

**Monthly Performance % - as at 30 September 2013**

	NAV	September	YTD	Strategy AUM
Offshore Feeder	US\$14.18	8.91%	29.26%	US\$86M
<i>Topix Return is in USD unhedged using WM London 4pm close</i>		7.95%	22.38%	

Following the news that Tokyo would host the 2020 Olympics, the Topix index put on a further 4% to finish September with a gain of just under 8%. The September closing level of 1194 left the market up 39% in 2013, and yet reading commentary and articles on Abenomics, one would think that the market had fallen 39% - such is the sour and begrudging tone of many of these. There is a sizeable cohort who predict financial and economic Armageddon for Japan and the more that time passes with the ten year JGB yield at 0.70% and the GDP growth rate accelerating, the more strident and disappointed grow these bears. Mr Abe has no magic wand and his aims are long-term ones, and yet despite the clear positives we have seen in both the corporate and consumer sectors, there are many articles trumpeting the failure of Abenomics. Whether his goals are eventually achieved remains moot, but it is certainly wrong to be so quick to pronounce failure at this point.

A major task – if not the major task – is to move towards a balanced budget and to this end, the decision to raise the consumption tax rate is a good first step. The increase in tax revenue from a consumption tax rate of 10% against the current 5% would be around Y15tn, which is about one third of the current annual deficit. Growth in GDP, corporate profits, the labour market and wages will all be necessary to make up the shortfall in revenue versus expenditure, but there are reasons to believe that all these are indeed recovering and an increase in prices will accompany these. Companies can't raise prices if there is insufficient demand or over-supply, but we have recently seen evidence that confidence is recovering in the long-suffering domestic consumer goods sector.

As a significant sign of pricing power, Yakult, the maker of yoghurt-based drinks, decided to raise prices of its mainstay drinks for the first time in twenty two years. The increase in price from Y35 to Y40 comes ahead of the rise in consumption tax set for April 2014, and will boost profits by more than 10% in the next full year. Japan Tobacco is another consumer products company and have indicated that they will raise cigarette prices by more than the 3% rise from the consumption tax increase in April next year and the increase will go straight through to profits. Not all domestic companies will be strong enough

to raise their product prices to the same extent as Yakult, but it is a reminder of the latent potential for profits growth as pricing power returns to Japanese companies.

Continuing with the comments on Arnest One and Hajime Construction from the past two monthlies, we are delighted that the recovery in August continued through September with a number of sell side analysts taking up coverage of the lida group merger companies and setting targets well above current prices. The six companies de-list on October 29<sup>th</sup> and re-list soon after as a much bigger single entity with sales and profits on a scale comparable to the biggest house builders. We continue to expect their valuations to move closer to those of Sekisui House and Daiwa House and see further upside accordingly.

The month was a good one for the Fund with major contributions from financials, Nippon Steel and HIS (travel company). For the year-to-date, the two broad sectors which have accounted for most of the positive return are financials and consumer discretionary. We have held large positions in the banks MUFJ and SMFG for the past year and both have performed well, with SMFG the clear winner over that period. SMFG's management has been more energetic on their investor relations drive and has talked consistently about aiming to achieve and maintain an RoE of 10% at least. MUFJ, while having very similar profitability to SMFG, has been less forthcoming about targets which interest shareholders, and this probably explains a lot of the difference in share price performance. The broad GICS sector "Consumer Discretionary" covers all manner of industries and our positive contributors range from the autos (Mazda, Bridgestone and Nissan) to TV broadcasting (NTV) and retail (Seria, J Front and Komeri). The common driver behind the success of both sectors is higher inflationary expectations and we continue to hold big positions in both camps. It has been a much better environment for stock pickers and barring more macro-economic dislocations, we expect this to continue and support the Fund's return.

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#### Recent 3 month Fund Exposure

% of NAV in	Jul 13	Aug 13	Sep 13
Long Stock Positions	95.71	98.36	95.80
Index Futures	-	-	-
Net Exposure	95.71	98.36	95.80

#### Performance Statistics

Last 12 Months	33.90%
3 Yr Annualised Return	9.47%
5 Yr Annualised Return	6.17%
Annualised Return Since Inception	3.92%

#### Position Concentration

	Top 5	Top 10
Longs	31.88%	50.54%
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 (Qtr)

H.I.S. Co Ltd  
Sumitomo Mitsui Financial Group Inc  
Arnest One Corp  
Nippon Steel Corp  
Obayashi Corp

#### Losers (Qtr)

Riso Kyoiku Co Ltd  
Aozora Bank Ltd  
Toshiba Corp  
Credit Saison Co Ltd  
Sekisui Chemical Co Ltd

#### Sector Exposure as at 30 September 2013

	Longs
Consumer Discretionary	26.23%
Consumer Non-Disc	8.91%
Energy	0.00%
Financials	28.07%
Health Care	2.87%
Industrials	16.28%
Information Technology	4.29%
Materials	4.10%
Telecommunications	5.05%
Net Exposure	95.80%

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

	Longs
Consumer Discretionary	2.08%
Consumer Non-Disc	0.69%
Energy	0.05%
Financials	1.36%
Health Care	0.18%
Industrials	1.32%
Information Technology	0.30%
Materials	0.58%
Telecommunications	0.02%
	6.58%
FX Forwards	-5.19%
FX and Other	4.12%
Total	5.51%

#### Performance Contribution

	Longs	FX Forwards	Other	Total
September 2013	9.17%	-0.06%	-0.20%	8.91%

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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 <sup>*</sup> YTD
(Inception September 2004)														
2013	4.19	1.40	5.18	15.67	-5.74	1.13	0.45	-3.56	8.91				29.26	22.38
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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