

Monthly Performance % - as at 29 November 2013

	NAV	November	YTD	Strategy AUM
Offshore Feeder	US\$14.50	2.62%	32.18%	US\$91M
<i>Topix Return is in USD unhedged using WM London 4pm close</i>		1.01%	23.65%	

It is simplistic, and therefore slightly unsatisfying, but it is clear that Japanese equities rise as the Yen falls. The Yen (trade weighted) began its fall in October 2012 and then flat lined between May and September. Japanese equities began to rise in November 2012 and then went sideways from May until regaining energy as the Yen began to weaken again at the end of October. The Topix index rose 5.4% in local currency terms in November, but only 1% in USD, and while the Fund's hedged position certainly helped its return, stock selection was a negative. The Nikkei 225 index was up 9.4%, but it is an unrepresentative index of dubious composition and only its longevity gives it any credibility.

In a period of such clear Yen weakness, you would expect the classic currency sensitive sectors to perform well, but the results were mixed. The Electrical Appliance stocks were strong (+8.9%) – with the exception of Sony – but Transport Equipment (autos) was relatively weak with a below-market sector return of 3.8%. Apart from the disappointing Nissan first half numbers, the weaker return from the autos in November is probably explained by investors rotating out of a better performing sector into one that has slightly underperformed the broader market year-to-date.

We traveled to Japan late in the month and met a number of companies. Some were familiar to us and others we met for the first time, but there was definitely an improvement in outlook and demeanor as you would expect after a first half when profits were up 50% versus the previous year. In more than one meeting, we asked

whether the company expected to raise employee salaries in line with PM Abe's pleas to corporate Japan. The response was that yes, the large high profile companies would indeed raise wages, but that most companies would look to pass on some of the benefits of higher profits through boosting bonuses. This makes sense in a number of ways. First, average semi-annual bonuses at large companies - paid in summer and winter – fell from around Y900,000 in 2008 to Y750,000 in 2009/10 and are now recovering with profits to reach just over Y820,000 this coming winter. Secondly, with profit margins in Japan expecting to hit record levels in the year ahead, one would expect companies to hike the variable element in their compensation - even if they are reluctant to increase annual salaries by more than a percent or so.

Japanese companies have been far better at controlling their expenses through the variable costs part of the business than many would expect. It was a remarkable achievement that many manufacturing companies to be able to restore profit levels to near 2007 levels in spite of the Yen's strength between 2009-2012, and we would expect that profit margins will continue to rise with top line growth and for employees to receive higher compensation but mainly via bonus payments. The Prime Minister should get his wish for employees, but it will be in line with rising profits – as indeed it should be.

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Recent 3 month Fund Exposure

% of NAV in	Sep 13	Oct 13	Nov 13
Long Stock Positions	95.80	92.76	93.13
Index Futures	-	-	-
Net Exposure	95.80	92.76	93.13

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	33.56%	53.07%
Total no. of positions	30	

Top Five Positions

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

Winners

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

Losers

Iida Group Holdings Co Ltd
Misawa Homes Co Ltd
Nissan Motor Co Ltd
Nippon Corp
Welcia Holdings Co Ltd

Sector Exposure as at 29 November 2013

	Longs		Longs
Consumer Discretionary	30.25%	Industrials	14.53%
Consumer Non-Discretionary	0.85%	Information Technology	8.39%
Energy	-	Materials	8.24%
Financials	28.44%	Telecommunications	2.43%
Health Care	-	Utilities	-

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	1.13	0.45	-3.56	8.91	-0.35	2.62		32.18	23.65
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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