MONTHLY REPORT TO SHAREHOLDERS OF OPTIMAL JAPAN TRUST

Optimal FUND MANAGEMENT

Monthly Performance % - *as at 31 January 2017*	NAV	January	YTD	AUM
A$ Series 1	A$11.378	0.41%	0.41%	A$10M

Soon after arrival in Japan, first time travelers are invariably surprised to find that the ATMs of the major banks will not accept their Cirrus or Plus debit cards and will not allow them to withdraw any Yen cash. They soon come to depend upon the ATMs of Seven Bank which are found in all 7-11 convenience stores and at many subway stations. Less numerous, but similarly effective, are the cash machines inside Japan Post Bank, but unless you can get to one of these, you are more or less stranded for cash.

After New Year, we traveled to Cuba with mild forebodings stemming from stories of the dual currencies for locals and visitors and warnings about decrepit bank infrastructure and avoiding the use of cards with any links to the USA. It seemed that even travelers cheques would not be accepted. As it turned out, there was an ATM next to the money change office at Jose Marti International Airport in Havana and it accepted my Australian debit card and gave me CUCS (convertible pesos for tourists) and a receipt. In turned out that Cuba's ATMs had no problem accepting Cirrus & Plus cards and while often situated in unlikely settings and with dimly illuminated screens at night time, they all performed the task required. In this regard at least, one of the world's last officially communist countries is more foreign-traveler friendly than Mr Abe's Japan where tourist numbers are soaring year by year.

The contrasting experience with ATMs in Japan and Cuba is a tale of Japan more generally. While a source of frustration, part of Japan's appeal lies in the idiosyncratic way in which certain things are done – or not done in this case- but while Cuba struggles with poverty and shortages, Japan has the tools and wherewithal to remedy these problems. In the case of ATMs, there is good news. Just as investors see improving corporate governance in listed companies in Japan, foreign visitors will soon find that the ATMs of the major banks (MUFJ, SMBC and Mizuho) will accept their cards and they can drain their home bank accounts of cash with the same ease they enjoy while on other foreign jaunts.

After a welcome strong finish to the year, Japanese stocks had a muted start to 2017 and sectoral performance painted quite a mixed picture. Real Estate, after a recovery in the latter half of 2016, was one of the bottom sectors, but was joined in the cellar by drugs and food, while shipping, steel, chemicals and machinery all outperformed. The last half of 2016 saw a dramatic reversal in the success of investment styles that had worked well for much of the previous seven years. Whether it is termed "quality vs economic sensitives", "expensive defensives vs cyclicals" or "growth vs value" , the huge disparity in performance, and ultimately to valuations, narrowed dramatically post July when bond yields bottomed. For some managers, this would have left them desperate to get 2016 behind them, but for others – and we fall into this camp – the second half of the year was a lot better than what had come before.

In essence, our unwillingness to own the "quality/ defensive/ growth" stocks comes down to two points. The first is that we felt that the economic pessimism implicit in bond markets and in general economic and financial commentary was increasingly at odds with data that was signaling recoveries in many developed economies. Growth, and by extension, corporate profits would surprise on the upside. The second is that the valuations of these stocks were ludicrous. It is one thing to see expensive high quality companies continue to soar, but quite another when companies of only moderate profitability and RoEs lead the market. The valuation gap has narrowed as the "quality/defensives" pull back, but we remain largely unimpressed with the group at current prices.

The Bank of Japan has left monetary policy unchanged at its month-end meeting and if anything has not quelled conjecture that policy would tighten this year. We think it is highly unlikely that there will be any rate rises in 2017, but it is even more unlikely that there will be further quantitative easing. Like it or not, there is so much correlation amongst the world's leading economies that tighter monetary policy and a steeper yield curve in the USA will no doubt influence other central banks and we expect Japanese long yields to be higher at year-end than they are now. Economic conditions in Japan are hardly going to hold a candle to those in India, but recent economic releases have been overwhelmingly positive. In the jobs market, the Offers-to-Applicants ratio has hit 1.43 (a high since the Bubble) and both male and female employment has risen strongly in the past year. The BoJ has increased its forecasts for both 2017 and 2018 real GDP - admittedly the levels are modest at 1.5 and 1.1% respectively - but if their CPI targets of 1.5 and 1.6% are accurate, Japan's nominal GDP growth will make 10 Yr JGB yields of 0.1% look even more improbable.

