

Monthly Performance % - as at 30 November 2017

	NAV	November	YTD	Strategy AUM
Offshore Feeder	US\$18.190	4.19%	21.97%	US\$49M
<i>Topix Return is in USD unhedged using WM London 4pm close</i>		3.04%	23.00%	

The Topix index rose in November for the third consecutive month and is up 11% since the end of August. In 2017, only two months have been negative which compares with 2016 when five months saw a fall and in two of these (January and June), the fall was more than 9%. Just looking at these is a painful reminder not to become complacent after a very good year to date.

While it has been a good year in Japanese equities, when one looks at the market returns from different styles and sectors, it is unsurprising that the results vary considerably. Of the bigger sectors, Electricals has been strong with a 34% return YTD, while Autos are up a mere 5%. Banks are up only 2% and Real Estate much the same. Oil Refiners, Chemicals, Machinery and Construction have all produced gains well in excess of Topix while all financial sectors have lagged.

The difference between growth and value is even more stark, with no end to the pain for value managers – however that is now defined.

In November, the MSCI Japan Growth index rose 2.2% while the value index was up 0.6%. Year to date, the figures are Growth up 20.5% and Value up 9.5% and over five years, the Growth index return beats that of Value by almost 40%. This dominance of growth investing over value has been relatively rare in Japan, at least up until the Lehman crisis, but the period since then has been tortuous for those holding value stocks. Of course, the composition of any index over time changes, and what now makes up the MSCI Value index would be vastly different to the sectors and stocks that it held 10, 20 or 30 years ago. Thirty years ago, in the halcyon period of Japan’s asset bubble, it is unlikely that many financials would have been found in the Value half of the universe, while now,

we would be surprised if any financial stock of mid cap or greater was not in it.

We regard ourselves as value managers, in as much as we are wary of buying companies trading at large valuation premia and want to own stocks priced cheaply. Not every stock we own would fall into the Value index and within our current portfolio we do hold one company on a prospective PER of 20x and a few others in the high teens. These “expensive” names notwithstanding, the weighted average PER for the portfolio is just over 12x (FY18 estimate) with an RoE of 12% and a price-to-book ratio of 1.5x. These numbers would compare favourably with most portfolios regarded as value and yet we estimate earnings growth for the year ahead to be 20% overall. It does not happen often in equity markets, but in Japan at present, one can get one’s cake, and eat it too.

We spent the last week visiting companies in Japan and this time had a mix of meetings with names we own or know well, and fresh names where we were looking for more than the sell side had provided, or where they were not covered at all (not uncommon these days). Most of the visits were positive and it has been striking to us just how much the mood of Japanese companies has improved in the past 12-18 months. There is still a lack of sophistication – or maybe indifference – when it comes to capital management and shareholder returns more generally, but little by little, the environment for profit-seeking investors is improving.

We are happy to go into detail about our recent visits, or the portfolio’s holdings if any reader would like to hear more.

DISCLAIMER:

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Recent 3 month Fund Exposure

% of NAV in	Sep 17	Oct 17	Nov 17
Long Stock Positions	90.27	96.55	95.50
Index Futures	-	-	-
Net Exposure	90.27	96.55	95.50

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	31.83%	53.17%
Total no. of positions	25	

Top Five Positions

Mitsubishi UFJ Financial Group Inc
Hitachi Ltd
Izumi Co Ltd
Mitsui OSK Lines Ltd
Idemitsu Kosan Co Ltd

Winners

Izumi Co Ltd
Idemitsu Kosan Co Ltd
Kasai Kogyo Co Ltd
Kyoritsu Maintenance Co Ltd
H.I.S. Co Ltd

Losers

Hitachi Ltd
Pressance Corp
Astellas Pharma Inc
Hazama Ando Corp
Teijin Ltd

Sector Exposure as at 30 November 2017

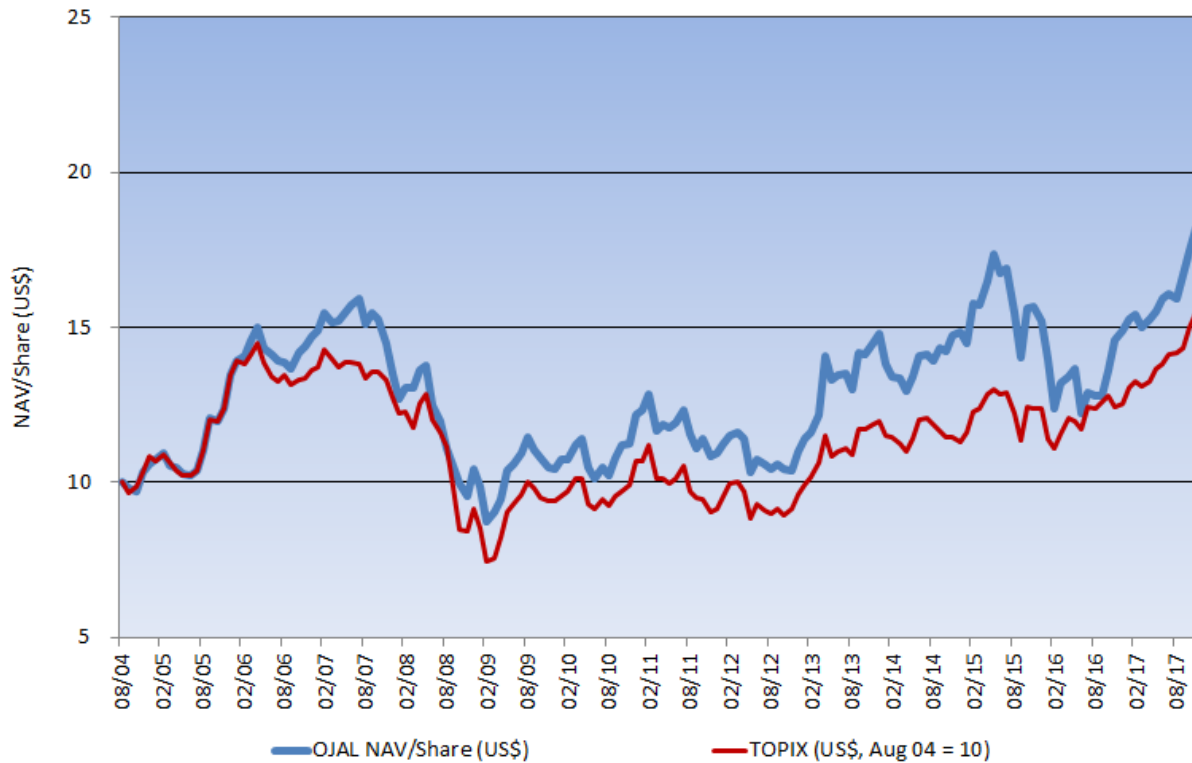
	Longs
Consumer Discretionary	31.29%
Consumer Non-Discretionary	2.72%
Energy	5.07%
Financials	11.33%
Health Care	2.97%
Industrials	16.87%
Information Technology	11.37%
Materials	14.28%
Telecommunications	-

Performance Contribution	Longs	Futures	FX Forwards	Other	Total
November 2017	3.65%	-	-0.71%	1.25%	4.19%

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Portfolio Performance as of 30 November 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	2.76	0.95	-0.82	4.63	4.67	4.19		21.97	23.00
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

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