

Monthly Performance % - as at 31 August 2016

	NAV	August	YTD	AUM
A\$ Series 1	A\$9.75	-1.87%	-13.03%	A\$10M

The Olympics are over, Brexit is almost three months ago and the US has had its Labor Day holiday so everyone should be back at their desks and surveying the investment landscape. Is the view any clearer now than it was at the start of the summer? Judging from the daily stream of commentary and conjecture, probably not. Although economic data coming out of the US continues to be largely positive, the Presidential election campaign has taken attention away from that and will dominate media output for a couple of months yet. Japan has had a largely uneventful time over the past month or so – economically speaking that is – with indicators showing an uneven and limited uptick in economic activity and relative quiet on the policy and political front. Japan's relations with China are apparently at a low point with neither side showing any desire to accommodate or concede, but both governments have more pressing issues to deal with than flag-planting in the East China Sea so we don't expect that to have a large impact on investment returns for Japanese equity participants.

In the Japanese equity market August witnessed a continuation of the trend we mentioned last month where rising bond yields accompanied better returns from cyclicals at the expense of "low-vol" sectors. Pharma, railways and foods were in the bottom five sectors while steel, non-ferrous metals and banks were all in the top five. For an index that managed only a 0.5% gain, there was considerable disparity between the best sector (steel) return of 10% and the bottom (pharma) of -10%. Our biggest position MUFJ was a welcome positive contributor but the real estate sector continues to languish (-2.5%) and provided our biggest detractor Open House, which gave up in August all the price gains it had made in the prior three months.

We will be in Japan next week and have visits organised with a number of our portfolio holdings that had very poor returns in August. We will see Isuzu, JR Central and Sekisui House, in addition to Japan Airlines, Hitachi, Trust Tech, Japan Hotel REIT, Nihon Chouzai, MUFJ, Ebara and HIS. Our visit takes place one week before the Bank of Japan meets to flesh out just what it plans to do as part of its "comprehensive assessment" of monetary policy settings. We have had brokers tell us for the past two or three weeks how they believe that investors are in wait-and-see mode in advance of this September 21st announcement and we are also interested in what the BoJ decide.

From an investment point of view, it strikes us as counter-productive that so many money managers seem to be in the thrall of central bank announcements and reluctant to make decisions until after the fact. Hopefully the BoJ's experiment into the world of NIRP will not be extended deeper into negative territory, but aside from the bank sector share prices, it is still far from clear that the NIRP has been a net negative for the economy as a whole. Low rates alone are not likely to change the preference of Japanese individuals for safe, low (or negative) yield assets. A heightened awareness of good capital allocation and shareholder interests among Japanese managers and boards will have more impact on investor preferences than any amount of cajoling by the BoJ and we will be focusing on these points when we meet with company management next week.

DISCLAIMER:

Recent 3 month Fund Exposure

% of NAV in	Jun 16	Jul 16	Aug 16
Long Stock Positions	87.35	88.25	86.52
Short Stock Positions	-3.19	-3.20	-3.15
Index Futures	-64.36	-63.33	-65.75
Index Options	-	-	-
Net Exposure	19.80	21.72	17.62

Optimal FUND MANAGEMENT

Should you wish to make an enquiry about the Optimal Japan Trust, please see our website www.optimalasia.com or contact us by email at optimal@optimalasia.com.

Position Concentration

	Top 5	Top 10
Longs	29.67%	50.71%
Shorts	-3.15%	-
Total no. of positions	28	

Top Five Positions

Mitsubishi UFJ Financial Group Inc
Mitsubishi Estate Co Ltd
Nippon Steel & Sumitomo Metal Corp
Japan Airlines Co Ltd
Mitsubishi Electric Corp

Winners

Komatsu Ltd
Mitsubishi UFJ Financial Group Inc
Mitsubishi Electric Corp
Lixil Group Corp
Hitachi Ltd

Losers

Nikkei Index Futures (short)
Open House Co Ltd
Isuzu Motors Ltd
Nihon Chouzai Co Ltd
Central Japan Railway Co

Sector Exposure as at 31 August 2016

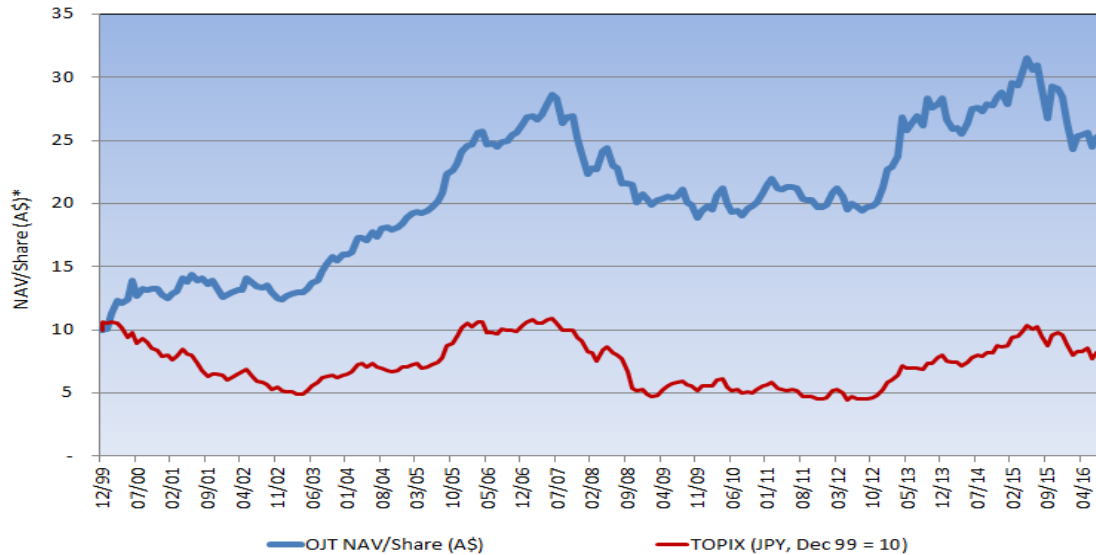
	Longs	Shorts	Net
Consumer Discretionary	25.50%	-	25.50%
Consumer Non-Discretionary	2.32%	-	2.32%
Energy	-	-	-
Financials	20.21%	-3.15%	17.06%
Futures	-	-65.75%	-65.75%
Health Care	-	-	-
Industrials	26.93%	-	26.93%
Information Technology	6.46%	-	6.46%
Materials	5.10%	-	5.10%
Telecommunications	-	-	-

Performance Contribution	Longs	Shorts	Futures	Other	FX Forwards	Total
August 2016	-0.91%	0.12%	-1.07%	0.00%	-0.01%	-1.87%

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Portfolio Performance as of 31 August 2016



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

Historical Returns – Distribution Reinvested

Optimal Japan Trust Net Monthly Returns in AUD %

Annual Distributions

Year to Jun 00 A\$1.4158	Year to Jun 01 A\$0.8989	Year to Jun 02 A\$0.8983	Year to Jun 04 A\$0.4713
Year to Jun 05 A\$1.4218	Year to Jun 06 A\$1.2446	Year to Jun 07 A\$2.4179	Year to Jun 14 A\$2.8013
Year to Jun 15 A\$0.2631	Year to Jun 16 A\$0.5317		

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Series 1 (Inception August 2002)													
2016	-6.82	-8.23	4.34	0.12	0.80	-4.38	2.94	-1.87					-13.03
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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