

Monthly Performance % - as at 31 July 2013

	NAV	July	YTD	AUM
Offshore Feeder	US\$13.50	0.45%	23.06%	US\$14M
<i>Topix Return is in USD unhedged using WM London 4pm close</i>		0.81%	15.71%	

It was good to have another positive month (the sixth of seven months this year) in July and whilst small, the rise in the NAV takes the increase for 2013 to over 23%. The Fund remains effectively fully invested and is hedged back into USD.

The upper house elections are now behind us and the LDP have duly taken back control of both houses of the Diet. The win was a resounding success for Mr Abe and his pro-growth programme, and once the Diet reconvenes at the end of the summer we can look forward to a busy period of legislative activity as the government gets its reform agenda into law. Investors – particularly foreign ones – are impatient to see Mr Abe’s positive talk of reform turn into action and inaction or procrastination on this front will inevitably lead to disillusionment and some withdrawal from the equity market. While we are also keen to see follow through, it is disheartening that the collective need for immediate gratification amongst investors (and we use that word in its loosest sense) is so powerful that barely a day passes without someone commenting that a decline in market prices is due to disappointment with the lack of further monetary or fiscal stimulus. It seems to us that spoon-feeding by the central banks has left investors with an insatiable sense of entitlement to higher prices – now! Weaning these over-sized investment infants off the milk of monetary easing will test the genius of the central bankers, but not just yet.

One area of growth that Mr Abe has highlighted is tourism. Foreign visitors to Japan have been increasing steadily since the late 1990s and have recently passed an annualised rate of 10mn. This is almost three times the number who entered Japan in 2000 and is partly due to lower prices in Japan, but also due to the rising prosperity of Asian countries. Fully two-thirds of arrivals in Japan are now from Asia, with Korea accounting for over 20% and China more than 10% and the growth rate from other countries in Asia is even more impressive. Japan – especially if the Yen weakens relative to the USD – is certain to see greater visitor numbers from their Asian neighbors who are attracted by the food, cleanliness, natural beauty, shopping and Tokyo

Disneyland. Japan is sufficiently different to their own countries but reassuringly similar too. We have added shares in Oriental Land (which owns Tokyo Disneyland) and think its earnings leverage to these rising tourist numbers is very large. Achieving annual tourist numbers of ten million sounds large, but Japan ranked 32nd in 2010 for in-bound tourists and compared with France (80mn), Spain, China and the USA (all around 57mn) and Malaysia (25mn), it has considerable room to grow.

We are in the reporting period for the first qtr (June) for most Japanese companies and overall, the increase in profits is on track to meet the forecast rise of over 60% in EPS for the year to 3/14. The auto companies are seeing impressive profits growth as the stronger US market and weaker Yen boost volumes, and Toyota has just set a record high for its operating profit margin achieved in the quarter. Financials, where the Fund is heavily exposed, have also reported excellent numbers and we are very comfortable with our positions in the banks, brokers, leasing and real estate sectors.

One of our new positions added in July was Suntory Beverage and Food. This is the non-alcoholic drinks subsidiary of the privately-owned Suntory Holdings and the company’s first foray into the public markets. The parent retains almost 60% after the float and we subscribed for shares at the IPO price of Y3,100. It closed the month at Y3,450 and at almost 4% of NAV, was one of the biggest contributors to our return in July. On the negative side, the Fund suffered from weakness in the affordable home builders Hajime Construction and Arnest One (who will merge with four other Iida group companies in November) but we believe these companies are well placed as domestic demand improves and find the shares very attractively priced.

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Recent 3 month Fund Exposure

% of NAV in	May 13	Jun 13	Jul 13
Long Stock Positions	89.43	94.41	95.71
Index Futures	-	-	-
Net Exposure	89.43	94.41	95.71

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	31.96%	50.39%
Total no. of positions	30	

Top Five Positions

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

Winners

Kadokawa Group Holdings Inc
Suntory Beverage & Food Ltd
Nintendo Co Ltd
KDDI Corp
Nihon Kohden Corp

Losers

Credit Saison Co Ltd
Riso Kyoiku Co Ltd
Toshiba Corp
Sekisui Chemical Co Ltd
Nippon Steel & Sumitomo Metal Corp

Sector Exposure as at 31 July 2013

	Longs		Longs
Consumer Discretionary	19.20%	Industrials	16.40%
Consumer Non-Discretionary	4.72%	Information Technology	8.80%
Energy	2.05%	Materials	3.60%
Financials	32.36%	Telecommunications	5.56%
Health Care	3.02%	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						23.06	15.71
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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