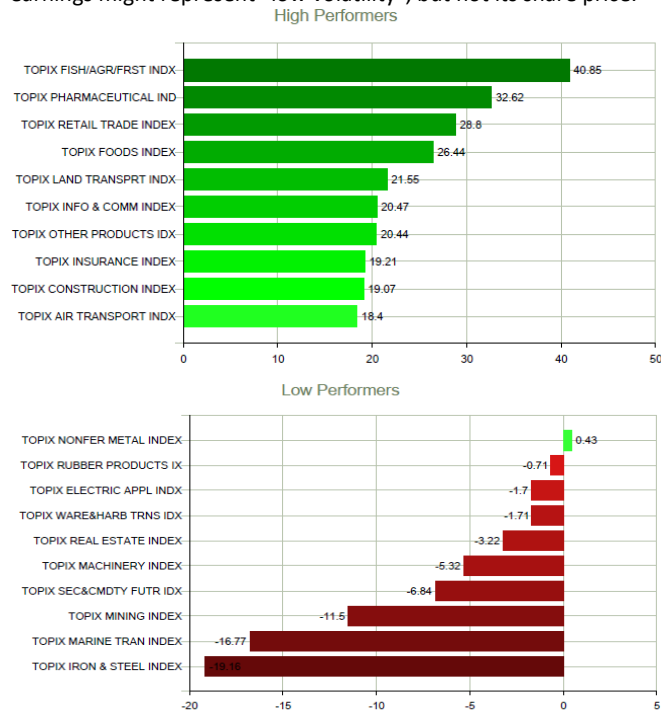


Monthly Performance % - as at 31 December 2015

	NAV	December	YTD	AUM
A\$ Series 1	A\$11.828	-2.30%	-1.37%	A\$12M

The 2.1% decline in Topix in December took the market back to the level of March, but still meant that Tokyo was one of the best performing markets in 2015 with a local currency gain of almost 10% and an unhedged USD return of almost 9%. It never really felt that good to us, but compared with most of the world, it was a reasonable year. We wrote about the strong share price performance of defensive sectors last month – and in previous monthly letters – so rather than repeat ourselves, we will let pictures tell the story. The best performing sector – and arguably the sector with the most romantic name, “Fishery, Agriculture & Forestry” - has a mere five constituents, the largest of which is Nippon Suisan which jumped 61% in December alone. Its earnings might represent “low volatility”, but not its share price.



Source: Bloomberg

Foreigners’ investment activity in Japanese equities in 2015 ended the year almost flat with the main buyers being Trust Banks (pension funds) and Business Corporations, representing companies buying back their own stock. Individuals were the largest sellers, marking a fourth consecutive year as the largest net sellers, but as the Tokyo Stock Exchange figures do not include individuals’ participation in IPOs or other equity capital raisings, their net selling paints a more pessimistic picture than is warranted.

Short selling continues to represent a very large proportion of total selling in Japan and is indicative - in our opinion at least - of the degree to which speculation and momentum influence price movements and increase volatility. One only needs to look at

the slavish response of the Japanese index to the movements in the Chinese market to get an idea of how lacking in independence the Japanese market often is. We are not able to get any reliable evidence of who is behind the aggressive short-selling that has become common in Japan, but indications are that it is often foreign and sees Japanese stocks as a liquid and cheap way of getting short exposure to off-set long positions, whether in Japan or, more likely, in other markets.

The New Year was ushered in with spectacular fireworks but markets decided they did not like the show. The apparent reason – although in financial markets the more apt word might be excuse – was a relatively poor manufacturing PMI in China. No one would deny that China’s economy matters to the world, but given that their services sector indicator was strong, the huge sell-off in Chinese stocks which then triggered their new “circuit-breaker” market closure seemed excessive, and Japan’s subsequent tracking of the decline in Chinese stock prices even more depressing. The old adage that pessimists sound smarter than optimists is undeniably true and nowhere more so than in the overcrowded world of financial market punditry. We think stock markets have hardly been behaving with irrational exuberance as it is and feel that the bearishness is rather stale. In the US, equities are barely 10% higher than they were at the end of 2013, European and UK equities are lower than they were in 1999 and the MSCI EM index is at its lowest point in ten years. The Topix index, lest we forget, finished 2015 lower than it did in 1994, so dividends aside, equity returns in most of the world have not been good this last decade or so.

Our wish list for 2016 is that Japanese companies start using their cash in more expansive ways. With Japanese interest rates at zero (ish), the market’s RoE of 9% is attractive, but it could be quite a bit higher if Japanese companies were not so addicted to their cash hoarding. The good news is that dividends are now widely seen by domestic investors as a good reason to hold Japanese equities, but the bad news is that few companies make dividend payouts in excess of 30%. Mr Abe and Mr Kuroda have done quite enough to allow Japanese companies to regain profitability and build a strong financial platform. The onus is now on Japan’s corporate sector to play their part. The people deserve better.

