

Monthly Performance % - as at 30 October 2015

	NAV	October	YTD	Strategy AUM
Offshore Feeder	US\$15.608	11.21%	4.97%	US\$63M
<i>Topix Return is in USD unhedged using WM London 4pm close</i>		9.59%	9.99%	

Thankfully we can report on a better month after a very nasty sell off over August and September. The Topix index jumped more than 10% in October and is marginally higher month-to-date but still sits 7% adrift of its highest level this year. As the investment community's forebodings over China's economic slowdown abated, most of the best performing stocks came from the industrials and materials sectors. All 33 Topix sectors rose – though retail was up only 0.48% - and although gains of 6% and 7% can't be sneezed at, real estate and banks were amongst the "least good" sectors.

Real estate in particular has been disappointing this year (up 3% in a market up more than 10%) and has held back the Fund's return. The real estate market is in good shape with plenty of buyers in both residential and commercial property and lending conditions very favourable. It was a very strong performer in the first year of Abe's second coming as PM, but in the stock market at least, has faded more recently. We continue to hold significant positions in the big developers and smaller positions in a number of the "value up" group which purchase, refurbish and re-release mid-sized office buildings, and expect they will deliver better performance for the Fund in line with their strong operations.

The weakness in Japanese equities during August and September did not prevent domestic investors from buying. Individual investors, in particular, have been contrarians, buying in periods of falling prices and then turning sellers into rising markets. Foreigners, rather depressingly, have been the opposite. An intriguing, if slightly irrational, example of individual demand was played out during the recent rout when individual investors bought more than JPY 500bn in the Next Funds Nikkei 225 Leveraged Index ETF (code number: 1570). This fund, managed by Nomura Asset Management, is designed to rise (or fall) by twice the amount of the Nikkei 225, but such was the extent of the inflows during August and September that the manager decided to cease taking subscriptions in mid-October. The Fund's ownership of outstanding Nikkei index futures contracts was becoming unhealthily large and the Fund's size was making execution of the buying or selling of Nikkei futures difficult – as well as exacerbating volatility in the futures market. Investors are presumably happy as the Fund's return has indeed doubled that of the Nikkei since the buying freeze came

into place and its asset size is JPY842bn (US\$6.8bn).

There are mixed views among economists as to whether Mr Abe's policies are succeeding and whether he has stimulated growth in Japan. As we mentioned last month, there are valid criticisms of corporate Japan's stubbornness in hoarding cash on the balance sheets rather than using it in more constructive ways. We are seeing mounting evidence, however, that individuals are more confident and risk appetite is growing. The Bank of Japan's most recent monthly update reveals that loans are growing while deposits have fallen. One needs to be careful before claiming this as proof of a reversal of a long trend of rising deposits, but the enormous retail investor demand for the IPOs of the three Japan Post companies coupled with record assets in investment trusts (mutual funds) does indicate that there is demand for more than a zero return deposit.

Prices are also rising. While the headline CPI is well below the BoJ's 2% target for now, we see plenty of evidence that it will begin heading to that level. Retailers' monthly sales releases are showing that the average spend per customer is up strongly, and in the case of popular clothing outlets (Fast Retailing's Uniqlo brand and Ryohin Keikaku's Mujirushi for example), this has been rising at 8% year to date coming on top of similar sized increases in the same period in 2014. Electrical goods retailers such as K's Holdings and Bic Camera have also reported rising same-store sales with especially strong demand for TVs, washing machines and air-conditioners. The tightness in the labour market might not have led to big increases in wages yet, but better job prospects must be boosting consumer demand. Consumers seem to be doing their bit. We just need to see the good governance push take hold amongst the management and boards of companies to unlock more of Japan's latent growth potential.

DISCLAIMER:

This material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our opinions only. The material is based upon information, which we consider reliable, but we not represent that it is accurate or should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities.

Recent 3 month Fund Exposure

% of NAV in	Aug 15	Sep 15	Oct 15
Long Stock Positions	99.66	95.03	88.78
Index Futures	-	-	-
Net Exposure	99.66	95.03	88.78

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	30.09%	49.83%
Total no. of positions	28	

Top Five Positions

Sumitomo Mitsui Financial Group Inc
Mitsubishi Estate Co Ltd
Mitsubishi UFJ Financial Group Inc
Nomura Holdings Inc
Tokyo Electron Ltd

Winners

Tokyo Electron Ltd
Hitachi Ltd
Sony Corp
Mitsubishi UFJ Financial Group Inc
Nishio Rent All Co Ltd

Losers

Izumi Co Ltd
Tosei Corp
Pressance Corp
Sun Frontier Fudousan Co Ltd
H.I.S. Co Ltd

Sector Exposure as at 30 October 2015

	Longs		Longs
Consumer Discretionary	19.06%	Health Care	-
Consumer Non-Discretionary	-	Industrials	29.02%
Energy	1.80%	Information Technology	9.11%
Financials	29.79%	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			4.97	9.99
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

SYDNEY: Level 5, Wyoming, 175 Macquarie St, Sydney NSW 2000 Phone: 61 2 8239 3300 Fax: 61 2 8239 3333 Email: optimal@optimalasia.com

DISCLAIMER:

This material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our opinions only. The material is based upon information, which we consider reliable, but we not represent that it is accurate or should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities.