been rising and consumption strong, as have been sales of apartments. Notwithstanding that it is too soon to say, these can hardly be construed as evidence of a "failure" of policy.

Talking of policy however, there are some major changes underway. The Bank of Japan's aggressive expansion of their assets and the money supply is but the latest and most startling of the extraordinary actions taken by the world's most important central banks in recent years. In "Grant's Interest Rate Observer" of May 3, Jim Grant puts it thus: "I am going to bet that posterity will marvel at our complacency in the face of a revolution in monetary policy." Grant's most firmly held belief is that the current era, where paper money is not linked to a fixed store of value (such as gold), will end soon, it being a recent construct dating back only to 1971. He sees that a natural consequence of the actions of these central banks is that their currencies continue to devalue and that the world will enter - or has entered - a period where bond yields rise just as they did in the USA between 1900-1920 and again between 1946-1981.

Anyone investing in Japan should hope that JGB yields will rise, as surely a 0.4% yield on a 10 year government bond is not the norm and helps make the cost of retirement alarmingly high. Despite this, the doomsayers point to the fact that JGB yields recently soared to 1% from below 0.5% as a sign that the market does not believe that Japan's monetary policy makers can prevent yields from spiraling upwards. Too many people comment too often on monetary matters, and we are far from sure we can add value in predicting where bond yields go by when, but it is worth pointing out that the 10 Year JGB trades at 0.84% as we write, and that this is below the yield it traded at a year ago. It got to unhealthily low levels and quite naturally should rise with rising prices as the economy recovers.

On the "third arrow" of Mr Abe's policy suite, we look forward to getting details in the near future. The Government is meant to bring at least some of their major reform proposals to the Diet on June 14th before Mr Abe heads to the UK for the G8 Summit on June 17-18. Other parts might be delayed until after the Upper House elections in July.

The pull-back in Japanese equity prices of late is due in the main to a Newtonian reaction to the great gains made since November but also to scepticism that PM Abe will be able to deliver a reform agenda of sufficient detail, vision or effectiveness. On this issue, we suggest that those who fail to have meaningful exposure to Japanese equities now and in the years ahead will be guilty of complacency in the face of a revolution in economic, financial and social policy that will drive the Japanese equity market a lot higher.

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Recent 3 month Fund Exposure

% of NAV in	Mar 13	Apr 13	May 13
Long Stock Positions	96.04	98.79	89.43
Index Futures	-	-	-
Net Exposure	96.04	98.79	89.43

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.

Position Concentration

	Top 5	Top 10
Longs	30.27%	49.91%
Total no. of positions	29	

Top Five Positions

Mitsubishi UFJ Financial Group Inc
Sumitomo Mitsui Financial Group Inc
Nissan Motor Co Ltd
Itochu Corp
Nomura Holdings Inc

Winners

Nissan Motor Co Ltd
Hitachi Ltd
Itochu Corp
Toyota Motor Corp
Tokyo Electron Ltd

Losers

Sumitomo Mitsui Financial Group Inc
Mitsubishi UFJ Financial Group Inc
Sekisui Chemical Co Ltd
Toshiba Corp
Yamada Denki Co Ltd

Sector Exposure *as at 31 May 2013*

	Longs		Longs
Consumer Discretionary	27.62%	Industrials	15.49%
Consumer Non-Discretionary	-	Information Technology	8.76%
Financials	29.34%	Materials	3.04%
Health Care	2.54%	Telecommunications	2.64%

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)														
2013	4.19	1.40	5.18	15.67	-5.74								21.15	13.12
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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