

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

	<b>NAV</b>	<b>June</b>	<b>FYTD</b>	<b>AUM</b>
A\$ Series 1	A\$13.93	2.58%	32.16%	A\$28M

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 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 24.2% and with an average net exposure of 68% of NAV. This is certainly at the higher end of the range of net exposure we have run since the Fund's inception in 1999 and reflects our very positive view on the Japanese market and outlook. The Fund is effectively 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 return of the Optimal Japan Trust since inception in December 1999, it is interesting that an investor who had been patient enough to be still holding the Fund at June 2013 (like me) has achieved an average annual return (after fees) of almost 8% (taking into account re-investment of any distributions). In 1999, at the height of the tech Bubble, offering to make a return to investors of 8% pa would have caused the room to empty pretty quickly, but that was then, and attitudes have changed a lot in the years since. The Fund's annual returns have varied considerably, ranging from a worst year of -19.6% to a best year of +39%. The year that ended June 2013 was in fact the Fund's second best return (+32.1%) but in spite of the variation in returns, it has been a lot less volatile than the return of the market as measured by the main stock index. Over the same period, the Topix index has returned negative 3% pa with a best year return of +44% (2005) and a worst year -41% (2008).

Since the end of 1999, equity returns from most markets have been poor. The table below shows returns in the local currency, with only the Hong Kong and Australian equity markets achieving annual returns of 5% or more.

Country	Index	Index return %	Annual return %	Annual return with dividends %
Japan	Topix	-34	-3.05	-1.6
USA	S&P 500	9.30	0.66	2.63
UK	FTSE 100	-10.30	-0.8	3.16
Europe	Euro Stoxx 50	-47.00	-4.6	-1.10
Australia	All Ords	54.00	3.25	7.60
Hong Kong	Hang Seng	22.60	1.5	4.96

This of course tells us very little about the future, but it does tell something about what a long-short fund might achieve over a long enough period of time. Unfortunately, in our

experience, very few investors are prepared to invest with a long enough time-horizon to suit the return profile that a long/short fund might achieve. This is especially true of those who are paid to manage money. The more institutional the money, the greater focus on short term returns. We would love to be proved wrong – especially if it was demonstrated by a large investment in our funds!

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 40% 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.

**DISCLAIMER:**

### Recent 3 month Fund Exposure

% of NAV in	Apr 13	May 13	Jun 13
Long Stock Positions	91.55	102.67	102.90
Short Stock Positions	-7.09	-12.23	-6.70
Index Futures	-14.77	-16.64	-23.36
Equity Derivatives	-	-	-
Net Exposure	69.69	73.80	72.84

### Position Concentration

	Top 5	Top 10
Longs	35.51%	56.79%
Shorts	-	-
Total no. of positions	32	

### Winners (Qtr)

Sumitomo Mitsui Financial Group Inc  
Sumitomo Realty & Development Co Ltd  
Nomura Holdings Inc  
Mitsubishi UFJ Financial Group Inc  
Hitachi Ltd

### Performance Statistics

Last 12 Months	32.16%
3 Yr Annualised Return	11.06%
5 Yr Annualised Return	2.87%
Annualised Return Since Inception *	6.50%
* Initial Series Used	

### Top Five Positions

Sumitomo Mitsui Financial Group Inc  
Mitsubishi UFJ Financial Group Inc  
Hitachi Ltd  
Itochu Corp  
Toshiba Corp

### Losers (Qtr)

Nikkei Index Futures (short)  
Fuji Photo Film Co Ltd (short)  
Hajime Construction Co  
Shiseido Co Ltd (short)  
Daiwa Office Investment Corp

### Sector Exposure as at 28 June 2013

	Longs	Shorts	Net
Consumer Discretionary	27.74%	-1.60%	26.14%
Consumer Non-Disc	4.40%	-3.63%	0.77%
Energy	-	-	-
Financials	35.01%	-	35.01%
Health Care	3.57%	-	3.57%
Industrials	17.77%	-	17.77%
Information Technology	11.21%	-1.47%	9.74%
Materials	-	-	-
Telecommunications	3.20%	-	3.20%
Total Equity	102.90%	-6.70%	96.20%
Index Futures	-	-23.36%	-23.36%
Net Exposure	102.90%	-30.06%	72.84%

### June Qtr Sector Performance – P&L

	Longs	Shorts	Total
Consumer Discretionary	2.07%	-0.06%	2.01%
Consumer Non-Disc	0.64%	-0.42%	0.22%
Energy	0.01%	-	0.01%
Financials	5.13%	0.87%	6.00%
Health Care	0.58%	-	0.58%
Industrials	0.64%	-0.02%	0.62%
Information Technology	2.31%	-0.98%	1.33%
Materials	1.28%	-	1.28%
Telecommunications	0.83%	-	0.83%
Index Futures	-	-1.91%	-1.91%
	13.49%	-2.52%	10.97%
FX and Other	-	-	0.56%
Total	-	-	11.53%

Performance Contribution	Longs	Shorts	Futures	Other	FX Forwards	Total
June 2013	2.68%	-0.21%	-0.19%	0.30%	N/A	2.58%

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**Historical Returns – Distribution Reinvested**

**Annual Distributions**

*Optimal Japan Trust Net Monthly Returns in AUD %*

<b>Year to Jun 00</b> A\$1.4158	<b>Year to Jun 01</b> A\$0.8989	<b>Year to Jun 02</b> A\$0.8983	<b>Year to Jun 04</b> A\$0.4713
<b>Year to Jun 05</b> A\$1.4218	<b>Year to Jun 06</b> A\$1.24	<b>Year to Jun 07</b> A\$2.4179	

Year to June	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD
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**Series 1 (Inception August 2002)**

2012/2013	-1.80	-1.06	1.17	0.39	1.73	6.05	6.42	0.75	3.82	12.97	-3.76	2.58	32.16
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	0.71	3.86	12.97	-3.76	2.51	32.10
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

**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).

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