

**Monthly Performance % - as at 28 April 2017**

	<b>NAV</b>	<b>April</b>	<b>YTD</b>	<b>AUM</b>
A\$ Series 1	A\$11.152	1.31%	-1.58%	A\$8M

Panasonic is one of our larger holdings and it has performed well since we bought it in December 2015. It has done especially well since July last year when it briefly fell below Y900, but along with rising sovereign bond yields, and a weaker Yen, the shares have risen almost 60% while the Topix index is up by about 30% over the same period. So far, so good. We visited Panasonic in Tokyo in March and were reassured that the company management is serious about simplifying their organisation structure with a view to boosting returns on capital. The shares remain attractively valued and we continue to see upside in the price and considerable potential for better returns from their overall business. That is all well and good, but not the issue at hand, so read on for the real story.

Panasonic announced a change in corporate structure on 20<sup>th</sup> December 2016 when they stated their intention to acquire minority shareholdings in their listed subsidiary Panahome (TSE code: 1924) and that this would take effect through an all-scrip tender for the 46% of Panahome they did not own. The ratio of the Panasonic shares offered to Panahome's minority shareholders did not offer much of a premium and after an initial jump of 13% to Y986 on December 21<sup>st</sup>, the shares traded in a range between 950 and 1070 for the subsequent four months. The second largest shareholder, HK-based Oasis Management, (who hold just under 9%) began a public campaign to get a better price for Panahome shareholders and on February 22<sup>nd</sup> sent a letter to Panahome stating their willingness to make a tender offer in cash equal to Y1050/share. It was rejected by Panahome's board.

Just after Panasonic's scrip offer was announced, Japan's Cabinet approved a change in the part of the Income Tax Act that deals with tax payable by shareholders who have received cash in consideration for a takeover. Under the Act, certain assets have to be revalued to fair market price when a target company becomes a wholly owned subsidiary and this usually gives rise to a taxable gain for the shareholders. The Cabinet decision scrapped the need for a revaluation of assets and thus no taxable gain would occur. The bill was submitted to the Diet in early February and came into law on March 31<sup>st</sup>, 2017.

Panasonic subsequently released a new tender offer for Panahome on April 21<sup>st</sup> which was a full cash bid of Y1200/share in place of the scrip offer, stating in their release

that this was being made as a result of the change in tax treatment, and that it would be beneficial to Panasonic shareholders by "preventing a dilution of their shares" and that the company would benefit from "a reduction of cost of equity capital and enhancement of return on equity". The improved offer has apparently not fully satisfied Oasis, but regardless of whether one attributes the change as due to Oasis' pressure, or to the change in the tax regulations, the reasoning and rationale given by Panasonic for the change in the tender offer was clear and logical. It has been many years in the making, but we believe that this is an important example of how the words and intentions of Japan's Stewardship and Governance codes are now being put into action, for the betterment of equity investors. Panasonic might be forced to raise their offer price again, and the acquisition might not work out in the long run, but they are doing it the right way and shareholders are finally being taken seriously, rather than taken for granted.

April was a month of two halves with the Topix index down nearly 4% mid month but ending April up almost 1.3%. After many months reporting Mitsubishi Estate as one of the drags on the portfolio's returns, it was a welcome change to count it amongst our best. Real estate was the 3<sup>rd</sup> best sector with a gain of 3.6% but Mitsubishi Estate did better (up almost 5%) and was our second largest contributor for the month after the retailer Izumi. Izumi is a very well run regional retailer (Hiroshima based) and gained 11% in April after announcing its annual results and that they would retire treasury stock representing 9% of shares outstanding. It is quite common for Japanese companies to buy back their own stock but keep it in case they want to sell it in the future to raise money, so retiring a large parcel of stock like Izumi has is always well received.

Only 9 of the 33 Topix sectors were negative for the month and none of the Fund's decliners had any more than a 0.2% drag on the monthly return.

Unlike last month, May has started well for the market and the Fund. Unlike last month, let's hope the early trend continues.

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**Optimal** FUND MANAGEMENT

#### Recent 3 month Fund Exposure

% of NAV in	Feb 17	Mar 17	Apr 17
Long Stock Positions	96.09	97.30	102.43
Short Stock Positions	-10.39	-10.44	-14.09
Index Futures	-17.46	-	-
Index Options	-	-	-
Net Exposure	68.24	86.86	88.34

#### 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	34.99%	60.06%
Shorts	-14.09%	-
Total no. of positions	30	

#### Top Five Positions

Mitsubishi UFJ Financial Group Inc  
Mitsubishi Estate Co Ltd  
Sekisui House Ltd  
Panasonic Corp  
Izumi Co Ltd

