

**Monthly Performance % - as at 30 August 2013**

|  | <b>NAV</b> | <b>August</b> | <b>YTD</b> | <b>Strategy AUM</b> |
|--|------------|---------------|------------|---------------------|
| Offshore Feeder  | US\$13.02  | -3.56%        | 18.69%     | US\$76M             |
| <i>Topix Return is in USD unhedged using WM London 4pm close</i> |            | -2.03%        | 13.37%     |                     |

Tokyo wins the 2020 Olympics bid and triggers a quite un-Japanese display of jubilation and communal celebration. It will be a huge boost to self-confidence - not to mention Tokyo-centric infrastructure spending – and we welcome the decision by the IOC members. One suspects that - in addition to the real merits of the Tokyo bid - the members’ spouses and partners might have felt that a stroll down Omotesando Boulevard might be preferable to a tea in Taksim Square, and despite being a fan of Istanbul, we think the right city won on the day. The greatest fear of the Tokyo Bid Committee was that public support was not strong enough, but this year has witnessed a big pick-up in enthusiasm to host the Games and Mr Abe’s presentation must have tipped the balance in favour of a Tokyo win.

Tradition and common practice dictates that month ends are when we measure the return of the market and the Fund. Accordingly we can only conclude that August was a bad month for the market (Topix falling 2.3%) and an even worse month for our Fund. A week into the new month however, and the market’s August loss had been more than made up with gains taking the Topix index to a level higher than any month-end since April.

Looked at over a longer period, Topix is 10% below its May high, and for the real hard core long term investors, we’d remind you that it is still 60% below its 1989 close. In 1990, when the Topix index began the year at 2880, the Topix EPS came in at 46 Yen, while the consensus estimate for the current year’s EPS is 78 Yen and the index is at 1150. Enough said.

The initial burst of excitement after “Abenomics” was born has passed and the Yen’s decline has stalled – we prefer to say paused - but the economic environment, both globally and in Japan, has definitely improved since May. US consumer data has been good, and among the fickle institutional investor commentariat, Europe has passed its pariah status to the emerging markets. Meanwhile Japanese economic conditions have been buoyant. The March quarter GDP was 3.8% (annualised) and the consensus expected the latest revision to the June quarter GDP to be 3.9%. It has just been announced and came in at 3.8% - again. Pass the smelling salts please.

On the corporate profits front, with first quarter results now behind us, the consensus for net profit growth for the

current fiscal year ending March 2014 is 62% and the Topix trades on 13.5x the consensus for 3/15 EPS. Using the more bullish estimates of Goldman Sachs and JP Morgan, the current PER is 11.7x and this would take Japan’s RoE to 10.5%.

We visited Japan in late August and without any doubt, companies are feeling more optimistic about their business outlook. Expectations for price rises are growing and July’s core (ex food) CPI came in at 0.7%, the fastest rate of growth since November 2008. Food processors have begun raising prices to their retail customers in response to the effects of a weaker Yen bringing higher prices for wheat, edible oils and eggs. The weaker Yen has certainly also helped make Japan more appealing for foreign holiday-makers, with foreign visitors in July exceeding one million for the first time and up 18% over July 2012. These tourists must have been from steamy Asia because no one from a more temperate climate would dream of holidaying in Japan in July. More power to them.

Given the flow of positive data regarding the economy, it would be surprising if the Government did not decide to proceed with the consumption tax hike from 5% to 8% set for April 2014. It is inevitable that Japanese tax revenues rise and the hike in the consumption tax rate is just one simple way to achieve this. The centerpiece of Abenomics is higher economic growth, corporate profits and incomes. Tax revenues will clearly increase if all these are achieved, but the Japanese tax system is too lenient in allowing all manner of deductions to offset income and is administratively backwards. It is inconceivable that Abe’s pro-growth policies - if successful – will not usher in a tax collecting system more suited to the modern world. Lower tax rates perhaps, but less room for tax “minimisation”.

We mentioned in last month’s letter that the Fund had suffered from weakness in the affordable home builders Hajime Construction and Arnest One (who will merge with four other lida group companies in November) but as Yang follows Yin, can report that this reversed in August and both were solid contributors and have continued to gain in September to date. We expect further re-rating of these stocks in the lead up to the merger. In our view, domestic sectors will be the focus for the time being, and we have the Fund positioned accordingly.

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**Recent 3 month Fund Exposure**

| % of NAV in          | Jun 13 | Jul 13 | Aug 13 |
|----------------------|--------|--------|--------|
| Long Stock Positions | 94.41  | 95.71  | 98.36  |
| Index Futures        | -      | -      | -      |
| Net Exposure         | 94.41  | 95.71  | 98.36  |

**Optimal** FUND MANAGEMENT

Should you wish to make an enquiry about the Optimal Japan Absolute Long Fund, please see our website [www.optimalasia.com](http://www.optimalasia.com) or contact us by email at [optimal@optimalasia.com](mailto:optimal@optimalasia.com).

**Position Concentration**

|                        | Top 5  | Top 10 |
|------------------------|--------|--------|
| Longs                  | 31.45% | 50.12% |
| Total no. of positions | 31     |        |

**Top Five Positions**

Sumitomo Mitsui Financial Group Inc  
Mitsubishi UFJ Financial Group Inc  
KDDI Corp  
Itochu Corp  
Nomura Holdings Inc

**Winners**

Arnest One Corp  
Obayashi Corp  
Hajime Construction Co Ltd  
H.I.S. Co Ltd  
Sumitomo Realty & Development Co Ltd

**Losers**

KDDI Corp  
Nomura Holdings Inc  
Nihon Kohden Corp  
Mitsubishi UFJ Financial Group Inc  
Misawa Homes Co Ltd

**Sector Exposure as at 30 August 2013**

|                            | Longs  |                        | Longs  |
|----------------------------|--------|------------------------|--------|
| Consumer Discretionary     | 25.01% | Industrials            | 15.51% |
| Consumer Non-Discretionary | 7.88%  | Information Technology | 4.15%  |
| Energy                     | 1.74%  | Materials              | 3.70%  |
| Financials                 | 32.53% | Telecommunications     | 5.05%  |
| Health Care                | 2.79%  | Utilities              | -      |

**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 | -5.74 | 1.13  | 0.45  | -3.56 |       |       |       |       | 18.69  | 13.37      |
| 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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