

**Monthly Performance % - as at 31 January 2014**

	<b>NAV</b>	<b>January</b>	<b>YTD</b>	<b>AUM</b>
A\$ Series 1	A\$14.01	-5.91%	-5.91%	A\$24M

“Up by the stairs, and down by the elevator” as the old market saying goes. January’s Topix fall of 6.3% was sharp and largely unexpected, but falling a further 6.7% in the first two days of February took the 2014 decline at that point to 12.5% and dragged the market back to the same level it was at in mid-2013. Just as foreigners were the major buyer of Japanese equities in 2013, so were they the major seller in January. Indeed a number of records have been broken already this year, with the net selling by foreigners in the last week of January the highest for a decade while January’s net Y1.43tn buying by Japanese individuals was the highest number since records began in 1982.

Japanese individuals are seemingly – and understandably – less concerned by a slightly stronger Yen than are the twitchy trigger-fingered foreign investors (we use this term loosely), and continue to exhibit a tendency to buy the market into weakness, rather than follow the momentum as the foreigners do. It is impossible to tell how much of the January buying by individuals is due to the new NISA tax-free investment accounts but it is clear that there is considerable interest in opening NISA accounts with brokers and according to a survey by the Nikkei (reported in the Nikkei of Feb 10<sup>th</sup>), brokers report that almost 20% of those who had opened NISA accounts had begun trading in equities by the end of January. As is the case with most new ventures, long term acceptance and success can be determined by how well it starts, so if these pioneer NISA holders have early investing success, one can be sure that many more will follow suit.

In spite of the very weak start in Japanese equities in 2014, there are many reasons to believe that there will be further gains on top of the stellar year in 2013. Mr Abe’s policies have been generally welcomed and the surveys of business expectations show sentiment is at, or near, multi-year highs. In a curiously equivocal piece on Japan in the FT of Feb 6<sup>th</sup>, John Authers points out that Topix trailing 12-month earnings are up 78% in the past year whilst those of the S&P 500 companies are only up 8%. Earnings for the December quarter have been very strong and upward revisions are well in excess of downward ones, and yet the Japanese market now trades on a multiple of

earnings below those of the USA and Europe. It is true that government debt is still too high and is climbing, but the rate is slowing as the annual fiscal deficit is shrinking quickly with the stronger economy. The higher tax receipts from the increase in the consumption tax rate to 8% will speed that process along once it comes in after April.

As for the portfolio and our stock selection, we have continued to favour domestic companies over exporters and there is clearly risk in some of these sectors in the lead up to the introduction of the higher consumption tax rate. Retail and housing are sectors where there is some evidence of pre tax-hike buying and pessimists point to the experience of 1997-98 after the consumption tax rate was raised from 3% to 5% as a warning of what might come. Japan, and indeed Asia, was different then. At that time, Thailand was setting off the Asian Crisis, Japanese industrial production had already peaked and Japan’s financial sector was entering the intensive care ward as first Yamaichi Securities and then Hokkaido Takushoku Bank went bust. Some might look at the current political unrest in Thailand and see portents of regional economic and financial mayhem but we do not think that at all likely. The Japanese banking system is not hiding bad loans like it was then and Japan is exiting, not entering, deflation. The situation could hardly be more different.

We are looking for more ways of profiting from the increased propensity to consume and after the sharp price falls of the past few weeks, have better entry points now than for quite a while. Consumer discretionary and financials hurt the Fund most in January, but these companies are setting record profits, are attractively valued and will prosper as consumer sentiment continues to recover. As foreign investors wax and wane, the massive flows of money into and out of Japanese equities can cause frightening price volatility, but ultimately, the improving economic outlook and earnings growth in Japan will push stock prices higher. We are very optimistic for 2014, and particularly eager to see if the enormous buying from hitherto cautious Japanese individual investors heralds a longer term and welcome change in attitude.

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#### Recent 3 month Fund Exposure

% of NAV in	Nov 13	Dec 13	Jan 14
Long Stock Positions	103.41	103.63	113.04
Short Stock Positions	-14.27	-6.91	-7.72
Index Futures	-14.21	-14.48	-19.75
Equity Derivatives	-	-	-
Net Exposure	74.93	82.24	85.57

#### Optimal FUND MANAGEMENT

Should you wish to make an enquiry about the Optimal Japan Trust, please see our website [www.optimalasia.com](http://www.optimalasia.com) or contact us by email at [optimal@optimalasia.com](mailto:optimal@optimalasia.com).

