

**Monthly Performance % - as at 30 June 2016**

	<b>NAV</b>	<b>June</b>	<b>YTD</b>	<b>AUM</b>
A\$ Series 1	A\$10.184	-4.38%	-13.90%	A\$10M

Maybe markets really do care about politics. First we had Brexit and the violent moves in the Asian markets on June 24<sup>th</sup> when the result became known. Japan sold off more than any of the markets, and then failed to bounce with any conviction and on July 8<sup>th</sup> - last Friday - had closed within half of one percent of its closing lows on June 24<sup>th</sup>. There had been no economic or policy news that could explain the weakness after Brexit other than the fact that the Yen strengthened along with other purported “safe haven” assets. Back at Y100/\$ on July 8<sup>th</sup>, the Yen’s gain of almost 20% against the dollar since December 2015 was threatening to sink any reflationary hopes that Mr Kuroda had held out for.

Then politics resurfaced, this time in the guise of Japan’s Upper House election on Sunday July 10<sup>th</sup>, which gave Mr Abe’s LDP and its coalition members a solid victory and a super majority (more than two thirds) of the seats in both houses of the Diet. This is allegedly important.

There had been almost no comment on the election leading up to the vote, and little acclaim once results were in on the night of July 10<sup>th</sup>, but Japanese equities have shot up and are now almost back to their pre-Brexit level. With the Yen at Y103 and change, the unhedged Topix index in USD is indeed higher than it was before the UK’s leave decision. If politics has shown it matters, currency movements have shown that they too cannot be ignored.

Mr Abe’s keen political instincts cannot be underestimated and with the equity market down 20% and the Yen near 100/\$, he needed to provide some adrenalin to the ailing patient. With the super majority now in hand he has announced that a significant fiscal stimulus will be detailed very soon and financed presumably by JGB issuance at negative rates. In the current world of scepticism towards central banks and more monetary easing, this move will be welcomed and we suspect there will be nary a squeak about Japan’s debt/GDP level. That would be quite a change from pre-Abe and pre-NIRP days.

June was a brutal month in Japanese equities and particularly for financials and economic sensitives. The best performing Topix sector was pharmaceuticals with a fall of 4.5% while all four financial sectors fell by between 15.8 and 20.1%. Eighteen out of the 33 Topix sectors suffered double digit declines and our portfolio was hurt by our holdings in industrials and financials. DMG Mori (a leading machine tool maker formed by the merger of Japan’s and Germany’s best) fell 29% and is priced on a price to cashflow ratio of 3.75, a PER of 9x and a PBR of 0.8x. Kasai Kogyo – an auto parts maker we revisited a month ago – fell 25% and is even cheaper on an EV/EBITDA of 2.3x and a PER of 4.3x. In July so far, DMG is up 8% while Kasai is up 5%. There is a lot of ground to make up.

We have been here before – in fact too many times for anyone’s liking – and the last time we faced so many bargains and sentiment was so pessimistic was in late 2012 before Mr Abe reappeared with Abenomics. Like then, foreigners have been recent net sellers of Japanese equities. While it is true that on various fronts, progress in Japan has been disappointing, there are other areas where improvement is obvious and the most important of these is in corporate governance. Boards are changing and shareholder interests are being observed, and served, better than they were four years ago. Many companies still have abject corporate governance practices, but many former miscreants are changing for the better. We will continue to focus on these prodigal companies while avoiding the unreformed.

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### Recent 3 month Fund Exposure

% of NAV in	Apr 16	May 16	Jun 16
Long Stock Positions	92.68	92.92	87.35
Short Stock Positions	-7.48	-3.21	-3.19
Index Futures	-61.50	-64.56	-64.36
Index Options	-	-	-
Net Exposure	23.70	25.15	19.80

### Position Concentration

	Top 5	Top 10
Longs	28.73%	48.50%
Shorts	-3.19%	-
Total no. of positions	29	

### Winners (Qtr)

Nikkei Index Futures (short)  
Open House Co Ltd  
JFE Holdings Inc (short)  
Japan Post Bank Co.,Ltd (short)  
Nihon Chouzai Co Ltd

### Performance Statistics

Last 12 Months	-20.04%
3 Yr Annualised Return	-2.56%
5 Yr Annualised Return	2.81%
Annualised Return Since Inception *	5.55%
* Initial Series Used	

### Top Five Positions

Mitsubishi Estate Co Ltd  
Mitsubishi UFJ Financial Group Inc  
Japan Airlines Co Ltd  
Mitsubishi Electric Corp  
Komatsu Ltd

