

Monthly Performance % - as at 30 November 2016

	NAV	November	YTD	AUM
A\$ Series 1	A\$11.011	7.73%	-1.78%	A\$10M

The political events of 2016 have eroded our trust in the forecasts and analysis of the self-proclaimed experts in the media. The vast majority were spectacularly wrong in both the Brexit poll and the US Presidential election, while in the sporting world, it has been a year for upsets and underdogs. In the northern hemisphere, Leicester City won the EPL (soccer) championship while in US baseball's "World Series", the Chicago Cubs broke a drought that had lasted well over a century. In Australia, where we sit, the Aussie Rules football championship was won by Footscray – who had won it only once before in 1954 – while in the Australian Rugby League, the Cronulla Sharks won the pennant for the first time since they entered the competition over 50 years ago.

Now to crown this year of upsets, we are having to throw away years of believing that Japan's nominal GDP had not risen – indeed had fallen – since 1997, as yesterday's release of Q3 GDP statistics has restated the numbers to show that as at September 2016, Japan's nominal GDP had reached JPY 537.3tn and had thus eclipsed the previous peak of 536.6tn at the end of 1997. In doing so, the Japanese Cabinet office has switched to the 2008SNA's latest standard in measuring national economies, and in addition, has recalculated capex to include R&D expenditure. Who knows? In any event, it does make Mr Abe's targeted nominal GDP of Y600tn look a bit more achievable than when we thought nominal GDP was only Y500tn. Since the 4th quarter of 2012 when Mr Abe became Prime Minister (again), Japan's real GDP has grown by 5.1%, whereas we had been told that it was only up by 3.3%. Not too bad at all in the scheme of things.

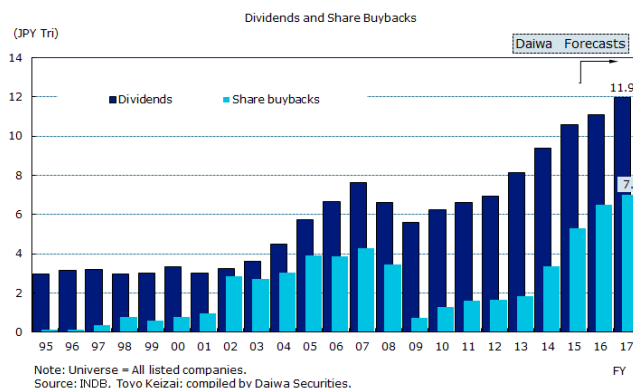
It really just goes to show that economic analysis and forecasting is a very imprecise exercise, and what had seemed to us from anecdotal evidence and our own experience to be a tangible improvement in the economy, was in fact more accurate than the previous figures had described. We remain wary of the experts' opinion.

Much more easily measurable – and certainly more tangible - has been the rise in Japanese equities over the past couple of months. In November, the Topix index rose by 5.5%, although with Yen weakness, the USD return was -2.7%. The switch from "expensive defensives" to financials and cyclicals continued with the steel sector joining banks, insurance, real estate and brokers in the top five for the month. Despite the gains over the past few months, real estate and banks continue to lag the market year-to-date, but as yield curves steepen around the world, this might not be the case for long.

Interestingly, courtesy of the BoJ, the Japanese mega banks have off-loaded as many JGBs as they can and now only hold a relatively small portion of their assets in government bonds – mainly used as collateral. The regional banks by contrast are remaining steadfast holders of JGBs, which might explain why they have underperformed the three mega banks since mid-year when yields bottomed out.

The rise in the mega banks' share prices since early July has been impressive (up by between 55-72%) but the banks only trade at 0.7x book value and carry dividend yields of 3% or more. In addition to the rising dividends, MUFJ (our largest position) has bought back stock and will almost certainly continue to do so in the years to come. It is representative of an impressive trend in share buy-backs which has become a significant source of demand for Japanese equities in the past few years.

While investors and financial correspondents continue to bemoan the perceived slow pace of reform under "Abenomics", one area of progress has been the increasing focus of Japan Inc on corporate governance. Evidence of this can be found through the value of implemented share buybacks totalling just under Y4.9trn through the end of October of this year, a substantial increase of more than 50% compared to 2014. The increased opportunity cost of holding excess cash on the balance sheet as well as responding to shareholder demands - remember that the giant GPIF pension fund is now a major shareholder - is certainly driving this heightened activity. The chart below puts this increase into perspective. With a Topix index market cap of Y355tn, the Y7tn in buy-backs forecast for 2017 shows just how significant this source of equity buying is.



