Monthly Performance % - *as at 30 January 2015*

	NAV	January	YTD	AUM
A$ Series 1	A$11.81	-3.51%	-3.51%	A$22M

The 10 year JGB yield ended 2014 at 0.30% and by January 19th, had slid further to reach 0.19%. Bond investors in many developed markets were doing surprisingly well through January as Swiss 10 year yields went from 0.3% to *minus* 0.3%, German yields dropped from 0.545 to 0.3% and US & UK bond prices soared too. The Japanese bank index had fallen 6.8% by the close on Jan 19th but as JGB yields rose, bank shares rallied into month-end. For the month of January, Topix banks ended 4.2% lower but with the JGB yield still climbing (now at 0.41%), so too have the banks which are up by 10% for February month-to-date. We have written ad nauseum on banks, and why we own them, and warn readers to stop now if they have had enough as we feel we need to address this subject once more.

Bears – or at least sceptics – of the banks story in Japan generally hold the view that loan growth is non-existent and/or that the global regulatory environment will force banks to keep building reserves to ensure they are better able to withstand a credit collapse such as we saw in 2008. Banks have few champions and are universally unpopular, so this theory is certainly plausible, but we do believe it is true for Japan.

As to loans growth, the numbers are very healthy, and the diversification into overseas markets is paying off. In the December quarter, overseas loans – which now account for between 25-30% of the big three banks' loan books – grew by 25.1%. A good part of this growth is due to Yen weakness, but local currency-based growth is also healthy. Overall loan growth amongst the largest five Japanese banks was 6.6% - higher than loan growth in the US and Europe - with domestic lending up 2.7% overall, albeit with a lower growth rate at the majors. This growth comes in a quarter when GDP growth was modest and consumption still suffering post the consumption tax hike so we would expect demand from the private sector to improve in 2016.

On the regulatory capital side, Japanese banks have been strengthening their capital base since the early 2000s and are well ahead of the current required levels. SMFG – the second largest Japanese bank by market cap and assets – is one of our largest positions, and in its recent filings for the December 2014 quarter, reported their Tier 1 capital ratio at 12.87% with a common equity tier 1 ratio of 11.17%. Investors have been frustrated by SMFG's failure to announce a share buy-back and the stock has underperformed its larger rival MUFJ which announced its first buy-back in November last year. They have increased their forecast dividend for FY2015, but as this only brings their payout ratio to 25%, we believe there is a good chance that they will announce a buy back when they release their full year results in mid-May.

Tourism into Japan continues to set new records with January's in-bound tourist numbers up 29% year-on-year. Chinese government officials might not like Japan, but Chinese tourists are pouring in, with January 2015 arrivals 45% more than in January 2014.

US private equity group Bain & Co have been more active in buy-outs in Japan than many, and have bought and subsequently sold Dominos Pizza Japan (unlisted) and Skylark (listed restaurant chain). In both instances, Bain have kept a 25% stake, and have done a good job installing better management. Last week they announced they had agreed to pay Y50bn to buy a privately owned company running resort hotels and bathhouses in Japan (called Oedo-Onsen Holdings) with the article stating that they were "betting on its ability to profit from a rising tide of foreigners visiting the country". We don't have the financial details to judge whether this is a good buy for Bain or not, but are certain that they are fishing in the right spots. We have arranged to meet with Bain representatives when we are in Tokyo at the start of March and look forward to hearing about what they have bought, and what their thoughts are on the opportunities in this area.

It is not just inbound flows that have made the news this month, however, as we have seen two purchases announced by Japanese companies in the logistics business in Asia-Pacific. First deal announced was the purchase of APL Logistics (Singapore) - a subsidiary of shipper Neptune Orient Lines – for $1.2bn, an amount almost as big as Kintetsu World Express's own market cap.