#### Position Concentration

	Top 5	Top 10
Longs	42.01%	65.83%
Shorts	-7.72%	-
Total no. of positions	35	

#### Top Five Positions

Mitsubishi UFJ Financial Group Inc  
Sumitomo Mitsui Financial Group Inc  
Itochu Corp  
Nippon Steel & Sumitomo Metal Corp  
Nomura Holdings Inc

#### Winners

Nikkei Index Futures (short)  
H.I.S. Co Ltd  
Sega Sammy Holdings Inc (short)  
Ajinomoto Co Inc (short)  
Konami Corp

#### Losers

Mitsubishi UFJ Financial Group Inc  
Sumitomo Mitsui Financial Group Inc  
Iida Group Holdings Co Ltd  
Nippon Steel & Sumitomo Metal Corp  
United Arrows Ltd

#### Sector Exposure as at 31 January 2014

	Longs	Shorts	Net
Consumer Discretionary	34.15%	-2.36%	31.79%
Consumer Non-Discretionary	1.21%	-2.62%	-1.41%
Energy	-	-	-
Financials	30.67%	-	30.67%
Futures	-	-19.75%	-19.75%
Health Care	-	-	-
Industrials	21.42%	-	21.42%
Information Technology	14.19%	-	14.19%
Materials	11.40%	-	11.40%
Telecommunications	-	-2.74%	-2.74%

Performance Contribution	Longs	Shorts	Futures	Other	FX Forwards	Total
January 2014	-6.58%	0.09%	1.64%	0.69%	-1.75%	-5.91%

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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\$1.2446        A\$2.4179

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>Series 1 (Inception August 2002)</b>													
2014	-5.91												-5.91
2013	6.42	0.75	3.82	12.97	-3.76	2.58	1.72	-2.82	8.21	-2.62	1.03	1.57	32.71
2012	1.16	4.87	1.46	-2.87	-4.99	2.53	-1.80	-1.06	1.17	0.39	1.73	6.05	8.41
2011	3.38	2.12	-3.46	-0.54	0.90	0.09	-0.36	-3.94	-0.74	-0.09	-2.54	-0.29	-5.57
2010	1.95	-1.53	5.74	2.76	-5.91	-3.24	0.49	-1.96	2.89	0.97	1.34	3.89	7.03
2009	-1.74	-2.15	1.91	0.47	0.84	-0.46	0.28	2.59	-4.87	-0.66	-5.15	3.02	-6.14
2008	-6.67	2.21	-0.67	6.20	1.34	-5.91	-0.83	-5.34	-0.09	-0.44	-6.38	3.22	-13.41
2007	1.99	0.55	-1.03	1.35	3.45	2.28	-0.87	-6.98	1.88	0.35	-6.70	-4.69	-8.76
2006	1.82	0.43	3.86	0.35	-4.05	0.18	-0.79	1.32	0.13	2.10	0.77	2.49	8.73
2005	2.74	2.02	0.07	-0.14	0.99	1.47	1.81	3.68	6.81	1.36	2.41	4.38	31.13
2004	-0.33	1.24	7.11	0.15	-1.14	3.93	-2.14	4.01	0.23	-1.21	1.30	1.51	15.24
2003	1.80	1.98	0.41	-0.10	2.55	3.48	1.54	5.20	3.86	3.55	-1.67	3.06	28.63
2002									1.68	-4.38	-3.66	-0.42	-6.73

**Initial Series (Inception December 1999)**

2014	-5.74												-5.74
2013	6.42	0.71	3.86	12.97	-3.76	2.51	1.77	-2.81	7.91	-2.42	1.11	1.36	32.43
2012	1.10	4.89	1.47	-2.89	-4.99	2.49	-1.71	-1.10	1.11	0.37	1.73	6.09	8.33
2011	3.37	2.09	-3.44	-0.51	0.85	0.17	-0.42	-3.90	-0.79	-0.09	-2.49	-0.27	-5.53
2010	1.94	-1.54	5.81	2.70	-5.94	-3.25	0.47	-1.86	2.84	1.01	1.36	3.86	7.03
2009	-1.74	-2.21	1.90	0.53	0.79	-0.44	0.26	2.54	-4.79	-0.72	-5.15	3.05	-6.16
2008	-6.62	2.17	-0.71	6.19	1.42	-5.97	-0.78	-5.37	-0.08	-0.42	-6.38	3.23	-13.38
2007	1.96	0.58	-0.99	1.35	3.47	2.23	-0.89	-6.99	1.85	0.40	-6.68	-4.73	-8.77
2006	1.82	0.42	3.79	0.34	-4.04	0.24	-0.77	1.46	0.13	2.72	0.99	2.62	9.91
2005	2.83	2.05	0.00	-0.14	1.04	1.37	2.38	4.15	6.71	1.31	2.39	4.30	32.12
2004	-0.33	1.22	7.01	0.23	-1.20	3.95	-2.26	4.03	0.82	-1.55	1.65	1.92	16.21
2003	1.80	1.98	0.41	-0.20	2.65	3.97	1.91	5.90	3.81	3.58	-1.73	3.02	30.43
2002	1.10	1.47	2.07	-0.26	7.13	-2.92	-1.46	-1.39	2.04	-4.47	-3.65	-0.44	-1.30
2001	-2.34	3.13	1.36	8.47	-2.14	3.96	-2.87	1.49	-3.58	1.77	-3.89	-5.46	-1.00
2000	-0.32	12.76	8.99	-1.53	2.45	11.82	-9.05	4.02	-0.37	0.90	-0.18	-3.86	26.13
1999												0.58	0.58

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