

Monthly Performance % - as at 28 November 2014

	NAV	November	YTD	Strategy AUM
Offshore Feeder	US\$14.728	3.38%	-0.55%	US\$61M
<i>Topix Return is in USD unhedged using WM London 4pm close</i>		-0.11%	-4.09%	

The big issues for foreign investors in Japan continue to be the fall in the value of the Yen offsetting gains in share prices and the continued underperformance of the banks (and other financial sectors). For investors unable to hedge the Yen back into their desired currency, the Topix index return in 2014 ranges from -3.7% (USD) to 8% (EUR) while the gain in Yen terms is more than 10%. US dollar strength has meant a home country bias in US equities has been the right one and the pain of having little exposure to Japan (or Europe) has been more than manageable. November saw this pattern continue to play out in a fairly dramatic manner as the Topix gain was 5.7% in Yen but -0.11% in USD (unhedged).

We have been fortunate to have been on the right side of one of these (hedging the Yen) but on the wrong side with the other (overweighting in financials). It has been a frustrating time, but has been a clear demonstration that the investing world is not yet one great big global village. It has also been a lesson that policy change does matter, and woe betide any investor who chooses to just stick to the bottom-up with no eye to macro issues.

Unsurprisingly, the best performing sectors in November were ones which either benefit from a weaker Yen (shippers, tire companies, autos, precision and electricals) or cheaper oil (airlines, chemicals, textiles). Banks are seeing solid loan growth and surprised with strong first half results, but still lagged the return of the market as a whole and are down 1% YTD against the Topix index up more than 10%. MUFJ has announced it would buy back its own shares and raised its dividend, and SMFG also raised their annual dividend by 10 to Y130. Mizuho have just announced that they will raise their dividend if their full year's profit exceeds Y550bn. Given that they made Y353bn in their first half to September, this looks likely and it is clear that investors are hungry for better returns from the big banks. Mitsubishi (MUFJ) has clearly outperformed the other two since they announced their buy-back on November 14th and their peers will not like that. More should follow.

Last week, along with a large number of Japanese and foreign investors, we attended the Nomura Investment Forum in Tokyo. This was held in the recently re-built

Palace Hotel and ran from the Tuesday through to the end of Friday. Although Prime Minister Abe had been due to address the conference, the forthcoming election (December 14th) put paid to that and instead we had a welcome message from the PM to start the event and then keynote speeches from senior people at the Bank of Japan and the Ministry of Finance. The Man from the MoF was especially good as he walked through the auditorium with a lapel microphone and stopped to ask members of the audience what their thoughts were on the question of what type of society Japan should have. It would be nice if this discussion goes beyond the confines of the Palace Hotel and is part of the political debate in Japanese society, but given the prediction of a low turn-out on election day, it is likely that such a sophisticated subject matter might not be "front and centre" for the man in the street.

A later discussion entitled "A Path to solve the Population Decline in Japan" was intriguing not so much for the detailed analysis of the birth rates by prefecture (by the way, the warmer prefectures had noticeably higher birth rates) but for the complete absence of the word "immigration". The speaker was a professor at one of Japan's most famous universities and one would have thought population decline or growth was clearly a function of birth rates and migration but not a bit of it. It was all about lifting the birth rate – although concrete ideas to achieve this were not obvious. Many things are changing rapidly in Japan, but immigration does not appear to be a topic for discussion. More's the shame.

By the time we send the next monthly letter, Mr Abe should have cemented his position as Prime Minister and the opinion pools seem to indicate that he will govern with a super-majority of 67% of the lower house seats which gives him almost unfettered power to pass legislation with little parliamentary delay. Given the lack of clear progress on his Third Arrow policies so far, we should expect more new laws (and de-regulation) in 2015 than we had in 2014.

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Recent 3 month Fund Exposure

% of NAV in	Sep 14	Oct 14	Nov 14
Long Stock Positions	89.90	91.86	89.11
Index Futures	-	-	-
Net Exposure	89.90	91.86	89.11

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	29.53%	50.53%
Total no. of positions	27	

Top Five Positions

Sumitomo Mitsui Financial Group Inc
Mitsubishi UFJ Financial Group Inc
H.I.S. Co Ltd
Mizuho Financial Group Inc
Nomura Holdings Inc

Winners

Toyo Tire & Rubber Co Ltd
Kawasaki Heavy Industries Ltd
Japan Airlines Co Ltd
Mitsubishi UFJ Financial Group Inc
Isuzu Motors Ltd

Losers

Inpex Corp
Ebara Corp
Tsukui Corp
Mitsubishi Estate Co Ltd
Takata Corp

Sector Exposure as at 28 November 2014

	Longs		Longs
Consumer Discretionary	16.37%	Health Care	1.80%
Consumer Non-Discretionary	-	Industrials	28.47%
Energy	2.92%	Information Technology	3.47%
Financials	33.84%	Materials	2.24%

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)														
2014	-6.55	-3.03	-0.52	-3.07	3.71	4.69	0.57	-1.38	2.91	-0.65	3.38		-0.55	-4.09
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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