

Monthly Performance % - as at 30 September 2013

	NAV	September	YTD	AUM
A\$ Series 1	A\$14.90	8.21%	32.80%	A\$28M

Following the news that Tokyo would host the 2020 Olympics, the Topix index put on a further 4% to finish September with a gain of just under 8%. The September closing level of 1194 left the market up 39% in 2013, and yet reading commentary and articles on Abenomics, one would think that the market had fallen 39% - such is the sour and begrudging tone of many of these. There is a sizeable cohort who predict financial and economic Armageddon for Japan and the more that time passes with the ten year JGB yield at 0.70% and the GDP growth rate accelerating, the more strident and disappointed grow these bears. Mr Abe has no magic wand and his aims are long-term ones, and yet despite the clear positives we have seen in both the corporate and consumer sectors, there are many articles trumpeting the failure of Abenomics. Whether his goals are eventually achieved remains moot, but it is certainly wrong to be so quick to pronounce failure at this point.

A major task – if not the major task – is to move towards a balanced budget and to this end, the decision to raise the consumption tax rate is a good first step. The increase in tax revenue from a consumption tax rate of 10% against the current 5% would be around Y15tn, which is about one third of the current annual deficit. Growth in GDP, corporate profits, the labour market and wages will all be necessary to make up the shortfall in revenue versus expenditure, but there are reasons to believe that all these are indeed recovering and an increase in prices will accompany these. Companies can't raise prices if there is insufficient demand or over-supply, but we have recently seen evidence that confidence is recovering in the long-suffering domestic consumer goods sector.

As a significant sign of pricing power, Yakult, the maker of yoghurt-based drinks, decided to raise prices of its mainstay drinks for the first time in twenty two years. The increase in price from Y35 to Y40 comes ahead of the rise in consumption tax set for April 2014, and will

boost profits by more than 10% in the next full year. Japan Tobacco is another consumer products company and they have indicated they will raise cigarette prices by more than the 3% rise from the consumption tax increase in April next year and the increase will go straight through to profits. Not all domestic companies will be strong enough to raise their product prices to the same extent as Yakult, but it is a reminder of the latent potential for profits growth as pricing power returns to Japanese companies.

Continuing with the comments on Arnest One and Hajime Construction from the past two monthlies, we are delighted that the recovery in August continued through September with a number of sell side analysts taking up coverage of the Iida group merger companies and setting targets well above current prices. The six companies de-list on October 29<sup>th</sup> and re-list soon after as a much bigger single entity with sales and profits on a scale comparable to the biggest house builders. We continue to expect their valuations to move closer to those of Sekisui House and Daiwa House and see further upside accordingly.

The month was a good one for the Fund and for the September quarter with a rise in NAV of almost 7% against a Topix return for the quarter of 5.3%. Our best contributors on the long side contained a good mix with domestic names such as HIS (travel), Arnest One (house develop and builder) and SMFG (bank) and those with a more global business such as Komatsu and Nippon Steel. Although we did not make money from our shorts, they only detracted 0.19%. It has been a much better environment for stock pickers and barring more macro-economic dislocations, we expect this to continue and support the Fund's return.

**DISCLAIMER:**

### Recent 3 month Fund Exposure

% of NAV in	Jul 13	Aug 13	Sep 13
Long Stock Positions	111.92	109.12	101.91
Short Stock Positions	-12.24	-14.23	-13.01
Index Futures	-25.07	-20.91	-20.29
Equity Derivatives	-	-	-
Net Exposure	74.61	73.98	68.61

### Position Concentration

	Top 5	Top 10
Longs	36.07%	57.39%
Shorts	-10.55%	
Total no. of positions	37	

### Winners (Qtr)

H.I.S. Co Ltd  
Nippon Steel & Sumitomo Metal Corp  
Arnest One Corp  
Sumitomo Mitsui Financial Group Inc  
Komatsu Ltd

### Performance Statistics

Last 12 Months	43.82%
3 Yr Annualised Return	13.06%
5 Yr Annualised Return	5.61%
Annualised Return Since Inception *	6.70%
* Initial Series Used	

### Top Five Positions

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

### Losers (Qtr)

Nikkei Index Futures (short)  
Taiheiyo Cement Corp (short)  
Riso Kyoiku Co., Ltd  
Shiseido Co Ltd (short)  
Aozora Bank Ltd

### Sector Exposure as at 30 September 2013

	Longs	Shorts	Net
Consumer Discretionary	31.33%	-4.92%	26.41%
Consumer Non-Disc	5.42%	-	5.42%
Energy	-	-	-
Financials	30.84%	-	30.84%
Health Care	3.80%	-3.89%	-0.09%
Industrials	18.21%	-	18.21%
Information Technology	1.82%	-2.61%	-0.79%
Materials	5.62%	-	5.62%
Telecommunications	4.87%	-1.59%	3.28%
Total Equity	101.91%	-13.01%	88.90%
Index Futures	-	-20.29%	-20.29%
Net Exposure	101.91%	-33.30%	68.61%

### September Qtr Sector Performance – P&L

	Longs	Shorts	Total
Consumer Discretionary	2.73%	-0.10%	2.63%
Consumer Non-Disc	0.95%	-0.15%	0.80%
Energy	0.05%	-	0.05%
Financials	1.19%	-	1.19%
Health Care	0.26%	-0.03%	0.23%
Industrials	1.54%	0.16%	1.70%
Information Technology	0.63%	0.28%	0.91%
Materials	0.77%	-0.36%	0.41%
Telecommunications	0.01%	0.01%	0.02%
Index Futures	-	-1.31%	-1.31%
	8.13%	-1.50%	6.63%
FX Forwards	-	-	0.88%
FX and Other	-	-	-0.55%
Total	-	-	6.96%

Performance Contribution	Longs	Shorts	Futures	FX Forwards	Other	Total
September 2013	9.91%	-0.63%	-1.78%	1.54%	-0.83%	8.21%

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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	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				32.80
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				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

**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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