

Monthly Performance % - as at 30 June 2015

|              | NAV      | June   | YTD   | AUM    |
|--------------|----------|--------|-------|--------|
| A\$ Series 1 | A\$13.00 | -2.69% | 6.21% | A\$22M |

If only we had not celebrated a great month in May and just kept our heads down. I know Greece, China and other real life dramas are probably to blame, but knowing as we do that cause and effect are almost impossible to determine in equity markets, and being superstitious by nature, we can't help feeling that the Gods of equities markets took offence at the hubristic tone of last month's letter. The month was hardly a disaster but a Topix fall of 2.58% (with the banks index -3.15%) took some of the shine off what has generally been a good first half of 2015.

Greece is a small economy and has little trade with Asia. China is the polar opposite. China is the biggest trading partner for most countries in the Asia Pacific area so economic problems in China do matter to Japan. A quick glance at the worst performing Topix sectors in June shows economic cyclicals were punished in June, with tires, steel, shipping, auto and electricals all falling more than 5%. While economy sensitive sectors were hit hard last month, bond yields in the major economies were generally stable and not consistent with the sell-off in cyclicals. Equity investors are often reminded that the bond market is the better indicator of future trends in the economy so perhaps the current sell-off in equities will be seen as a flight of fancy spooked by China's incredible market melt-up/down and that stability - and buyers - will return soon.

There were not a lot of major news events in June but there was a lot of talk about cross-shareholdings and the desirability of these being unwound. Given the introduction of the Japanese Corporate Governance Code on June 1<sup>st</sup>, it was unsurprising that there was a lot of focus on corporate shareholdings, with both Mizuho Holdings and Sumitomo Mitsui Financial Group making statements indicating they would be cutting back on their equity holdings. While this is a positive in itself as it will reduce their capital adequacy base's sensitivity to equity market crashes, we are more interested in what they would do with the proceeds. The major banks continue to look for overseas acquisitions of lending businesses (usually by way of divestments from European banks or industrial conglomerates focusing on their "core" business) but we would be happier to see them increasing their

dividends or buying back their shares. We'd even be happy to see them pay their employees more, which is likely to happen anyway given the multi-decade highs in indicators of jobs market tightness. Wages and bonuses are increasing but it is certainly not at an explosive pace. The message is taking some time to filter through but with the job market as tight as it is, and with an ageing population, we would bet that the rate of increase will accelerate.

While banks were weak in June, the stocks that hurt us most were Sony, Mitsubishi Electric and our two big real estate developers. Sony shocked the market at the end of the month by announcing a capital raising of over JPY450bn, with the proceeds earmarked in the main for R&D and expansion of the profitable CMOS sensor production capacity. It caused the shares to fall almost 10% on June 30<sup>th</sup> and apart from the dilution due to the new shares and CB, it also diluted the sense of optimism that had been building steadily about the resurgence of Sony as a company and an investment. Year to date, Sony has been a top 5 contributor to the Fund's return, but a part of that contribution has been eroded by this questionable capital raising. Japan's path to better corporate governance is clearly laid out ahead, but the propensity to score own-goals remains an unfortunate reality.

***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](mailto:shinobu.takano@optimalasia.com).***

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### Recent 3 month Fund Exposure

| % of NAV in           | Apr 15 | May 15 | June 15 |
|-----------------------|--------|--------|---------|
| Long Stock Positions  | 101.98 | 104.01 | 103.90  |
| Short Stock Positions | -11.63 | -10.84 | -9.00   |
| Index Futures         | -24.45 | -25.42 | -18.60  |
| Index Options         | -      | -      | -       |
| Net Exposure          | 65.90  | 67.75  | 76.30   |

### Position Concentration

|                        | Top 5  | Top 10 |
|------------------------|--------|--------|
| Longs                  | 30.30% | 54.26% |
| Shorts                 | -9.00% | -      |
| Total no. of positions | 34     |        |

### Winners (Qtr)

Sumitomo Mitsui Financial Group Inc  
Mitsubishi UFJ Financial Group Inc  
Mori Seiki Co Ltd  
Nomura Holdings Inc  
Mitsubishi Electric Corp

