

Monthly Performance % - as at 31 January 2013

	NAV	January	FYTD	Strategy AUM
A\$ Series 1	A\$11.94	6.42%	13.28%	US\$35M

One month into the new year and the mood in Japan has brightened considerably compared to just three months ago. Foreign investors have been large and consistent buyers since early November when the Yen began to weaken in anticipation of the change of government. The buying by foreigners has been met by domestic selling with trust banks the largest sellers as they adjust equity positions back to their model portfolio targets. Japanese individual investors have been small net sellers so far this year, but turnover by individuals is now up to 30% of daily turnover, which is itself back to the highest levels reached since 2008. Much as we would like to see domestic investors buying their own equity market, for every buyer there has to be a seller and if foreigners are buying that only leaves domestic investors to sell to them.

We are convinced that Japanese institutional and retail investor attitudes to equities will only change for the positive if the Abe government can bring about an end to deflation and spur economic confidence. Twenty years' experience of weaker prices and assets is not easily brushed aside so it is vital that confidence recovers amongst Japanese consumers, employers and investors. There are plenty of Japanese and no shortage of foreign commentators who remain deeply sceptical about the chances for recovery but whilst we would not downplay the challenges, no solution to Japan's low growth and deflation is possible without greater confidence and so far, Mr Abe and his team are doing a good job in addressing that.

January's market return was almost as good as that of December with the Topix index up 9.36%. The two best performing sectors were most unlikely bedfellows with the normally defensive drugs sector up 17% and cyclical shippers up almost as much at 16.7%. Real estate, which was a standout performer in 2012 had a poor start to 2013 with Sumitomo Realty actually down for the month. Having risen 111% last year versus the sector's gain of 80% and 18% for Topix, a pause for breath is understandable, and we continue to hold both Sumitomo Realty and Mitsubishi Fudosan among our larger positions. The Fund's holdings in SMFG and MUFJ (banks) were large contributors to the positive performance this month and a reflationary environment would certainly be a major boost for the financials and real estate sectors.

Although small in scale and not widely commented on, there was an interesting corporate event announced in late January. Nippon Paint is a well-established and conservatively managed producer of a wide range of paints and has a market capitalisation of around \$2.4bn. Its major domestic competitor is Kansai Paint which is slightly larger in sales and market cap and has been more aggressive in expansion into Asia. Only five analysts cover Nippon Paint so on January 21st when it was announced that Wuthelam, its largest shareholder, planned to

raise its stake from 14.5% to 45% by buying shares at a price of Y900, there was not a lot of commentary in the market. Wuthelam is a company owned 100% by Singapore's Goh Hup Jin and through its operating companies (the NIPSEA group) has been in partnership with Nippon Paint in Asia for fifty years. In the official announcement of the deal, Mr Goh was fulsome in his praise for Nippon Paint's technology and his belief in the potential of the company. It did go on to say however, that:

"Goh believes that Nippon Paint needs to become growth hungry, unafraid of risk-taking, and savvy in financial tools to achieve its growth potential.

In Goh's vision, armed with such risk appetite and savvy, Nippon Paint will be set to prowl Japan and the rest of the world for M&As (sic) in pursuit of efficiencies and synergies."

Nippon Paint has appointed SMBC Nikko to advise it on the offer and the valuation before deciding on their response. We watch the developments with interest but think Mr Goh's comments are probably quite well-founded and could be made about a great many Japanese companies that have been too timid or uncertain about taking their technologies and products to wider markets.

Sadly the market's decline last Friday meant that the Nikkei's run of consecutive weekly gains finished at twelve – equaling a record last set in 1959. In all the excitement it is worth remembering that the market is still just over half the level it reached in 2007 and before that in 2000, and only one third of where it peaked in early 1990. There will probably be some reversal of the Yen's weakness in the weeks ahead as the G20 meet and then Mr Abe meets President Obama for talks that will include Japan's participation in the TPP free trade agreement. If the Yen strengthens, equity prices are certain to pull back, but in that scenario we would be buyers of Japanese equities and sellers of the Yen.

In a sign that animal spirits are returning to the market, we heard last week that domestic Japanese equities bulls are eagerly looking forward to the refurbishment of the famous Ise Shrine which takes place this year. The refurbishments are undertaken every twenty years and as the last one heralded in a twenty year period of deflation and decline, this year's ceremony will reverse this and usher in a positive twenty years. I don't expect to read much about that in the strategy pieces of the global investment banks. More's the pity.

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Recent 3 month Fund Exposure

% of NAV in	Nov 12	Dec 12	Jan 13
Long Stock Positions	79.13	60.91	82.25
Short Stock Positions	-19.01	-9.02	-10.88
Index Futures	-16.43	-9.96	-13.19
Equity Derivatives	-	-	-
Net Exposure	43.69	41.93	58.18

Optimal FUND MANAGEMENT

Should you wish to make an enquiry about the Optimal Japan Trust, please see our website www.optimalasia.com or contact us by email at optimal@optimalasia.com.

