

Monthly Performance % - as at 31 October 2013

	NAV	October	YTD	AUM
A\$ Series 1	A\$14.51	-2.62%	29.32%	A\$27M

In last month's report we boasted that the Fund had done well in September, and indeed the September quarter, returning 7% while the Topix index returned just over 5%. You would think that by now we'd know better than to tempt the fate of the market, but time and time again, one needs reminding that one good month, quarter, year, whatever will invariably be followed by a poor one if you have the temerity to blow your own trumpet. October was hardly a calamity (-2.62%) but aside from proving that Mr Market is a cranky old goat, it also highlights how idiotic it is to talk about investment returns over such short periods. Lessons will be learned from this, they will.

We entered October with the funding stalemate in Washington the main item of interest to financial markets. The Fund's net exposure was almost 70%, and while we doubted – like most – that the US Republican politicians would choose to defy President Obama, we also felt that the potential for a big fall in prices was something a hedge fund should not ignore and so in early October we increased the Fund's short futures position and lowered net exposure by more than half. This was not the sole reason why the Fund's return lagged the market, but explains a lot of it. As soon as the deadline had passed and the crisis averted/postponed, we covered the short position to take exposure back to where it had been, but the exercise in caution cost the Fund around 1.5% of NAV.

As reported in an FT article of October 30<sup>th</sup> entitled "Olympics and Abenomics boost Japan", Japan's economy is the fastest growing of the G7 countries with a 4% annualised rate recorded in the first half of 2013. While the weaker Yen is helping exports, the high growth rate really stands out in services, and the PMI for services rose in October to the highest level since 2007, when Markit began compiling this. Respondents in a similar Nikkei survey are also optimistic, with estimates for sales growth in services of 5.1% in 2013, led by such categories as Housework Support, Childcare Services, Daytime Nursing Care and Home Renovation. While economic activity in the UK (and Australia for that matter) might consist of little more than selling cappuccinos to real estate agents (as suggested by the always excellent team at The Blah!), at least in Japan, there are some signs of economic supply meeting growing demand in areas where one would expect to see strength given an aging society and more women joining the work force.

Despite the raft of positive news on the economic front, the tone amongst participants in the Japanese equity market has soured somewhat since the heady days of May. It is hard to see why this is the case, but we believe it lies in the fact that share prices are no higher than they were in early May. Optimism in the market's prospects comes from the fact that prices are higher than they were, and when that positive momentum stops – or reverses – it inevitably leads to theories that explain why we should be cautious.

Now is not the time to be cautious when investing in Japan. As might be expected with the weaker Yen and strong economy, company profits are soaring. Goldman Sachs calculate that at the end of October, of the 43% of companies that had reported their first half (to September) financials, sales were up 10.1% yr/yr and recurring profits up 61%. Profits were on average 18% higher than company guidance, and yet amongst the sample, there were some dreadful exceptions. Sony managed to disappoint – again, and Nissan Motors was not a lot better. The shares of both companies fell more than 10% on the day after their results were released. To add to Sony's pain, its old rival Panasonic surprised with a strong first half and its shares jumped 6% the following day and are up 96% YTD. Its Price/Book ratio has doubled over the year to 1.6x and now stands at a premium to the market's. With an estimated return on equity of less than 7% for the year to March 2015, against one of over 10% as forecast by GS for Topix in the same period, Panasonic is now arguably priced to keep on delivering upside surprises. That would be a welcome change.

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**Recent 3 month Fund Exposure**

% of NAV in	Aug 13	Sep 13	Oct 13
Long Stock Positions	109.12	101.91	98.40
Short Stock Positions	-14.23	-13.01	-18.19
Index Futures	-20.91	-20.29	-12.56
Equity Derivatives	-	-	-
Net Exposure	73.98	68.61	67.65

**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	36.07%	56.99%
Shorts	-13.88%	-
Total no. of positions	37	

**Top Five Positions**

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

**Winners**

Arnest One Corp  
Misawa Homes Holdings Inc  
Welcia Holdings  
KDDI Corp  
Hajime Construction Co

**Losers**

Nikkei Index Futures (short)  
Komatsu Ltd  
Sega Sammy Holdings Inc  
Fujitsu Ltd (short)  
H.I.S Co Ltd

**Sector Exposure as at 31 October 2013**

	Longs	Shorts	Net
Consumer Discretionary	30.60%	-8.55%	22.05%
Consumer Non-Discretionary	1.02%	-	1.02%
Energy	-	-	-
Financials	30.92%	-	30.92%
Futures	-	-12.56%	-12.56%
Health Care	3.90%	-4.05%	-0.15%
Industrials	17.92%	-	17.92%
Information Technology	3.99%	-5.59%	-1.60%
Materials	7.56%	-	7.56%
Telecommunications	2.49%	-	2.49%

Performance Contribution	Longs	Shorts	Futures	Other	FX Forwards	Total
October 2013	-0.69%	-0.60%	-1.55%	-0.18%	0.40%	-2.62%

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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	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>Series 1 (Inception August 2002)</b>													
2013	6.42	0.75	3.82	12.97	-3.76	2.58	1.72	-2.82	8.21	-2.62			29.32
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	1.43	0.13	2.10	0.77	2.49	8.85
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)**

2013	6.42	0.71	3.86	12.97	-3.76	2.51	1.77	-2.81	7.91	-2.42			29.22
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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