Even more encouraging, and arguably equally important in a very competitive domestic market, is the continued rise in M&A activity which had reached just over Y9trn by the end of October, up 6% versus 2015. Some investors express dissatisfaction that these have all been friendly deals (Toyota for Daihatsu, Nippon Steel for Nisshin Steel, merger of Coca-Cola West & Coca-Cola East, the shippers' container operations alliance) but given the patchy record of hostile takeovers in adding corporate value, we are less worried by the friendly approach taken by Japanese companies.

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Optimal FUND MANAGEMENT

Recent 3 month Fund Exposure

% of NAV in	Sep 16	Oct 16	Nov 16
Long Stock Positions	86.35	96.11	89.28
Short Stock Positions	-6.22	-6.47	-9.33
Index Futures	-28.77	-18.49	-17.20
Index Options	-	-	-
Net Exposure	51.36	71.15	62.75

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	31.70%	53.22%
Shorts	-9.33%	-
Total no. of positions	28	

Top Five Positions

Mitsubishi UFJ Financial Group Inc
Mitsubishi Estate Co Ltd
H.I.S. Co Ltd
Nippon Steel & Sumitomo Metal Corp
Hitachi Ltd

Winners

Mitsubishi UFJ Financial Group Inc
Nippon Steel & Sumitomo Metal Corp
Mitsubishi Estate Co Ltd
Open House Co Ltd
H.I.S. Co Ltd

Losers

Nikkei/Topix Index Futures (short)
Marubeni Corp (short)
Japan Post Bank Co Ltd (short)
Nishio Rent All Co Ltd
Trust Tech Inc

Sector Exposure as at 30 November 2016

	Longs	Shorts	Net
Consumer Discretionary	36.00%	-	36.00%
Consumer Non-Discretionary	2.54%	-	2.54%
Energy	-	-	-
Financials	24.71%	-3.04%	21.67%
Futures	-	-17.20%	-17.20%
Health Care	-	-2.99%	-2.99%
Industrials	16.22%	-3.30%	12.92%
Information Technology	4.85%	-	4.85%
Materials	4.96%	-	4.96%
Telecommunications	-	-	-

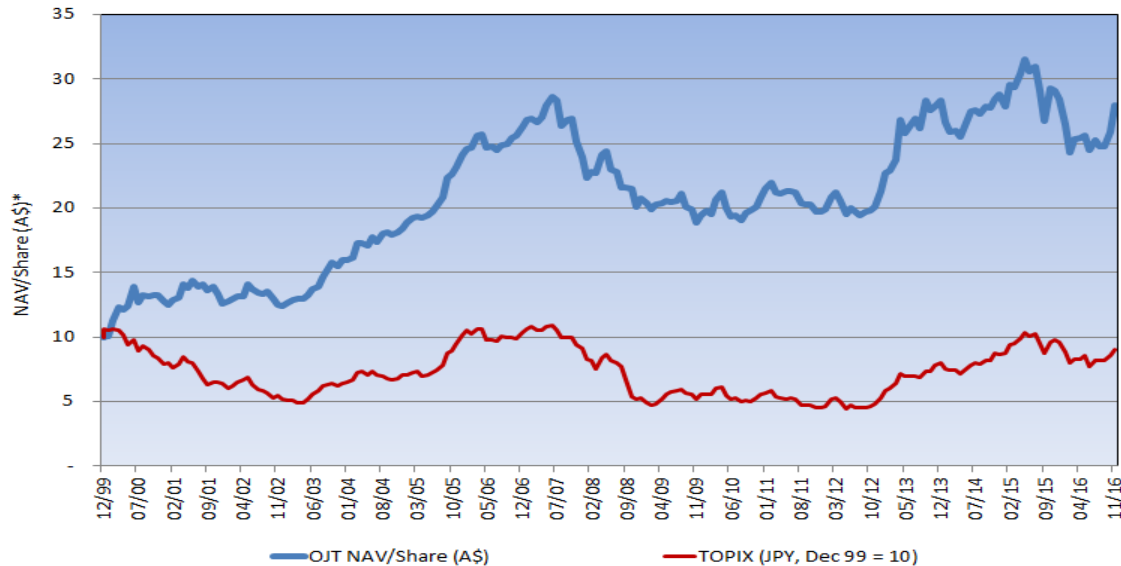
Performance Contribution	Longs	Shorts	Futures	Other	FX Forwards	Total
November 2016	9.01%	-0.64%	-0.90%	-4.78%	5.04%	7.73%

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Portfolio Performance as of 30 November 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

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)													
2016	-6.82	-8.23	4.34	0.12	0.80	-4.38	2.94	-1.87	0.07	4.76	7.73		-1.78
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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