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Recent 3 month Fund Exposure

% of NAV in	Nov 16	Dec 16	Jan 17
Long Stock Positions	89.28	81.32	68.24
Short Stock Positions	-9.33	-9.24	-11.11
Index Futures	-17.20	-17.31	-12.70
Index Options	-	-	-
Net Exposure	62.75	54.77	44.43

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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	24.22%	41.25%
Shorts	-11.11%	-
Total no. of positions	31	

Top Five Positions

- Mitsubishi UFJ Financial Group Inc
- Mitsubishi Estate Co Ltd
- H.I.S. Co Ltd
- Hitachi Ltd
- Panasonic Corp

Winners

- Baroque Japan Ltd
- Kyoritsu Maintenance Co Ltd
- DMG Mori Co Ltd
- Japan Airlines Co Ltd
- Temp Holdings Co Ltd

Losers

- Mitsubishi Estate Co Ltd
- Izumi Co Ltd
- Sekisui House Ltd
- Nishio Rent All Co Ltd
- Zojirushi Corp

Sector Exposure *as at 31 January 2017*

	Longs	Shorts	Net
Consumer Discretionary	29.88%	-	29.88%
Consumer Non-Discretionary	0.57%	-	0.57%
Energy	-	-	-
Financials	14.69%	-2.36%	12.33%
Futures	-	-12.70%	-12.70%
Health Care	-	-2.13%	-2.13%
Industrials	12.35%	-2.76%	9.59%
Information Technology	5.46%	-3.86%	1.60%
Materials	5.29%	-	5.29%
Telecommunications	-	-	-

Performance Contribution	Longs	Shorts	Futures	Other	FX Forwards	Total
January 2017	0.39%	-0.09%	0.03%	-1.12%	1.20%	0.41%

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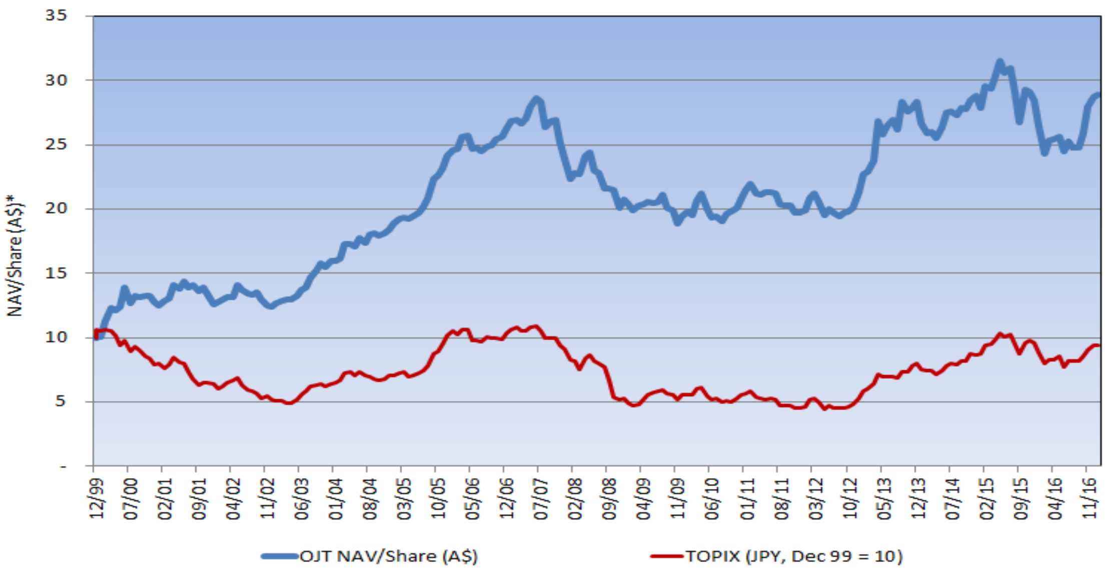
Portfolio Performance as of *31 January 2017*



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

Historical Returns – Distribution Reinvested

Optimal Japan Trust Net Monthly Returns in AUD %

Annual Distributions

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)													
2017	0.41												0.41
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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