

**Monthly Performance % - as at 31 January 2013**

	<b>NAV</b>	<b>January</b>	<b>YTD</b>	<b>AUM</b>
Offshore Feeder	US\$11.43	4.19%	4.19%	US\$14M
<i>Topix Return is in USD unhedged using WM London 4pm close</i>		3.61%	3.61%	

One month into the new year and the mood in Japan has brightened considerably compared to just three months ago. Foreign investors have been large and consistent buyers since early November when the Yen began to weaken in anticipation of the change of government. The buying by foreigners has been met by domestic selling with trust banks the largest sellers as they adjust equity positions back to their model portfolio targets. Japanese individual investors have been small net sellers so far this year, but turnover by individuals is now up to 30% of daily turnover, which is itself back to the highest levels reached since 2008. Much as we would like to see domestic investors buying their own equity market, for every buyer there has to be a seller and if foreigners are buying that only leaves domestic investors to sell to them.

We are convinced that Japanese institutional and retail investor attitudes to equities will only change for the positive if the Abe government can bring about an end to deflation and spur economic confidence. Twenty years' experience of weaker prices and assets is not easily brushed aside so it is vital that confidence recovers amongst Japanese consumers, employers and investors. There are plenty of Japanese and no shortage of foreign commentators who remain deeply sceptical about the chances for recovery but whilst we would not downplay the challenges, no solution to Japan's low growth and deflation is possible without greater confidence and so far, Mr Abe and his team are doing a good job in addressing that.

January's market return was almost as good as that of December with the Topix index up 9.36%. The two best performing sectors were most unlikely bedfellows with the normally defensive drugs sector up 17% and cyclical shippers up almost as much at 16.7%. Real estate, which was a standout performer in 2012 had a poor start to 2013 with Sumitomo Realty actually down for the month. Having risen 111% last year versus the sector's gain of 80% and 18% for Topix, a pause for breath is understandable, and we continue to hold both Sumitomo Realty and Mitsubishi Fudosan among our larger positions. The Fund's holdings in SMFG and MUFJ (banks) were large contributors to the positive performance this month and a reflationary environment would certainly be a major boost for the financials and real estate sectors.

Although small in scale and not widely commented on, there was an interesting corporate event announced in late January. Nippon Paint is a well-established and conservatively managed producer of a wide range of paints and has a market capitalisation of around \$2.4bn. Its major domestic competitor is Kansai Paint which is slightly larger in sales and market cap and has been more aggressive in expansion into Asia. Only five analysts cover Nippon Paint so on January 21<sup>st</sup>

when it was announced that Wuthelam, its largest shareholder, planned to raise its stake from 14.5% to 45% by buying shares at a price of Y900, there was not a lot of commentary in the market. Wuthelam is a company owned 100% by Singapore's Goh Hup Jin and through its operating companies (the NIPSEA group) has been in partnership with Nippon Paint in Asia for fifty years.

In the official announcement of the deal, Mr Goh was fulsome in his praise for Nippon Paint's technology and his belief in the potential of the company. It did go on to say however, that:

"Goh believes that Nippon Paint needs to become growth hungry, unafraid of risk-taking, and savvy in financial tools to achieve its growth potential.

In Goh's vision, armed with such risk appetite and savvy, Nippon Paint will be set to prowl Japan and the rest of the world for M&As (sic) in pursuit of efficiencies and synergies."

Nippon Paint has appointed SMBC Nikko to advise it on the offer and the valuation before deciding on their response. We watch the developments with interest but think Mr Goh's comments are probably quite well-founded and could be made about a great many Japanese companies that have been too timid or uncertain about taking their technologies and products to wider markets.

Sadly the market's decline last Friday meant that the Nikkei's run of consecutive weekly gains finished at twelve – equaling a record last set in 1959. In all the excitement it is worth remembering that the market is still just over half the level is reached in 2007 and before that in 2000, and only one third of where it peaked in early 1990. There will probably be some reversal of the Yen's weakness in the weeks ahead as the G20 meet and then Mr Abe meets President Obama for talks that will include Japan's participation in the TPP free trade agreement. If the Yen strengthens, equity prices are certain to pull back, but in that scenario we would be buyers of Japanese equities and sellers of the Yen.

In a sign that animal spirits are returning to the market, we heard last week that domestic Japanese equities bulls are eagerly looking forward to the refurbishment of the famous Ise Shrine which takes place this year. The refurbishments are undertaken every twenty years and as the last one heralded in a twenty year period of deflation and decline, this year's ceremony will reverse this and usher in a positive twenty years. I don't expect to read much about that in the strategy pieces of the global investment banks. More's the pity.

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**Recent 3 month Fund Exposure**

% of NAV in	Nov 12	Dec 12	Jan 13
Long Stock Positions	93.91	93.80	98.38
Index Futures	-	-	-
Net Exposure	93.91	93.80	98.38

**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	33.17%	55.40%
Total no. of positions	28	

**Top Five Positions**

Mitsubishi UFJ Financial Group Inc  
Sumitomo Mitsui Financial Group Inc  
Mitsubishi Estate Co Ltd  
Nissan Motor Co Ltd  
Benesse Holdings Inc

**Winners**

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

**Losers**

Skymark Airlines Inc  
Sumitomo Realty & Development Co Ltd  
Sekisui Chemical Co Ltd  
Cosmo Oil Company Ltd  
Aeon Delight Co Ltd

**Sector Exposure as at 31 January 2013**

	Longs		Longs
Consumer Discretionary	33.67%	Health Care	2.49%
Consumer Non-Discretionary	3.05%	Industrials	14.41%
Energy	4.07%	Information Technology	8.65%
Financials	29.65%	Telecommunications	2.39%

**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 <sup>*</sup> YTD
(Inception September 2004)														
2013	4.19												4.19	3.61
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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