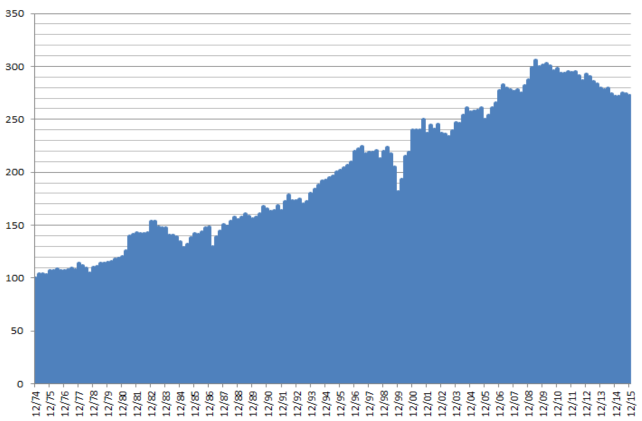
MONTHLY REPORT TO SHAREHOLDERS OF OPTIMAL JAPAN ABSOLUTE LONG FUND

Optimal FUND MANAGEMENT

Monthly Performance % - *as at 30 November 2015*				
	NAV	**November**	**YTD**	**Strategy AUM**
Offshore Feeder	US$15.669	0.39%	5.38%	US$62M
Topix Return is in USD unhedged using WM London 4pm close		-0.73%	9.19%	

The markets continue to exhibit skittishness and concerns about the future. Growth stocks have smashed Value stocks in Japan for the past six years, and as far as we watch this, in other countries as well. When economic growth is strong, investors look for the cheapest stocks (value) and conversely, when growth prospects are poor, they tend to seek out companies whose sales and profits outlook are relatively good (growth). Despite – or more likely, because – interest rates everywhere are so low, people are concerned that this signifies governments and central banks have run out of ideas, and will thus buy steady income streams – no matter how feeble – at prices that in more normal rates environments would have been inconceivable. If a deposit yields just about nothing, paying forty times earnings for a low margin food maker is not too crazy. We know there are far better income streams to buy, but they come with less certainty and so carry far less appeal to the contemporary institutional investor.

Value vs Topix



Source: Bloomberg

Investment returns are determined by what one owns, but in a relative sense, it is often more a case of what one has not owned. In 2015, the best three performing sectors have been Pharmaceuticals, Retail and Foods with Land Transport (railways and truckers) and Construction also making it into the top 10. All these sectors are expensive, with Pharma at the top on 42x reported earnings and Land Transport the least expensive on 19 times. All are priced well above the market and offer modest – or at least patchy – earnings growth prospects. If one believes that valuations revert to the mean, as we do, these are unattractive investments. That is hardly a comfort however when these sectors continue to be among the better performers, so we continue to ask ourselves what we are missing. Is it strong margin improvement and solid topline growth?

There is some margin improvement in the food sector as price hikes are sticking, but the rate of improvement does not justify excessive valuations in our opinion. The pharma sector has been supported by some of the larger caps offering good dividends, but we think relative earnings stability has been the investment appeal in the sector. Retail we fundamentally like, and have exposure there through Izumi but baulk at the prices at which other less attractive companies sell for. At least the banks have not lagged behind and are up almost 10% YTD, but the real estate sector has belied very solid industry fundamentals and is down 2% in 2015.

This week we learned that Japan has "avoided" recession due to a revision up of both the June quarter GDP (to a small negative) and the September quarter number (from negative to positive). Someone must care, but surely not that much. The frequency and size of revisions to GDP make it difficult to keep track of growth, but more importantly, call into question the value of the information conveyed by each data release. For once, the market seemed to shrug this news off without much of a reaction. Had this revision been released in a stronger market environment, it is likely that it would have prompted a more positive response but as global markets had a poor week, they carried more sway in the Japanese equities than a none-too-surprising positive revision to quarterly GDP.

In a year when global equities markets are struggling, Japan continues to recover with firmer pricing, better private consumption and good earnings growth overall. As an importer of commodities, Japanese industry has had a shot in the arm from the bear market in energy and metals and in spite of general weakness in the materials sectors, the weaker Yen has softened the blow of falling USD prices to no small degree. Years of disappointment and let-down has led global investors to look with scepticism on claims of a turnaround in Japan's economic and corporate conditions, but we are convinced that the recovery under PM Abe has plenty of legs yet. Time will tell the wiser.

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Recent 3 month Fund Exposure

% of NAV in	Sep 15	Oct 15	Nov 15
Long Stock Positions	95.03	88.78	82.96
Index Futures	-	-	-
Net Exposure	95.03	88.78	82.96

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	28.54%	47.22%
Total no. of positions	26	

Top Five Positions

- Sumitomo Mitsui Financial Group Inc
- Mitsubishi Estate Co Ltd
- Mitsubishi UFJ Financial Group Inc
- Nomura Holdings Inc
- Japan Airlines Co Ltd

Winners

- Nishio Rent All Co Ltd
- Toridoll.corporation
- Tokyo Electron Ltd
- Kasai Kogyo Co Ltd
- Mitsubishi Electric Corp

Losers

- Japan Airlines Co Ltd
- Sony Corp
- Sumitomo Mitsui Financial Group Inc
- Shinmaywa Industries Ltd
- Nomura Holdings Inc

Sector Exposure *as at 30 November 2015*

	Longs		Longs
Consumer Discretionary	19.08%	Health Care	-
Consumer Non-Discretionary	-	Industrials	28.85%
Energy	1.87%	Information Technology	4.27%
Financials	28.89%	Materials	-

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)														
2015	-2.45	8.82	-0.37	4.95	5.27	-3.54	0.70	-8.52	-9.08	11.21	0.39		5.38	9.19
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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