

**Monthly Performance % - as at 28 June 2013**

	NAV	June	YTD	AUM
Offshore Feeder	US\$13.44	1.13%	22.52%	US\$13M
<i>Topix Return is in USD unhedged using WM London 4pm close</i>		1.48%	14.79%	

We reach the mid-way point of 2013 and look back on what has been a very good year for Japanese equities. The Topix index (in JPY) is up 31.9% over the six months, although unhedged in USD the return is just under 15%. The Fund has performed well over this period with an increase in the NAV of 22.5% and is fully invested to reflect our very positive view on the Japanese market and outlook. The Fund is now hedged out of Yen, and will remain so, given the policies being pursued by the Japanese government and the Bank of Japan.

Looking at the annual returns of the Optimal Japan Absolute Long Fund since inception in September 2004, it is clear that the period has been a difficult one with the Topix index (USD) return of just over 1%pa and a total return for the period of 10.05%. The Fund's total return (after fees) has been 34.4% which equates to an annualised average return of 3.4%. The last year has been a great deal better than that with a Fund return of 25.1% - seven percent greater than that of the Topix index. The period that began in mid-2007 and continued through until the first half of 2012 was a difficult one for stock-pickers to add value. We have mentioned this before and now with a good year behind us we can say that the environment for stock-pickers has definitely improved. There is greater dispersion among sector returns and within sectors and macro issues have receded as a dominant determinant of returns. If this situation continues, we are confident that we will continue to add value over and above the return of the Japanese equity market return and thus outperform passive strategies such as ETFs or index futures.

Moving back to Japanese economy and financial markets, things have been getting better. The March quarter GDP number of 4.1% was well above expectations and despite early gyrations after the April 4<sup>th</sup> BoJ monetary policy howitzer, the JGB market has been stable since early May with the 10 year yield at around 0.85%. In early June there was disappointment with the lack of specifics when the government revealed some plans – or aspirations – for the “Third Arrow” of Abenomics which is meant to encourage

economic growth. This should not surprise anyone as there are always clamours for more whenever a Japanese government policy announcement is made and “disappointing” inevitably prefaces any analysis by the media. We subscribe to the view that policy will remain general until after the upper house election (now set for July 21<sup>st</sup>) and that in any event, much of the hard work will be achieved if Abe and his government can generate more confidence and willingness to take risk. So far, he is succeeding on this measure.

As for portfolio composition, we are holding sizeable positions in the manufacturers that will benefit from a weaker Yen (Toyota, Nissan, Bridgestone, Hitachi & Toshiba) but have a greater portion of the portfolio in domestic sectors which stand to gain from rising prices, government policy and the announcement of Tokyo as the 2020 Olympic Games site when the IOC hands down their decision on September 7<sup>th</sup>. Almost a third of the portfolio is in financials (including real estate) with further domestic exposure in construction, telecoms, retail, leisure and broadcasting. While it is way too early to call victory over deflation and hail the success of Abenomics, we are convinced that it is right to be optimistic on the outlook for Japanese equities.

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#### Recent 3 month Fund Exposure

% of NAV in	Apr 13	May 13	Jun 13
Long Stock Positions	98.79	89.43	94.41
Index Futures	-	-	-
Net Exposure	98.79	89.43	94.41

#### Performance Statistics

Last 12 Months	25.14%
3 Yr Annualised Return	9.88%
5 Yr Annualised Return	1.51%
Annualised Return Since Inception	3.41%

#### Position Concentration

	Top 5	Top 10
Longs	30.51%	48.82%
Total no. of positions	29	

#### Top Five Positions

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

#### Winners (Qtr)

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

#### Losers (Qtr)

Hajime Construction Co Ltd  
Mitsubishi Corp  
Yamada Denki Co Ltd  
Frontier Real Estate Investment Corp REIT  
Benesse Holdings Inc

#### Sector Exposure as at 28 June 2013

	Longs
Consumer Discretionary	28.23%
Consumer Non-Disc	4.26%
Energy	0.00%
Financials	31.91%
Health Care	2.74%
Industrials	15.54%
Information Technology	8.23%
Materials	0.00%
Telecommunications	3.50%
Net Exposure	94.41%

#### June Qtr Sector Performance – P&L

	Longs
Consumer Discretionary	2.03%
Consumer Non-Disc	0.52%
Energy	0.82%
Financials	4.01%
Health Care	0.33%
Industrials	0.21%
Information Technology	0.71%
Materials	0.57%
Telecommunications	0.78%
	9.98%
FX Forwards	8.17%
FX and Other	-7.90%
Total	10.25%

#### Performance Contribution

	Longs	FX Forwards	Other	Total
June 2013	2.02%	-1.38%	0.49%	1.13%

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**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
<b>(Inception September 2004)</b>														
2013	4.19	1.40	5.18	15.67	-5.74	1.13							22.52	14.79
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

**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).

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