### Performance Statistics

|                                     |        |
|-------------------------------------|--------|
| Last 12 Months                      | 11.26% |
| 3 Yr Annualised Return              | 14.45% |
| 5 Yr Annualised Return              | 9.21%  |
| Annualised Return Since Inception * | 6.25%  |
| * Initial Series Used               |        |

### Top Five Positions

Mitsubishi Estate Co Ltd  
Sumitomo Mitsui Financial Group Inc  
Nomura Holdings Inc  
Mitsubishi Electric Corp  
Mizuho Financial Group Inc

### Losers (Qtr)

Nikkei Index Futures (short)  
Toshiba Corp  
Mitsui OSK Lines Ltd  
Nisshin Seifun Group Inc (short)  
Mitsubishi Estate Co Ltd

### Sector Exposure as at 30 June 2015

|                        | Longs   | Shorts  | Net     |
|------------------------|---------|---------|---------|
| Consumer Discretionary | 13.73%  | -       | 13.73%  |
| Consumer Non-Disc      | -       | -2.75%  | -2.75%  |
| Energy                 | -       | -       | -       |
| Financials             | 43.66%  | -       | 43.66%  |
| Health Care            | -       | -2.57%  | -2.57%  |
| Industrials            | 35.05%  | -3.68%  | 31.37%  |
| Information Technology | 11.46%  | -       | 11.46%  |
| Materials              | -       | -       | -       |
| Telecommunications     | -       | -       | -       |
| Total Equity           | 103.90% | -9.00%  | 94.90%  |
| Futures                | -       | -18.60% | -18.60% |
| Net Exposure           | 103.90% | -27.60% | 76.30%  |

### June Qtr Sector Performance – P&L

|                        | Longs  | Shorts | Total  |
|------------------------|--------|--------|--------|
| Consumer Discretionary | 0.70%  | -0.13% | 0.57%  |
| Consumer Non-Disc      | -      | -0.51% | -0.51% |
| Energy                 | -      | -      | -      |
| Financials             | 4.10%  | -      | 4.10%  |
| Health Care            | -0.03% | 0.03%  | 0.00%  |
| Industrials            | 1.84%  | 0.24%  | 2.08%  |
| Information Technology | 0.16%  | -      | 0.16%  |
| Materials              | -      | -      | -      |
| Telecommunications     | -      | -      | -      |
| Futures/Options        | -      | -1.35% | -1.35% |
|                        | 6.77%  | -1.72% | 5.05%  |
| FX Forwards            | -      | -      | 1.27%  |
| FX and Other           | -      | -      | -2.07% |
| Total                  | -      | -      | 4.25%  |

### Performance Contribution

|           | Longs  | Shorts | Futures | FX Forwards | Other | Total  |
|-----------|--------|--------|---------|-------------|-------|--------|
| June 2015 | -3.79% | 0.09%  | 0.43%   | -0.40%      | 0.98% | -2.69% |

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**Historical Returns – Distribution Reinvested**

**Annual Distributions**

*Optimal Japan Trust Net Monthly Returns in AUD %*

|                                    |                                    |                                    |                                    |
|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| <b>Year to Jun 00</b><br>A\$1.4158 | <b>Year to Jun 01</b><br>A\$0.8989 | <b>Year to Jun 02</b><br>A\$0.8983 | <b>Year to Jun 04</b><br>A\$0.4713 |
| <b>Year to Jun 05</b><br>A\$1.4218 | <b>Year to Jun 06</b><br>A\$1.2446 | <b>Year to Jun 07</b><br>A\$2.4179 | <b>Year to Jun 14</b><br>A\$2.8013 |

| Year                                    | Jan   | Feb   | Mar   | Apr   | May   | Jun   | Jul   | Aug   | Sep   | Oct   | Nov   | Dec   | YTD    |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| <b>Series 1 (Inception August 2002)</b> |       |       |       |       |       |       |       |       |       |       |       |       |        |
| 2015                                    | -3.51 | 6.35  | -0.72 | 3.61  | 3.41  | -2.69 |       |       |       |       |       |       | 6.21   |
| 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)**

|      |       |       |       |       |       |       |       |       |       |       |       |       |        |
|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| 2015 | -3.52 | 7.22  | -1.04 | 4.71  | 3.35  | -2.69 |       |       |       |       |       |       | 7.80   |
| 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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