### Losers (Qtr)

Mitsubishi Estate Co Ltd  
Nishio Rent All Co Ltd  
Hitachi Ltd  
Japan Airlines Co Ltd  
Mitsubishi UFJ Financial Group Inc

### Sector Exposure as at 30 June 2016

	Longs	Shorts	Net
Consumer Discretionary	26.14%	-	26.14%
Consumer Non-Disc	1.53%	-	1.53%
Energy	-	-	-
Financials	20.52%	-3.19%	17.33%
Health Care	-	-	-
Industrials	33.39%	-	33.39%
Information Technology	5.77%	-	5.77%
Materials	-	-	-
Telecommunications	-	-	-
Total Equity	87.35%	-3.19%	84.16%
Futures	-	-64.36%	-64.36%
Net Exposure	87.35%	-67.55%	19.80%

### June Qtr Sector Performance – P&L

	Longs	Shorts	Total
Consumer Discretionary	-2.48%	-	-2.48%
Consumer Non-Disc	0.32%	-	0.32%
Energy	-	-	-
Financials	-2.53%	0.42%	-2.11%
Health Care	-	-	-
Industrials	-3.47%	0.19%	-3.28%
Information Technology	-1.28%	0.17%	-1.11%
Materials	-	0.61%	0.61%
Telecommunications	-	-	-
Futures	-	3.62%	3.62%
	-9.44%	5.01%	-4.43%
FX Forwards	-	-	-11.04%
FX and Other	-	-	11.97%
Total	-	-	-3.50%

Performance Contribution	Longs	Shorts	Futures	FX Forwards	Other	Total
June 2016	-11.05%	0.30%	6.32%	-4.66%	4.71%	-4.38%

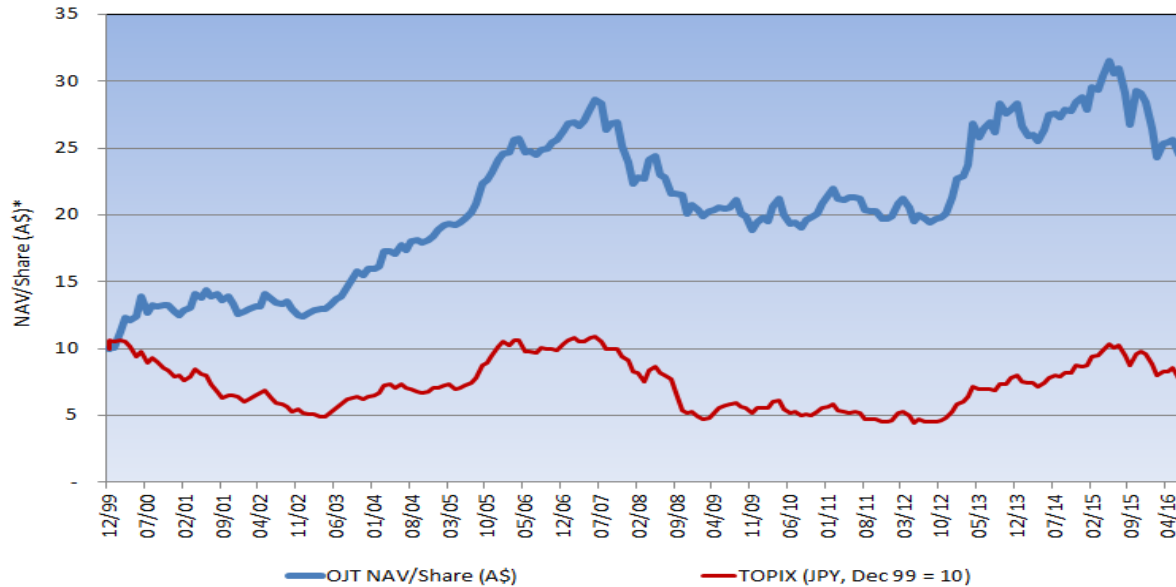
## Optimal FUND MANAGEMENT

Should you wish to make an enquiry about the Optimal Japan Trust, please see our website [www.optimalasia.com](http://www.optimalasia.com) or contact us by email at [optimal@optimalasia.com](mailto:optimal@optimalasia.com).

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**Portfolio Performance as of 30 June 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**

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

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>Series 1 (Inception August 2002)</b>													
2016	-6.82	-8.23	4.34	0.12	0.80	-4.38							-13.90
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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