

Monthly Performance % - as at 30 January 2014

	NAV	January	YTD	Strategy AUM
Offshore Feeder	US\$13.84	-6.55%	-6.55%	US\$86M
<i>Topix Return is in USD unhedged using WM London 4pm close</i>		-3.82%	-3.82%	

“Up by the stairs, and down by the elevator” as the old market saying goes. January’s Topix fall of 6.3% was sharp and largely unexpected, but falling a further 6.7% in the first two days of February took the 2014 decline at that point to 12.5% and dragged the market back to the same level it was at in mid-2013. Just as foreigners were the major buyer of Japanese equities in 2013, so were they the major seller in January. Indeed a number of records have been broken already this year, with the net selling by foreigners in the last week of January the highest for a decade while January’s net Y1.43tn buying by Japanese individuals was the highest number since records began in 1982.

Japanese individuals are seemingly – and understandably – less concerned by a slightly stronger Yen than are the twitchy trigger-fingered foreign investors (we use this term loosely), and continue to exhibit a tendency to buy the market into weakness, rather than follow the momentum as the foreigners do. It is impossible to tell how much of the January buying by individuals is due to the new NISA tax-free investment accounts but it is clear that there is considerable interest in opening NISA accounts with brokers and according to a survey by the Nikkei (reported in the Nikkei of Feb 10th), brokers report that almost 20% of those who had opened NISA accounts had begun trading in equities by the end of January. As is the case with most new ventures, long term acceptance and success can be determined by how well it starts, so if these pioneer NISA holders have early investing success, one can be sure that many more will follow suit.

In spite of the very weak start in Japanese equities in 2014, there are many reasons to believe that there will be further gains on top of the stellar year in 2013. Mr Abe’s policies have been generally welcomed and the surveys of business expectations show sentiment is at, or near, multi-year highs. In a curiously equivocal piece on Japan in the FT of Feb 6th, John Authers points out that Topix trailing 12-month earnings are up 78% in the past year whilst those of the S&P 500 companies are only up 8%. Earnings for the December quarter have been very strong and upward revisions are well in excess of downward ones, and yet the Japanese market now trades on a multiple of

earnings below those of the USA and Europe. It is true that government debt is still too high and is climbing, but the rate is slowing as the annual fiscal deficit is shrinking quickly with the stronger economy. The higher tax receipts from the increase in the consumption tax rate to 8% will speed that process along once it comes in after April.

As for the portfolio and our stock selection, we have continued to favour domestic companies over exporters and there is clearly risk in some of these sectors in the lead up to the introduction of the higher consumption tax rate. Retail and housing are sectors where there is some evidence of pre tax-hike buying and pessimists point to the experience of 1997-98 after the consumption tax rate was raised from 3% to 5% as a warning of what might come. Japan, and indeed Asia, was different then. At that time, Thailand was setting off the Asian Crisis, Japanese industrial production had already peaked and Japan’s financial sector was entering the intensive care ward as first Yamaichi Securities and then Hokkaido Takushoku Bank went bust. Some might look at the current political unrest in Thailand and see portents of regional economic and financial mayhem but we do not think that at all likely. The Japanese banking system is not hiding bad loans like it was then and Japan is exiting, not entering, deflation. The situation could hardly be more different.

We are looking for more ways of profiting from the increased propensity to consume and after the sharp price falls of the past few weeks, have better entry points now than for quite a while. Consumer discretionary and financials hurt the Fund most in January, but these companies are setting record profits, are attractively valued and will prosper as consumer sentiment continues to recover. As foreign investors wax and wane, the massive flows of money into and out of Japanese equities can cause frightening price volatility, but ultimately, the improving economic outlook and earnings growth in Japan will push stock prices higher. We are very optimistic for 2014, and particularly eager to see if the enormous buying from hitherto cautious Japanese individual investors heralds a longer term and welcome change in attitude.

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Recent 3 month Fund Exposure

% of NAV in	Nov 13	Dec 13	Jan 14
Long Stock Positions	93.13	92.83	98.76
Index Futures	-	-	-
Net Exposure	93.13	92.83	98.76

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	33.19%	54.28%
Total no. of positions	30	

Top Five Positions

Mitsubishi UFJ Financial Group Inc
Sumitomo Mitsui Financial Group Inc
Itochu Corp
Nomura Holdings Inc
H.I.S. Co Ltd

Winners

H.I.S. Co Ltd
Konami Corp
Welcia Holdings Co Ltd
Aozora Bank Ltd
Teijin Ltd

Losers

Sumitomo Mitsui Financial Group Inc
Mitsubishi UFJ Financial Group Inc
Iida Group Holdings Co Ltd
United Arrows Ltd
Nippon Steel & Sumitomo Metal Corp

Sector Exposure as at 30 January 2014

	Longs		Longs
Consumer Discretionary	32.17%	Industrials	17.72%
Consumer Non-Discretionary	1.08%	Information Technology	12.54%
Energy	-	Materials	9.01%
Financials	26.24%	Telecommunications	-

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)														
2014	-6.55												-6.55	-3.82
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

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