MONTHLY REPORT TO SHAREHOLDERS OF OPTIMAL JAPAN ABSOLUTE LONG FUND

Monthly Performance % *- as at 31 May 2016*				
	NAV	**May**	**YTD**	**Strategy AUM**
Offshore Feeder	US$13.672	1.82%	-10.21%	US$50M
Topix Return is in USD unhedged using WM London 4pm close		-0.70%	-3.28%	

The Yen weakened in May, and the equity market rose. The Yen has strengthened in June and the equity market has fallen. Admittedly, most commentary blames the current widespread equities weakness on the imminent "Brexit" vote in the UK, but the weak Yen, strong market nexus still seems to hold firm. It never used to be that way, but the days of strong Yen, strong market are now sufficiently far back in the past that most people trading equities nowadays would not have ever experienced them personally.

Brexit and the policies of the Federal Reserve and the Bank of Japan have taken up far too much airtime for our liking, but the actions – and especially the inaction – of the BoJ do still move prices, even when the inaction is supposedly "in the market". Mr Kuroda is either out of ideas (the bears' view) or satisfied that the better economic data from Japan in recent months validates the course he has charted and there's no need for any further monetary stimulus. The economy is supportive of the latter view, but the equity market seems to be dominated by those who hold the former one. We don't think the problem is one of monetary – or for that matter, fiscal – policy. There is a limit to what one can expect from a government, which after all merely reflects the view of the majority.

Markets are pricing in super low yields in Japan for years to come, with the three year forward swap curve implying that the 30 year JGB yield will rise to only 24bps from the current level of 19bps. If ever a government wanted to borrow – from their own institutions in their own currency – there has surely never been a better moment than now. Ultra low bond yields used to be seen as a Japanese malaise, but they are now plentiful across the developed world and reflect low expectations for economic growth and prices. The cost of debt is certainly no barrier to expansion, but equities are not pricing themselves off debt (if they were, just try and imagine what the PER would be) and at least Japanese companies seem to be recognising the opportunity they now have to buy-back stock using cash - or even low cost debt.

The number of buy backs announced since we entered the NIRP era at the end of January has skyrocketed and that is all well and good, but there is much more that could be done by Japanese companies.

Our own research – and we are by no means the only ones to notice – has shown that Japanese companies have bloated SGA costs relative to US, European and other Asian ones. At the gross profit margin level, Japan stacks up well, but SGA costs are higher than the rest and the largest component of this is usually labour. For all of Mr Abe's talk of deregulation under the banner of the "Third arrow", archaic and unfriendly labour laws make it very difficult to sack employees. The standard required by the courts is effectively one of "no reasonable alternative" and that is effectively evidenced by a company turning into the red. Short of making a loss, a company is not easily able to sack its employees. Until this changes, it is little wonder than full time employment has hardly grown despite the tight labour market, as companies naturally opt to hire workers on a contract basis rather than as regular employees.

On our most recent trip to Japan, we made company visits to two companies that are in the worker outplacement and administration services industry and believe there will be ongoing demand for them. The valuations are not cheap, but domestic industries with growth prospects in a low growth environment are not likely to sell cheaply. We expect to make investments in this area in the near term – perhaps very soon given the current Brexit swoon that frustratingly has hit Japan even harder than the countries where the vote's result will have a direct effect.

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Recent 3 month Fund Exposure			
% of NAV in	**Mar 16**	**Apr 16**	**May 16**
Long Stock Positions	95.63	93.01	90.28
Index Futures	-	-	-
Net Exposure	95.63	93.01	90.28

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	29.63%	50.82%
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
Open House Co Ltd
Mitsubishi Electric Corp
Isuzu Motors Ltd
Mitsubishi UFJ Financial Group Inc
Fukushima Industries Corp

Losers
Nishio Rent All Co Ltd
Japan Airlines Co Ltd
Sumitomo Realty & Development Co Ltd
H2O Retailing Corp
Hoya Corp

Sector Exposure *as at 31 May 2016*

	Longs	**Net**
Consumer Discretionary	23.04%	23.04%
Consumer Non-Discretionary	1.19%	1.19%
Energy	-	-
Financials	24.33%	24.33%
Health Care	-	-
Industrials	35.75%	35.75%
Information Technology	5.97%	5.97%
Materials	-	-
Telecommunications	-	-

Performance Contribution	Longs	Futures	FX Forwards	Other	Total
May 2016	3.49%	-	2.48%	-4.15%	1.82%

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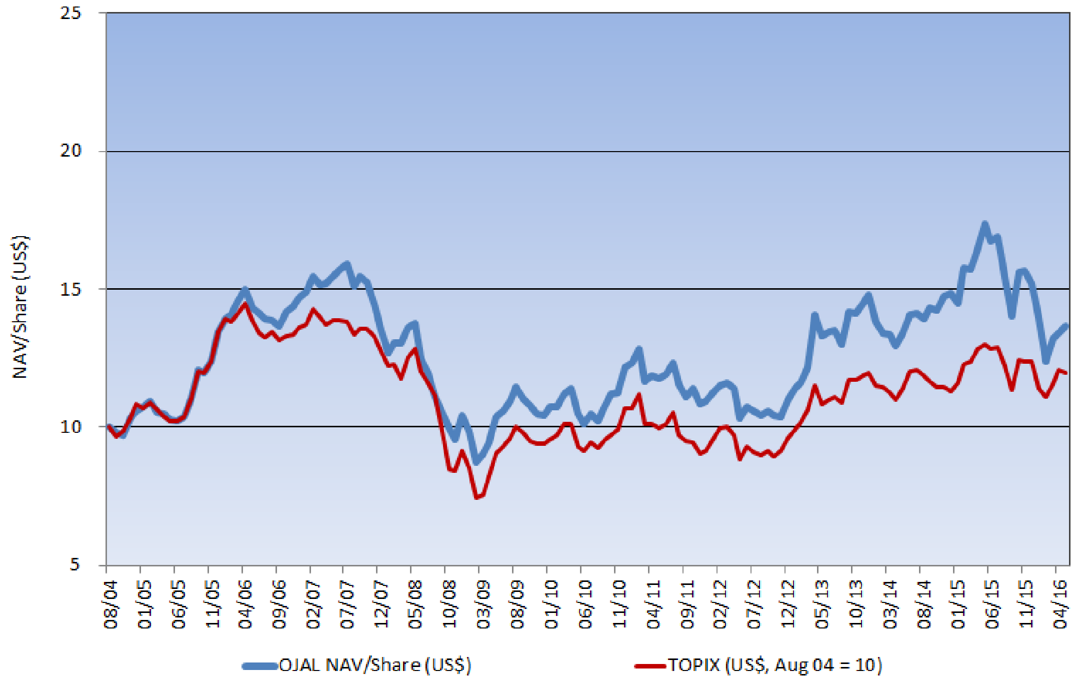
Portfolio Performance as of 31 May 2016



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								-10.21	-3.28
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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