The second deal was more intriguing. Japan Post, a corporation owned solely by the Japanese government but scheduled to IPO later this year, has announced a surprise bid for Australian-listed Toll Holdings. Toll is a logistics business with a sizeable presence in Asia and the bid values Toll at just over US$5bn and at a 48% premium to the price prior to the announcement. In the APL acquisition, Kintetsu World seems to have paid a very hefty valuation, while Japan Post is valuing Toll at around 10 times EV/EBITDA. With over $1.5tn in assets, and a great part of this in JGBs, Japan Post can afford to spend $5bn in an attempt to diversify and buy some growth potential. The real significance of the deal lies in the symbolism of Japan Post looking to buy risk-assets, and a foreign operating business to boot. The government has succeeded in getting the GPIF - and other public pension funds – to shift their asset allocation benchmark away from bonds and towards equities, and this move by Japan Post is a surprise first step along the same path.

There is a lot happening in corporate Japan these days as profit margins move higher and risk appetite returns. We are excited by these recent shifts in asset prices and behaviour and see it as early days in a very long process towards a more aggressive approach to asset allocation and business objectives. It is a good time to be buying Japanese assets.

We have held large positions in the financials over the past year or more and until recently this has been a painful position to hold. Today, the Nikkei Index has reached its highest level since September 2000. The Topix index – a more representative index with a greater weight in financials – still needs to climb 22% to reach its post Bubble high from March 2007. Putting the underperformance – and upside potential – of the Japanese banking sector into perspective, the Topix Banks index would have to rise by 144% to get back to the levels it reached in June 2006. We stay long.

SYDNEY: Level 5, Wyoming, 175 Macquarie St, Sydney NSW 2000 **Phone:** 61 2 8239 3300 **Fax:** 61 2 8239 3333 **Email:** optimal@optimalasia.com

Recent 3 month Fund Exposure			
% of NAV in	**Nov 14**	**Dec 14**	**Jan 15**
Long Stock Positions	87.25	93.24	95.39
Short Stock Positions	-5.73	-2.13	-
Index Futures	-10.51	-10.93	-33.34
Equity Derivatives	-	-	-
Net Exposure	71.01	80.18	62.05

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	29.07%	49.80%
Shorts	-	-
Total no. of positions	30	

Top Five Positions
Sumitomo Mitsui Financial Group Inc
Mitsubishi UFJ Financial Group Inc
Mitsubishi Electric Corp
Mitsubishi Estate Co Ltd
Nomura Holdings Inc

Winners
H.I.S. Co Ltd
Japan Airlines Co Ltd
Isuzu Motors Ltd
Sony Corp
Nippon Television Network Corp

Losers
Nikkei Index Futures (short)
Sumitomo Mitsui Financial Group Inc
Komatsu Ltd
ORIX Corp
Mitsubishi Estate Co Ltd

Sector Exposure *as at 30 January 2015*			
	Longs	**Shorts**	**Net**
Consumer Discretionary	20.01%	-	20.01%
Consumer Non-Discretionary	-	-	-
Energy	3.20%	-	3.20%
Financials	33.99%	-	33.99%
Futures	-	-33.34%	-33.34%
Health Care	2.56%	-	2.56%
Industrials	27.78%	-	27.78%
Information Technology	7.85%	-	7.85%
Materials	-	-	-
Telecommunications	-	-	-

Performance Contribution	Longs	Shorts	Futures	Other	FX Forwards	Total
January 2015	-1.71%	-0.19%	-0.94%	1.69%	-2.36%	-3.51%

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Historical Returns – Distribution Reinvested

Optimal Japan Trust Net Monthly Returns in AUD %

Annual Distributions

Year to Jun 00	***Year to Jun 01***	***Year to Jun 02***	***Year to Jun 04***
A$1.4158	*A$0.8989*	*A$0.8983*	*A$0.4713*
Year to Jun 05	***Year to Jun 06***	***Year to Jun 07***	***Year to Jun 14***
A$1.4218	*A$1.2446*	*A$2.4179*	*A$2.8013*

Series 1 (Inception August 2002)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2015	-3.51												-3.51
2014	-5.91	-2.71	0.37	-1.68	3.12	4.40	0.22	-1.02	1.90	-0.08	2.37	1.32	1.87
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	-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	1.32	0.13	2.10	0.77	2.49	8.73
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)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2015	-3.52												-3.52
2014	-5.74	-2.71	0.35	-1.66	3.10	4.44	0.14	-0.96	1.86	-0.08	2.46	1.24	2.03
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	-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

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