Position Concentration

	Top 5	Top 10
Longs	33.94%	55.22%
Shorts	-9.70%	-
Total no. of positions	31	

Top Five Positions

Mitsubishi UFJ Financial Group Inc
Sumitomo Mitsui Financial Group Inc
Hitachi Ltd
Itochu Corp
Nissan Motor Co Ltd

Winners

Sumitomo Mitsui Financial Group Inc
Mazda Motor Corp
Mitsubishi UFJ Financial Group Inc
Toshiba Corp
Nissan Motor Co Ltd

Losers

Nikkei Index Futures (short)
Skymark Airlines Inc
Japan Tobacco Inc (short)
Sumitomo Realty & Development Co Ltd
Alps Electric Co Ltd

Sector Exposure as at 31 January 2013

	Longs	Shorts	Net
Consumer Discretionary	18.51%	-2.58%	15.93%
Consumer Non-Discretionary	1.07%	-	1.07%
Energy	3.86%	-	3.86%
Financials	29.91%	-	29.91%
Futures	-	-13.19%	-13.19%
Health Care	2.43%	-	2.43%
Industrials	12.68%	-3.87%	8.81%
Information Technology	11.54%	-4.43%	7.11%
Telecommunications	2.25%	-	2.25%

Performance Contribution	Longs	Shorts	Futures	Other	FX Forwards	Total
January 2013	7.96%	-0.58%	-0.85%	-0.11%	N/A	6.42%

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Historical Returns – Distribution Reinvested

Annual Distributions

Optimal Japan Trust Net Monthly Returns in AUD %

Year to Jun 00 **Year to Jun 01** **Year to Jun 02** **Year to Jun 04**
A\$1.4158 A\$0.8989 A\$0.8983 A\$0.4713

Year to Jun 05 **Year to Jun 06** **Year to Jun 07**
A\$1.4218 A\$1.24 A\$2.4179

Year to June	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD
Series 1 (Inception August 2002)													
2012/2013	-1.80	-1.06	1.17	0.39	1.73	6.05	6.42						13.28
2011/2012	-0.36	-3.94	-0.74	-0.09	-2.54	-0.29	1.16	4.87	1.46	-2.87	-4.99	2.53	-6.06
2010/2011	0.49	-1.96	2.89	0.97	1.34	3.89	3.38	2.12	-3.46	-0.54	0.90	0.09	10.32
2009/2010	0.28	2.59	-4.87	-0.66	-5.15	3.02	1.95	-1.53	5.74	2.76	-5.91	-3.24	-5.66
2008/2009	-0.83	-5.34	-0.09	-0.44	-6.38	3.22	-1.74	-2.15	1.91	0.47	0.84	-0.46	-10.84
2007/2008	-0.87	-6.98	1.88	0.35	-6.70	-4.69	-6.67	2.21	-0.67	6.20	1.34	-5.91	-19.57
2006/2007	-0.79	1.43	0.13	2.10	0.77	2.49	1.99	0.55	-1.03	1.35	3.45	2.28	15.65
2005/2006	1.81	3.68	6.81	1.36	2.41	4.38	1.82	0.43	3.86	0.35	-4.05	0.18	25.14
2004/2005	-2.14	4.01	0.23	-1.21	1.30	1.51	2.74	2.02	0.07	-0.14	0.99	1.47	11.24
2003/2004	1.54	5.20	3.86	3.55	-1.67	3.06	-0.33	1.24	7.11	0.15	-1.14	3.93	29.46
2002/2003			1.68	-4.38	-3.66	-0.42	1.80	1.98	0.41	-0.10	2.55	3.48	3.07

Initial Series (Inception December 1999)

2012/2013	-1.71	-1.10	1.11	0.37	1.73	6.09	6.42						13.31
2011/2012	-0.42	-3.90	-0.79	-0.09	-2.49	-0.27	1.10	4.89	1.47	-2.89	-4.99	2.49	-6.16
2010/2011	0.47	-1.86	2.84	1.01	1.36	3.86	3.37	2.09	-3.44	-0.51	0.85	0.17	10.44
2009/2010	0.26	2.54	-4.79	-0.72	-5.15	3.05	1.94	-1.54	5.81	2.70	-5.94	-3.25	-5.71
2008/2009	-0.78	-5.37	-0.08	-0.42	-6.38	3.23	-1.74	-2.21	1.90	0.53	0.79	-0.44	-10.82
2007/2008	-0.89	-6.99	1.85	0.40	-6.68	-4.73	-6.62	2.17	-0.71	6.19	1.42	-5.97	-19.60
2006/2007	-0.77	1.46	0.13	2.72	0.99	2.62	1.96	0.58	-0.99	1.35	3.47	2.23	16.82
2005/2006	2.38	4.15	6.71	1.31	2.39	4.30	1.82	0.42	3.79	0.34	-4.04	0.24	26.09
2004/2005	-2.26	4.03	0.82	-1.55	1.65	1.92	2.83	2.05	0.00	-0.14	1.04	1.37	12.22
2003/2004	1.91	5.90	3.81	3.58	-1.73	3.02	-0.33	1.22	7.01	0.23	-1.20	3.95	30.56
2002/2003	-1.46	-1.39	2.04	-4.47	-3.65	-0.44	1.80	1.98	0.41	-0.20	2.65	3.97	0.89
2001/2002	-2.87	1.49	-3.58	1.77	-3.89	-5.46	1.10	1.47	2.07	-0.26	7.13	-2.92	-4.54
2000/2001	-9.05	4.02	-0.37	0.90	-0.18	-3.86	-2.34	3.13	1.36	8.47	-2.14	3.96	2.82
1999/2000						0.58	-0.32	12.76	8.99	-1.53	2.45	11.82	38.99

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