

Performance % - as at 28 September 2012

	NAV	September	Financial YTD	Strategy AUM
A\$ Series 1	A\$10.36	1.17%	-1.71%	US\$41M

In the second last week of September we visited Japan and caught the last of the summer heat. Temperatures reached the mid-30s in Tokyo and in Niigata we were fortunate to travel there a day after a sweltering 37°C and enjoyed slightly cooler conditions. As part of Japan's laudable approach to energy saving, companies are encouraged to set air conditioning no lower than 25°, so meeting rooms were "close" but dress codes have been relaxed and most company spokesmen had dispensed with neckties and jackets. The mood was generally positive, but no one was willing to suggest good times were just around the corner. Twenty-plus years of grinding deflation and cost controls has entrenched caution in the DNA of Japanese business managers and only a few will concede that their business is doing rather well.

The few optimists one meets at companies in Japan totally outnumber those who claim to be optimistic about the national political situation. The expected change in the party that forms government at the next election is not so much a case of actually liking the current opposition but more one of rejecting the current DPJ government. Since our trip, the main opposition party (the LDP) has chosen Shinzo Abe to be its new leader – almost five years to the day since he resigned as Prime Minister. Abe was the successor to the popular Junichiro Koizumi but lasted just under one year in the role before resigning due to "ill-health". Since the popular Koizumi stepped down in September 2006 after five years as PM, Japan has had three LDP premiers and three DPJ premiers and none of these could be regarded as leaving much of a mark. Mr Noda, the incumbent premier, has struck a more determined figure than any of the five preceding ones but with his popularity at dangerously low levels, there is mounting pressure for him to dissolve the Diet and call an election. The forgettable Mr Abe might well get a second chance at PM, and one hopes that the embarrassment of his first attempt might bring about an improvement. He surely can't be doing it for the money.

One of the companies we visited was JR Central, the operator of the Shinkansen ("Bullet") trains that run between Osaka and Tokyo. We mentioned this company in our July report and this was our first opportunity to meet with the management since then.

The company generates cash from operations of between Y450-550bn each year and is steadily paying down the debt it inherited from the government-owned Japan National Railways when it was privatised in the early 1990s. Between Tokyo and Osaka, nearly all travel is by Shinkansen as it is not only more convenient than air

travel, but also price competitive. JR Central will pay down the vast bulk of its long-term debt by 2017 and thus would be in a very good position to increase profits and dividends, but for one matter. They have decided to build a Maglev train line between Tokyo and Nagoya (first stage) and then Nagoya and Osaka (second stage) with the first stage projected to cost Y5.4tn and be completed in 2027 and the second leg to be finished in 2042 at a further cost of Y3.6tn. All free cash flow will thus be used to retire existing debt and then service the new debt as it is taken on when construction begins. Once completed, travellers will enjoy a 40 minute train trip from Nagoya to Tokyo (quicker than the current commuting time of most Tokyo-ites) and this should make all sorts of new business opportunities possible.

Prior to the visit, we had been tempted by the cheap valuations and strong cash flow of this mature business. We left the meeting with rather less optimism on the share price outlook. The shares do trade at cheap levels but shareholders are not going to benefit from the strong cashflow now that debt will once again increase – reversing a twenty year trend. The infrastructure and standard of living in Japan – especially Tokyo - continues to improve with each passing year, but it is consumers rather than shareholders who often get the most benefit.

We believe great investments are available in Japanese equities and that despite the succession of faceless leaders, Japan's policy-makers are getting closer to solutions to alleviate pressing macroeconomic issues. Investors do need to be discerning however, as many Japanese companies are run with little regard for the return for shareholders. Aversion to debt is endemic, and banks have certainly been willing to flex their muscles in getting their debtor companies to dilute equity holders and reduce leverage. Meeting company management helps us in judging whether we as shareholders will enjoy our fair share of profits. We continue to believe we can generate good long-term investment returns for our investors with critical analysis of the potential opportunities - both the real and the false.

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### Recent 3 month Fund Exposure

% of NAV in	Jul 12	Aug 12	Sep 12
Long Stock Positions	78.66	79.15	76.73
Short Stock Positions	-9.07	-13.86	-18.96
Index Futures	-24.71	-23.73	-21.00
Equity Derivatives	-	-	-
Net Exposure	44.88	41.56	36.77

### Performance Statistics

Last 12 Months	-2.81%
3 Yr Annualised Return	-0.60%
5 Yr Annualised Return	-6.00%
Annualised Return Since Inception *	5.45%
* Initial Series Used	

### Position Concentration

	Top 5	Top 10
Longs	30.73%	49.70%
Shorts	-12.11%	-
Total no. of positions	35	

### Top Five Positions

Mitsubishi UFJ Financial Group Inc  
Hitachi Ltd  
Sumitomo Mitsui Financial Group Inc  
Itochu Corp  
JX Holdings Inc

### Winners (Qtr)

Shin-Etsu Chemical Co Ltd  
Brother Industries Ltd (short)  
Daiichikoshō Co Ltd  
Sumitomo Realty & Development Co Ltd  
JX Holdings Inc

### Losers (Qtr)

Sumitomo Electric Industries Ltd  
Hitachi Ltd  
Mitsubishi Electric Corp  
Skymark Airlines Inc  
JVC Kenwood Corp

### Sector Exposure as at 28 September 2012

	Longs	Shorts	Net
Consumer Discretionary	14.19%	-1.02%	13.17%
Consumer Non-Disc	-	-2.03%	-2.03%
Energy	4.79%	-	4.79%
Financials	23.02%	-4.81%	18.21%
Industrials	23.95%	-6.02%	17.93%
Information Technology	10.78%	-5.08%	5.70%
Materials	-	-	-
Total Equity	76.73%	-18.96%	57.77%
Index Futures	-	-21.00%	-21.00%
Net Exposure	76.73%	-39.96%	36.77%

### September Qtr Sector Performance – P&L

	Longs	Shorts	Total
Consumer Discretionary	-0.04%	0.04%	0.00%
Consumer Non-Disc	-0.19%	0.03%	-0.16%
Energy	0.30%	-	0.30%
Financials	0.07%	-0.26%	-0.19%
Industrials	-1.87%	-0.05%	-1.92%
Information Technology	-0.61%	0.38%	-0.23%
Materials	0.47%	-	0.47%
Index Futures	-	-0.24%	-0.24%
	-1.87%	-0.10%	-1.97%
FX and Other	-	-	0.26%
Total	-	-	-1.71%

### Performance Contribution

	Longs	Shorts	Futures	Other	FX Forwards	Total
September 2012	1.75%	-0.34%	-0.36%	0.12%	N/A	1.17%

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## Historical Returns – Distribution Reinvested

*Optimal Japan Trust Net Monthly Returns in AUD %*

## Annual Distributions

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

Year to June	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD
The table below outlines the monthly returns of the Trust's Series 1 since its inception in August 2002.													
2002													
2003			1.68	-4.38	-3.66	-0.42	1.80	1.98	0.41	-0.10	2.55	3.48	3.07
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
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
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
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
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
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
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
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
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
2013	-1.80	-1.06	1.17										-1.71

The table below outlines the monthly returns of the Trust's Initial Series since its inception in December 1999.													
2000						0.58	-0.32	12.76	8.99	-1.53	2.45	11.82	38.99
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
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
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
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
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
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
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
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
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
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
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
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
2013	-1.71	-1.10	1.11										-1.71

## 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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