

Monthly Performance % - as at 28 March 2013

	NAV	March	YTD	AUM
Offshore Feeder	US\$12.19	5.18%	11.12%	US\$15M
<i>Topix Return is in USD unhedged using WM London 4pm close</i>		4.28%	10.89%	

Please note:

- The Fund now is open for dealing weekly (rather than monthly)
- The Manager has changed the Fund's policy on hedging and the Fund is now fully hedged out of Yen (into USD) rather than completely un-hedged as had been the policy since inception.

Please contact the Manager if you have any questions regarding either of these changes.

The first full quarter under the Abe government has closed with the Topix index gaining 20% in local currency but less than 10% in USD unhedged. Even the return in USD compares well with other markets as evidenced by the 8% rise in the MSCI (developed) World index – and particularly relative to the -2% return of the MSCI Emerging Markets index.

The fireworks really went off in Japanese financial markets on the afternoon of Thursday April 4th at the press conference following the end of the Bank of Japan's first meeting under new governor Mr Kuroda. Jaded observers of Japanese policy had wearily predicted another underwhelming set of policies and only a minority of commentators warned not to underestimate Mr Kuroda's resolve to change monetary policy. Having been down 2%, the Topix index closed up nearly 4% on the day, the Yen fell from 93/\$ to 96/\$ and JGB yields – both in the 10 year and 30 year maturities – plummeted as the aggressive bond-buying policy was announced. There has been plenty of commentary and not a few commentators are concerned that the BoJ has overplayed its hand. We believe that these policies should have been introduced at least fifteen years ago, and had that happened the size of the response could have been a lot smaller, but the build-up of inertia that has occurred under Japan's deflationary era required a "shock to unblock", and Mr Kuroda has certainly delivered a big one.

Writing in an opinion piece in the Financial Times on April 5th, the day after the BoJ "bombshell", Gavyn Davies called it a complete reversal of two decades of BoJ policy and an experiment in quantitative easing writ large. He finished his piece with the following paragraph:

"We are about to discover whether domestic monetary policy, working alone, can overcome a deflationary trap.

In sharp contrast to all previous efforts by the BoJ, the Kuroda strategy will not fail for lack of scale. Although inherently risky, it has a reasonable chance of success, via its impact on financial markets, and on inflation expectations. Those are the places to look for early indicators of whether this unprecedented monetary "big bang" is succeeding or exploding in the wrong direction. "

Although loathe to lock horns with such an eminent economist, we think he is wrong to believe that the BoJ policy will be the sole instrument by which Japan exits deflation. Taxes are being cut (the corporate tax rate will fall from 40 to 30%) and companies given incentives to raise pay and hire workers. A growing list of major companies has already announced increased salaries or bonuses and consumer confidence is rising. To compensate for the planned increase in the consumption tax rate from 5 to 8% in April 2014, taxes on house and car purchases will be lowered and gifts for educational purposes (such as from grandparents) will be exempt from tax on amounts up to Y15mn.

The Bank of Japan will play a massive role through monetary policy, but will also be involved in broader macroeconomic discussions as the Governor is one of the eleven members of the Council for Economic and Fiscal Policy (CEFP), a body chaired by PM Abe and meant to design policy for the government in both monetary and fiscal matters. PM Abe will also sit on the Industrial Competitiveness Council which is focused on microeconomic policy with an emphasis on growth strategies. The third new policymaking body is the Regulatory Reform Council which will produce concrete proposals in time for the Government's announcement of its economic growth strategy in June.

Already we have seen the effects of the BoJ's new policy initiatives in the dramatic weakening of the Yen, the increase in equities and continued activity in J REITs and the property market. If these three advisory bodies do their work properly, Mr Kuroda and his deputy governors at the Bank of Japan will not feel they are acting in isolation and the passage from deflation will not be the work of the BoJ acting alone.

As referred to above, the Manager put on a currency hedge selling Yen forward against the USD at a rate of 93/\$ in early April just before the BoJ announcement. We will maintain a fully hedged position for the time being as we believe successful implementation of economic policies will require a weaker Yen.

DISCLAIMER:

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Recent 3 month Fund Exposure

% of NAV in	Jan 13	Feb 13	Mar 13
Long Stock Positions	98.38	96.91	96.04
Index Futures	-	-	-
Net Exposure	98.38	96.91	96.04

Performance Statistics

Last 12 Months	4.91%
3 Yr Annualised Return	2.89%
5 Yr Annualised Return	-1.35%
Annualised Return Since Inception	2.34%

Position Concentration

	Top 5	Top 10
Longs	32.76%	52.85%
Total no. of positions	28	

Top Five Positions

Mitsubishi UFJ Financial Group Inc
Sumitomo Mitsui Financial Group Inc
Mitsubishi Estate Co Ltd
Toshiba Corp
Itochu Corp

Winners (Qtr)

Mazda Motor Corp
Sumitomo Mitsui Financial Group Inc
Mitsubishi UFJ Financial Group Inc
Toshiba Corp
Bridgestone Corp

Losers (Qtr)

Skymark Airlines Inc
Gree Inc
JFE Holdings Inc
Cosmo Oil Company Ltd
Tokyo Electron Ltd

Sector Exposure as at 28 March 2013

	Longs
Consumer Discretionary	22.19%
Consumer Non-Disc	3.63%
Energy	3.56%
Financials	34.89%
Health Care	2.58%
Industrials	9.14%
Information Technology	12.35%
Materials	5.19%
Telecommunications	2.51%
Net Exposure	96.04%

March Qtr Sector Performance – P&L

	Longs
Consumer Discretionary	7.66%
Consumer Non-Disc	0.75%
Energy	-0.44%
Financials	6.65%
Health Care	0.38%
Industrials	2.08%
Information Technology	2.03%
Materials	-0.18%
Telecommunications	0.66%
	19.59%
FX Forwards	-0.26%
FX and Other	-8.21%
Total	11.12%

Performance Contribution

	Longs	FX Forwards	Other	Total
March 2013	7.16%	-0.25%	-1.73%	5.18%

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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
(Inception September 2004)														
2013	4.19	1.40	5.18										11.12	10.89
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 or contact us by email at optimal@optimalasia.com.

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