

Monthly Performance % - as at 30 November 2012

	NAV	November	YTD	AUM
Offshore Feeder	US\$10.38	-0.57%	-5.03%	US\$14M
<i>Topix Return is in USD unhedged using WM London 4pm close</i>		2.03%	0.06%	

Japan has joined the list of countries where equity markets are defying the generally downbeat economic expectations and moving higher. This year's media headlines have been dominated by largely negative stories and yet nearly all equity markets are up. Of the countries that have been under the world news spotlight, only Spain and China continue to show a negative year-to-date return with Japan just nudging into the black when measured by the Topix return in USD.

There is precious little evidence that global central banks' ultra-low interest rate policy is encouraging companies to expand and invest. Nevertheless, positive equity markets imply that the frustration of zero interest on bank deposits and the apparent "return-free risk" of owning government bonds has led both individual and institutional investors to seek higher returns from equities. Although Japan stands out at the top of countries where equity yields are well in excess of bond yields, the list of such countries has grown long as banks and other financial institutions buy bonds for their supposed safe haven status.

Japanese companies continue to shun leverage but continue to look for acquisitions overseas. The latter is driven in no small part by a belief that the Yen must weaken and its current lofty level gives them a once in a generation opportunity to buy foreign assets cheaply. When one considers that the Yen has been rising against the USD (and most other currencies) for most of the past 40 years (Y360/\$ to Y82/\$) one has to question why now is the level at which the Yen should begin to weaken. Notwithstanding this, we would welcome a weaker Yen and it is a view that is increasingly shared by investors as evidenced by the increase in short positions in the Yen in recent months. Many commentators have written about the benefits of a weaker currency for Japanese company profits and, by extension, equity prices, and last month provides a good example of this. The Yen return on Topix was 5.3% while expressed in USD it was 2%.

The Fund has held an unhedged stance since its inception in September 2004. We do not hold ourselves out as a manager able to add value through FX, and by adopting a stable (unhedged to now) policy, believe that this gave certainty to investors who could then take action if they wished to hedge out possible Yen weakness. In 2011, the Fund's unhedged Yen exposure improved the USD return by over 4% but we have seen this reversed in 2012. We will continue to avoid FX as a possible source of added value, but will be making contact with investors about reversing our existing stance and adopting a fully hedged approach. On balance, the possible downside avoided by this appears to be greater than the potential upside from continuing to be unhedged to the Yen.

In addition to the negative effects of the weak Yen in November, the Fund's performance was hurt by the very significant strength in global cyclical sectors which had generally performed poorly this year. The flip side of this was the relatively poor showing from domestic sectors which had done better and where the Fund has some of its larger positions. Large caps, exporters and materials sectors did best while small cap, domestic and services generally did worst. Our stock selection in autos lagged (Daihatsu and Unipres) but worked well in Electricals (Hitachi and Mitsubishi Electric) and Banks (SMFG). Failing to have exposure in sectors such as shipping, machinery, glass and steel cost us.

In spite of this disparity in November, the policies espoused by the LDP – who are seen as almost certain winners in next Sunday's election – would, if successfully implemented, be positive for both export industries and domestic ones as financials would benefit from rising asset prices and service industries from greater pricing power.

The Japanese equity market offers attractive income support with good prospects for dividend growth and share buy-backs but in addition, offers genuine capital upside if confidence improves under a new government and with a more stable global environment. We believe it is time for the Agnostics to become bullish.

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Optimal FUND MANAGEMENT

Recent 3 month Fund Exposure

% of NAV in	Sep 12	Oct 12	Nov 12
Long Stock Positions	89.29	89.38	93.91
Index Futures	-	-	-
Net Exposure	89.29	89.38	93.91

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	31.28%	52.68%
Total no. of positions	27	

Top Five Positions

Sumitomo Mitsui Financial Group Inc
Mitsubishi UFJ Financial Group Inc
Benesse Holdings Inc
Mitsubishi Estate Co Ltd
Aeon Co Ltd

Winners

Nissan Motor Co Ltd
Sumitomo Mitsui Financial Group Inc
Hitachi Ltd
Mitsubishi UFJ Financial Group Inc
Mitsubishi Electric Corp

Losers

Yamada Denki Co Ltd
Benesse Holdings Inc
Ain Pharmaciez Inc
Seria Co Ltd
Sumitomo Mitsui Trust Holdings Inc

Sector Exposure as at 30 November 2012

	Longs		Longs
Consumer Discretionary	32.34%	Industrials	21.67%
Consumer Non-Discretionary	5.94%	Information Technology	4.02%
Financials	23.78%	Telecommunications	6.16%

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)														
2012	2.84	2.31	1.04	-1.81	-9.47	3.97	-1.30	-1.79	1.73	-1.42	-0.57		-5.03	0.06
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

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