#### Winners

Izumi Co Ltd  
Mitsubishi Estate Co Ltd  
Panasonic Corp  
Mitsubishi UFJ Financial Group Inc  
Iida Group Holdings Co Ltd

#### Losers

Baroque Japan Ltd  
Zojirushi Corp  
Towa Pharmaceutical Co Ltd (short)  
Kasai Kogyo Co Ltd  
Pressance Corp

#### Sector Exposure as at 28 April 2017

	Longs	Shorts	Net
Consumer Discretionary	50.22%	-	50.22%
Consumer Non-Discretionary	0.53%	-	0.53%
Energy	-	-	-
Financials	24.78%	-3.42%	21.36%
Futures	-	-	-
Health Care	-	-6.72%	-6.72%
Industrials	9.23%	-3.95%	5.28%
Information Technology	8.44%	-	8.44%
Materials	9.23%	-	9.23%
Telecommunications	-	-	-

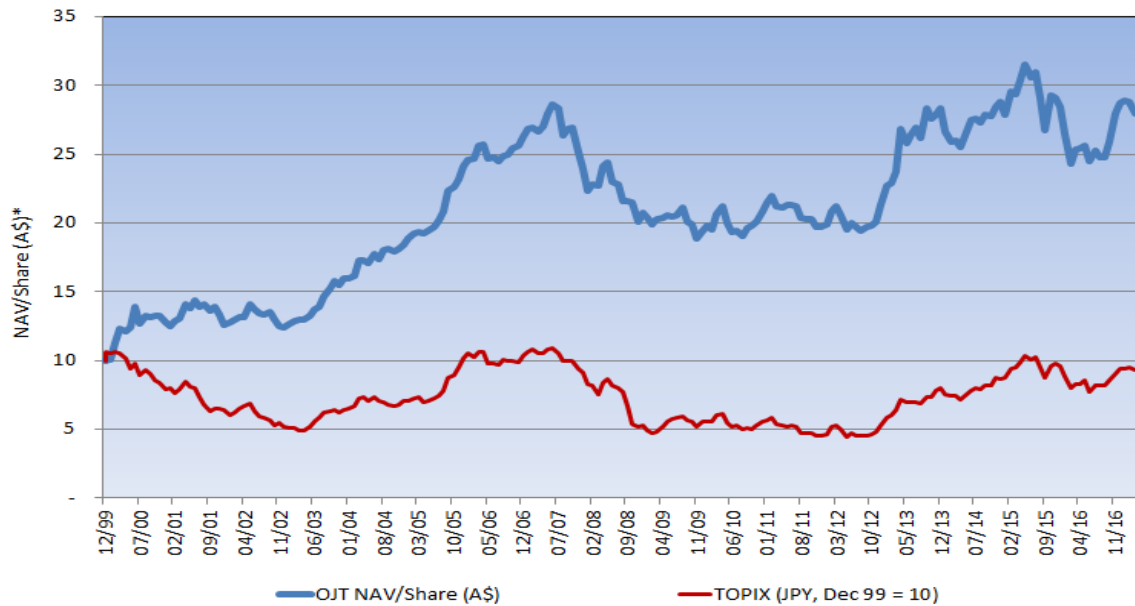
Performance Contribution	Longs	Shorts	Futures	Other	FX Forwards	Total
April 2017	1.84%	-0.19%	-	1.31%	-1.65%	1.31%

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**Portfolio Performance as of 28 April 2017**



\* Total Return - NAV grossed up to include reinvestment of Distributions

**Historical Returns – Distribution Reinvested**

*Optimal Japan Trust Net Monthly Returns in AUD %*

**Annual Distributions**

<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\$1.2446	<b>Year to Jun 07</b> A\$2.4179	<b>Year to Jun 14</b> A\$2.8013
<b>Year to Jun 15</b> A\$0.2631	<b>Year to Jun 16</b> A\$0.5317		

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>Series 1 (Inception August 2002)</b>													
2017	0.41	-0.12	-3.13	1.31									-1.58
2016	-6.82	-8.23	4.34	0.12	0.80	-4.38	2.94	-1.87	0.07	4.76	7.73	2.91	1.08
2015	-3.51	6.35	-0.72	3.61	3.41	-2.69	1.03	-6.01	-7.96	9.34	-0.53	-2.30	-1.37
2014	-5.91	-2.71	0.37	-1.68	3.12	4.40	0.27	-1.02	1.90	-0.08	2.37	1.32	1.92
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	-1.01	-6.98	1.88	0.35	-6.70	-4.69	-8.88
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	2.01	3.68	6.81	1.36	2.41	4.38	31.38
2004	-0.33	1.24	7.11	0.15	-1.14	3.93	-2.22	4.01	0.23	-1.21	1.30	1.51	15.15
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

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