

Monthly Performance % - as at 31 May 2017

	NAV	May	YTD	Strategy AUM
Offshore Feeder	US\$15.494	1.61%	3.90%	US\$51M
<i>Topix Return is in USD unhedged using WM London 4pm close</i>		3.21%	8.93%	

May is meant to mark the high point of the first half of the year in stock markets. In more genteel times, a savvy gentleman investor would sell his stocks and go about enjoying the summer months when equity prices fell back, before returning to the market after the St Leger Stakes in early September. What a life, especially if one finished the summer by picking some winners at the races, and one which probably only existed in the imagination of market scribes and among the lazier inhabitants of the gentlemen's clubs of St James, London. In Japan, where the summer months are hot, humid and best spent inside with the air-conditioner set on high, there is evidence to support the view that seasonally, the equity market has its weakest period during the summer before recovering in the autumn and early winter. A little over one week into June, it is far too soon to conclude much at all, but after May's 2.3% rise, June has begun with a continuation of the leisurely increase in the Topix index. Notwithstanding past seasonal trends and the old market adage, we continue to see upside for Japanese equities in the months ahead.

Even though the Topix index was up in May, it felt like a partial return to the days of "risk-off" with defensive sectors performing well and economy sensitives (shipping, oil, textiles, steel, banks and autos) all negative. The real estate sector was one of the better performers but unfortunately for our portfolio, Mitsubishi Estate had a stroke of vertigo after April's 5% gain and promptly gave up almost 2% in May. It is difficult to identify a specific reason for the contrasting performance of Mitsubishi Estate with the strong gains of rivals Mitsui Fudosan (+7%) and Sumitomo Realty (+13%) but the divergence began around the time Mitsubishi Estate announced their FY16 results and earnings and dividend plans for FY17. Given there was no change to dividend policy and only the mention of possible consideration of share buy-backs, it is likely that some investors were disappointed and sold or switched their holdings into the other developers. It is also possible that it was profit taking by short-term arbitrage seekers, but trying to ascribe cause to market moves is a dubious exercise in most cases.

What is not in question is the continued good health of the real estate market in Japan with welcome strength in

metropolitan areas other than Tokyo. Office vacancy rates in Osaka are now lower than they were in the 2007 mini-boom, but interestingly, this tightness in supply-demand is at lower average rent levels than existed back then. The office market seems to have found a sweet spot, but landlords have had to accept lower rents per tsubo to achieve full occupancy. In Tokyo the office vacancy rate remained at 3.4% and while rents are well off their 2013 lows, they remain 15-20% below the levels reached in 2008. Talk of a bubble in Japanese real estate is exaggerated, and there is certainly no excessive exuberance for the listed real estate plays like Mitsubishi Estate which trades at an implied cap rate of 6% while actual prime office buildings in their Tokyo base Otemachi change hands at more like 3% cap rates. Funny, as we always thought there was meant to be a premium for liquidity.

The Panasonic bid to buy out minorities in subsidiary Panahome is due to be completed by June 13th, and while Panahome shares briefly went to a 3% premium over the Y1200 bid price, they have drifted back to Y1202 and it would appear that the bid will succeed. Panahome shareholders might not have got the benefit of a full scale bidding war, but they certainly have a much better deal than the one initially offered by Panasonic.

It can hardly be said that global geopolitics is all "low vol", what with the political scene in both the US and now the UK providing daily thrills, and North Korea continuing to thumb its nose at the warnings of all and sundry while lobbing missiles into the sea. The global economy however is quietly returning to growth rates commensurate with the average of the past 50 years and problem areas such as Europe have been showing welcome strength. Japan meanwhile, is a haven of political stability and like Europe, has been recording better economic performance than it has in the past year or two and certainly better than the consensus estimates. We are convinced in the long-term positives of governance reform in corporate Japan and with Topix still well below the "Iron Coffin Lid" of 1800, we remain bullish on the outlook for Japanese equities.

DISCLAIMER:

This material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our opinions only. The material is based upon information, which we consider reliable, but we not represent that it is accurate or should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities.

