

Monthly Performance % - as at 30 April 2013

	NAV	April	YTD	AUM
Offshore Feeder	US\$14.10	15.67%	28.53%	US\$16M
Topix Return is in USD unhedged using WM London 4pm close		8.47%	20.29%	

The Abenomics Rally roared ahead in April with the Topix index soaring 12.38% for the biggest single month gain in ages. As mentioned in last month's report, the Yen's weakening trend was given the turbo-charger treatment after the BoJ press conference on April 4th resulting in the unhedged USD return for the month being "only" 8.47%.

As mentioned in last month's report, the Fund is now fully hedged and thus the April return was protected from the weakness in the Yen after April 4th.

Among the major developed markets, Japan and the US stand out as YTD winners with returns (in USD) of 20% and 13% respectively while in Europe, only Switzerland manages to reach double figures. In Asia, the ASEAN markets have done very well but the larger north Asian markets of HK, China, Korea and Taiwan have been lacklustre – or worse. In light of Japan's great start to 2013, we have heard of Asian equities managers who have hitherto profited from an attitude of indifference to Japanese stocks for some years but are now wondering whether it is right to close their underweight positions and if so, in which sectors. Being paid by their investors for active management, they can't justify holding ETFs – at least not for very long – and are being forced to pick stocks. As a fellow fund manager, one can understand their dilemma, but it is hard not to feel a touch of *schadenfreude*. We know it is not right to feel it, but can you really blame us?

Sectoral moves within the Topix index were mammoth during April. At the bottom – and indeed one of only three sectors in the market to post a negative return – was Topix Mining (-5.16%), which is basically the gas producer and distributor Inpex, while the REITs (-2.6%) had a rare bad month. Fifteen of the Topix thirty three sectors beat the market while eighteen failed to match it, and amongst the winners were the Banks (slightly above market at 13.2%) and Autos (ditto, with 13.5%). Defensive sectors such as Foods, Pharma and Railways all underperformed, but then so did cyclical sectors such as Wholesale Traders, Steels and Chemicals. For anyone hoping to prosper by adopting a thematic approach and playing high beta cyclicals, it was not necessarily the result one would have hoped for.

The Fund held large positions in banks and financials and this paid off handsomely in April. We did reduce the position sizes in both Mitsubishi Estate and Sumitomo Realty significantly in early April after a long period of very strong performance. From the start of the Abenomics rally in mid-November until

we reduced on April 9th, Sumitomo Realty had risen 125% and Mitsubishi Estate 94%, but they had been strong performers over the whole of 2012 and while likely to run further, we felt it wise to lock in some of those gains. We maintained the weighting in the financials area however by initiating a position in Aozora Bank (8304), which is not well followed by the sell side analysts and will be a major beneficiary of a recovery in the domestic SME sector and ongoing demand for real estate financing.

A week in Japan recently gave us first hand confirmation that the mood is considerably brighter and expectations have improved. Sitting in a taxi in a traffic jam heading from Marunouchi to Kamiyacho was a moment of perverse pleasure. For years the smooth flow of the roads in Tokyo had struck us as an indicator of a certain lack of activity and vitality, whereas being stuck in heavy traffic on a mid-week afternoon rounding the Imperial Palace was a reminder of the frustrations all too commonly felt in better economic times in Japan. On the next visit, we can only hope that the situation has improved further and we find taxis difficult to flag down. That really would be a throwback to the 1980s.

In the months ahead we have some important milestones which bear watching. In July there will be an upper house election after which Mr Abe's LDP should have control of both houses of the Diet. His policy advisory bodies should have their reports in by then so that the lawmakers can get to work passing legislation for change.

Towards the end of summer (on Sept 7th), the IOC will announce which of the three candidate cities has been chosen to host the 2020 summer Olympics. Tokyo, Istanbul and Madrid are the contestants, and certainly the public awareness of the approaching decision is far higher now in Japan than it was even a couple of months ago. Arriving at Haneda International airport, one is treated to large posters showing beaming Japanese athletes with their winner's medals and Tokyo has banners and posters everywhere trumpeting the Tokyo bid. It will not derail the Abenomics Express if Tokyo is not successful, but a win would certainly add a little extra to an already brighter outlook.

DISCLAIMER:

Recent 3 month Fund Exposure

% of NAV in	Feb 13	Mar 13	Apr 13
Long Stock Positions	96.91	96.04	98.79
Index Futures	-	-	-
Net Exposure	96.91	96.04	98.79

Position Concentration

	Top 5	Top 10
Longs	33.05%	53.68%
Total no. of positions	31	

Winners

Sumitomo Mitsui Financial Group Inc
Nomura Holdings Inc
Mitsubishi UFJ Financial Group Inc
Mitsubishi Estate Co Ltd
Sumitomo Realty & Development Co Ltd

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.

Top Five Positions

Mitsubishi UFJ Financial Group Inc
Sumitomo Mitsui Financial Group Inc
Toshiba Corp
Nomura Holdings Inc
Nissan Motor Co Ltd

Losers

Frontier Real Estate Investment Corp
Toyota Motor Corp
Cosmo Oil Company Ltd
Seria Co Ltd
Sangetsu Co Ltd

Sector Exposure as at 30 April 2013

	Longs		Longs
Consumer Discretionary	24.80%	Industrials	12.06%
Consumer Non-Discretionary	3.76%	Information Technology	11.01%
Financials	36.24%	Materials	5.46%
Health Care	2.69%	Telecommunications	2.77%

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									28.53	20.29
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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