Investors in the Optimal Japan Trust should be aware that at the end of June, the Trustee has appointed Apex Fund Services as administrator and ANZ Bank as cash custodian in place of EFA and Kredietbank (Luxembourg). There are no changes in dealing terms or procedure or in the other service providers to the fund. We attach the updated PPM with this monthly email and should you need any help with communications with the new administrator, please contact Shinobu Takano of Optimal at shinobu.takano@optimalasia.com.

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Recent 3 month Fund Exposure

% of NAV in	Oct 15	Nov 15	Dec 15
Long Stock Positions	98.55	90.56	90.61
Short Stock Positions	-12.75	-13.39	-9.13
Index Futures	-20.31	-20.36	-20.49
Index Options	-	-	-
Net Exposure	65.49	56.81	60.99

Position Concentration

	Top 5	Top 10
Longs	31.21%	51.19%
Shorts	-9.13%	-
Total no. of positions	32	

Winners (Qtr)

Tokyo Electron Ltd
Nishio Rent All Co Ltd
Toridoll.corporation
ORIX Corp
Hitachi Ltd

Performance Statistics

Last 12 Months	-1.37%
3 Yr Annualised Return	10.08%
5 Yr Annualised Return	6.43%
Annualised Return Since Inception *	7.11%
* Initial Series Used	

Top Five Positions

Sumitomo Mitsui Financial Group Inc
Mitsubishi Estate Co Ltd
Mitsubishi UFJ Financial Group Inc
Nomura Holdings Inc
Japan Airlines Co Ltd

Losers (Qtr)

Nikkei Index Futures (short)
Tokyo Steel Manufacturing Co Ltd (short)
Takeda Pharmaceutical Co Ltd (short)
Sumitomo Realty & Development Co Ltd
Ito En Ltd (short)

Sector Exposure as at 31 December 2015

	Longs	Shorts	Net
Consumer Discretionary	20.22%	-	20.22%
Consumer Non-Disc	-	-2.32%	-2.32%
Energy	-	-	-
Financials	33.73%	-	33.73%
Health Care	-	-5.26%	-5.26%
Industrials	32.06%	-1.55%	30.51%
Information Technology	4.60%	-	4.60%
Materials	-	-	-
Telecommunications	-	-	-
Total Equity	90.61%	-9.13%	81.48%
Futures	-	-20.49%	-20.49%
Net Exposure	90.61%	-29.62%	60.99%

December Qtr Sector Performance – P&L

	Longs	Shorts	Total
Consumer Discretionary	2.12%	-0.17%	1.95%
Consumer Non-Disc	-	-0.25%	-0.25%
Energy	-	-	-
Financials	1.36%	-	1.36%
Health Care	-	-0.56%	-0.56%
Industrials	3.21%	-0.02%	3.19%
Information Technology	2.82%	-0.21%	2.61%
Materials	-	-0.50%	-0.50%
Telecommunications	-	-	-
Futures	-	-1.92%	-1.92%
	9.51%	-3.63%	5.88%
FX Forwards	-	-	4.27%
FX and Other	-	-	-3.89%
Total	-	-	6.26%

Performance Contribution	Longs	Shorts	Futures	FX Forwards	Other	Total
December 2015	-2.58%	-0.36%	0.70%	-1.51%	1.45%	-2.30%

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Historical Returns – Distribution Reinvested

Annual Distributions

Optimal Japan Trust Net Monthly Returns in AUD %

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	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Series 1 (Inception August 2002)													
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

Initial Series (Inception December 1999)

2015	-3.52	7.22	-1.04	4.71	3.35	-2.69	1.33	-6.28	-7.96	9.35	-0.54	-2.30	0.13
2014	-5.74	-2.71	0.35	-1.66	3.10	4.44	0.17	-0.96	1.86	-0.08	2.46	1.24	2.07
2013	6.42	0.71	3.86	12.97	-3.76	2.51	1.77	-2.81	7.91	-2.42	1.11	1.36	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	-1.02	-6.99	1.85	0.40	-6.68	-4.73	-8.90
2006	1.82	0.42	3.79	0.34	-4.04	0.24	-0.77	1.57	0.13	2.72	0.99	2.62	10.04
2005	2.83	2.05	0.00	-0.14	1.04	1.37	2.63	4.15	6.71	1.31	2.39	4.30	32.45
2004	-0.33	1.22	7.01	0.23	-1.20	3.95	-2.34	4.03	0.82	-1.55	1.65	1.92	16.12
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	-1.59	-1.39	2.04	-4.47	-3.65	-0.44	-1.42
2001	-2.34	3.13	1.36	8.47	-2.14	3.96	-3.09	1.49	-3.58	1.77	-3.89	-5.46	-1.22
2000	-0.32	12.76	8.99	-1.53	2.45	11.82	-9.05	4.53	-0.37	0.90	-0.18	-3.86	26.75
1999												0.58	0.58

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