Recent 3 month Fund Exposure

% of NAV in	Mar 17	Apr 17	May 17
Long Stock Positions	89.61	94.50	93.89
Index Futures	-	-	-
Net Exposure	89.61	94.50	93.89

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	34.95%	57.92%
Total no. of positions	24	

Top Five Positions

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

Winners

H.I.S. Co Ltd
Hitachi Ltd
Iriso Electronics Co Ltd
Izumi Co Ltd
Panasonic Corp

Losers

Zojirushi Corp
Toray Industries Inc
Nippon Steel & Sumitomo Metal Corp
Isuzu Motors Ltd
Mitsubishi UFJ Financial Group Inc

Sector Exposure as at 31 May 2017

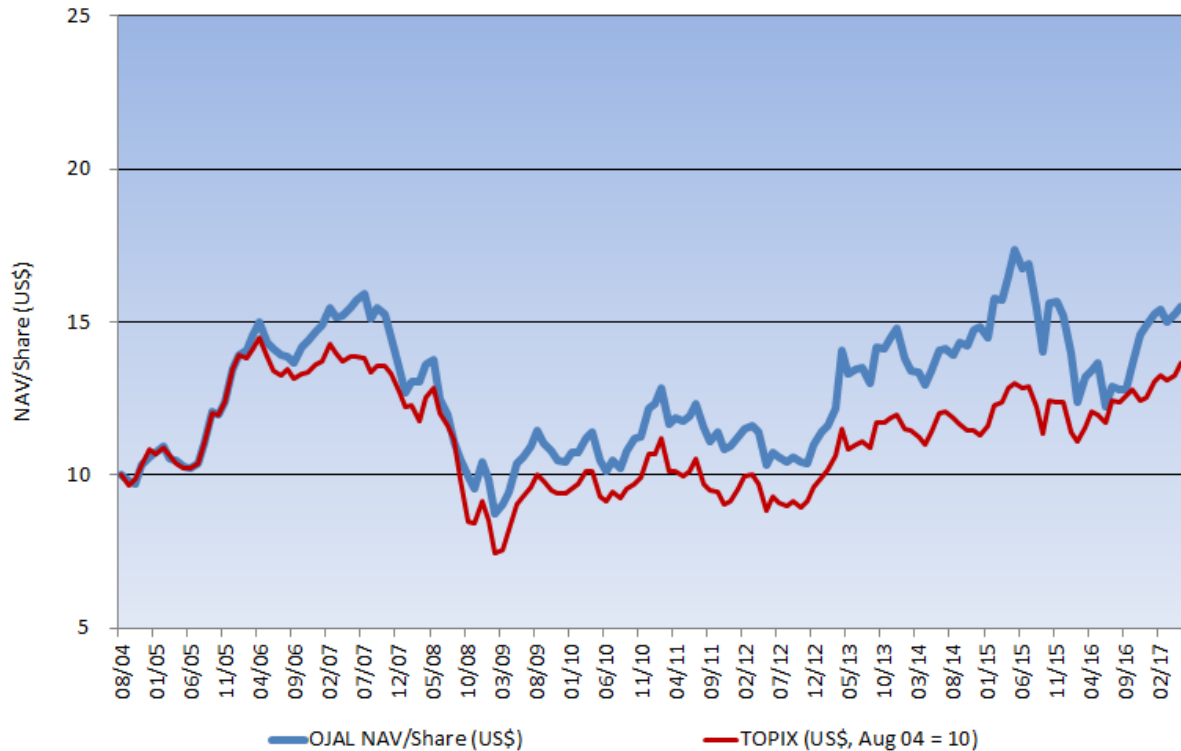
	Longs	Net
Consumer Discretionary	45.82%	45.82%
Consumer Non-Discretionary	1.58%	1.58%
Energy	-	-
Financials	20.46%	20.46%
Health Care	-	-
Industrials	8.84%	8.84%
Information Technology	8.74%	8.74%
Materials	8.45%	8.45%
Telecommunications	-	-

Performance Contribution	Longs	Futures	FX Forwards	Other	Total
May 2017	1.36%	-	-0.46%	0.71%	1.61%

DISCLAIMER:

This material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our opinions only. The material is based upon information, which we consider reliable, but we not represent that it is accurate or should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities.

Portfolio Performance as of 31 May 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	1.55	1.61								3.90	8.93
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

* Topix Return is in USD unhedged using WM London 4pm close

SYDNEY: Level 5, Wyoming, 175 Macquarie St, Sydney NSW 2000 **Phone:** 61 2 8239 3300 **Fax:** 61 2 8239 3333 **Email:** optimal@optimalasia.com

DISCLAIMER:

This material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our opinions only. The material is based upon information, which we consider reliable, but we not represent that it is accurate or should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities.