

Monthly Performance % - as at 30 November 2017

	NAV	November	YTD	AUM
A\$ Series 1	A\$9.547	3.12%	14.82%	A\$6M

The Topix index rose in November for the third consecutive month and is up 11% since the end of August. In 2017, only two months have been negative which compares with 2016 when five months saw a fall and in two of these (January and June), the fall was more than 9%. Just looking at these is a painful reminder not to become complacent after a very good year to date.

While it has been a good year in Japanese equities, when one looks at the market returns from different styles and sectors, it is unsurprising that the results vary considerably. Of the bigger sectors, Electricals has been strong with a 34% return YTD, while Autos are up a mere 5%. Banks are up only 2% and Real Estate much the same. Oil Refiners, Chemicals, Machinery and Construction have all produced gains well in excess of Topix while all financial sectors have lagged.

The difference between growth and value is even more stark, with no end to the pain for value managers – however that is now defined.

In November, the MSCI Japan Growth index rose 2.2% while the value index was up 0.6%. Year to date, the figures are Growth up 20.5% and Value up 9.5% and over five years, the Growth index return beats that of Value by almost 40%. This dominance of growth investing over value has been relatively rare in Japan, at least up until the Lehman crisis, but the period since then has been tortuous for those holding value stocks. Of course, the composition of any index over time changes, and what now makes up the MSCI Value index would be vastly different to the sectors and stocks that it held 10, 20 or 30 years ago. Thirty years ago, in the halcyon period of Japan's asset bubble, it is unlikely that many financials would have been found in the Value half of the universe, while now, we would be surprised if

any financial stock of mid cap or greater was not in it.

We regard ourselves as value managers, in as much as we are wary of buying companies trading at large valuation premia and want to own stocks priced cheaply. Not every stock we own would fall into the Value index and within our current portfolio we do hold one company on a prospective PER of 20x and a few others in the high teens. These "expensive" names notwithstanding, the weighted average PER for the portfolio is just over 12x (FY18 estimate) with an RoE of 12% and a price-to-book ratio of 1.5x. These numbers would compare favourably with most portfolios regarded as value and yet we estimate earnings growth for the year ahead to be 20% overall. It does not happen often in equity markets, but in Japan at present, one can get one's cake, and eat it too.

We spent the last week visiting companies in Japan and this time had a mix of meetings with names we own or know well, and fresh names where we were looking for more than the sell side had provided, or where they were not covered at all (not uncommon these days). Most of the visits were positive and it has been striking to us just how much the mood of Japanese companies has improved in the past 12-18 months. There is still a lack of sophistication – or maybe indifference – when it comes to capital management and shareholder returns more generally, but little by little, the environment for profit-seeking investors is improving.

We are happy to go into detail about our recent visits, or the portfolio's holdings if any reader would like to hear more.

**DISCLAIMER:**

**Recent 3 month Fund Exposure**

% of NAV in	Sep 17	Oct 17	Nov 17
Long Stock Positions	84.18	102.28	102.66
Short Stock Positions	-4.12	-0.79	-0.93
Index Futures	-	-	-
Index Options	-	-	-
Net Exposure	80.06	101.49	101.73

**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).*

**Position Concentration**

	Top 5	Top 10
Longs	32.65%	57.04%
Shorts	-0.93%	-
Total no. of positions	26	

**Top Five Positions**

Mitsubishi UFJ Financial Group Inc  
Izumi Co Ltd  
Hitachi Ltd  
Kasai Kogyo Co Ltd  
Kyoritsu Maintenance Co Ltd

**Winners**

Kasai Kogyo Co Ltd  
Izumi Co Ltd  
Idemitsu Kosan Co Ltd  
Kyoritsu Maintenance Co Ltd  
Mitsubishi UFJ Financial Group Inc

**Losers**

Hitachi Ltd  
Pressance Corp  
Astellas Pharma Inc  
Nichii Gakkan Co Ltd (short)  
Hazama Ando Corp

**Sector Exposure as at 30 November 2017**

	Longs	Shorts	Net
Consumer Discretionary	35.69%	-	35.69%
Consumer Non-Discretionary	2.89%	-	2.89%
Energy	5.26%	-	5.26%
Financials	11.75%	-	11.75%
Futures	-	-	-
Health Care	3.38%	-0.93%	2.45%
Industrials	18.30%	-	18.30%
Information Technology	10.49%	-	10.49%
Materials	14.90%	-	14.90%
Telecommunications	-	-	-

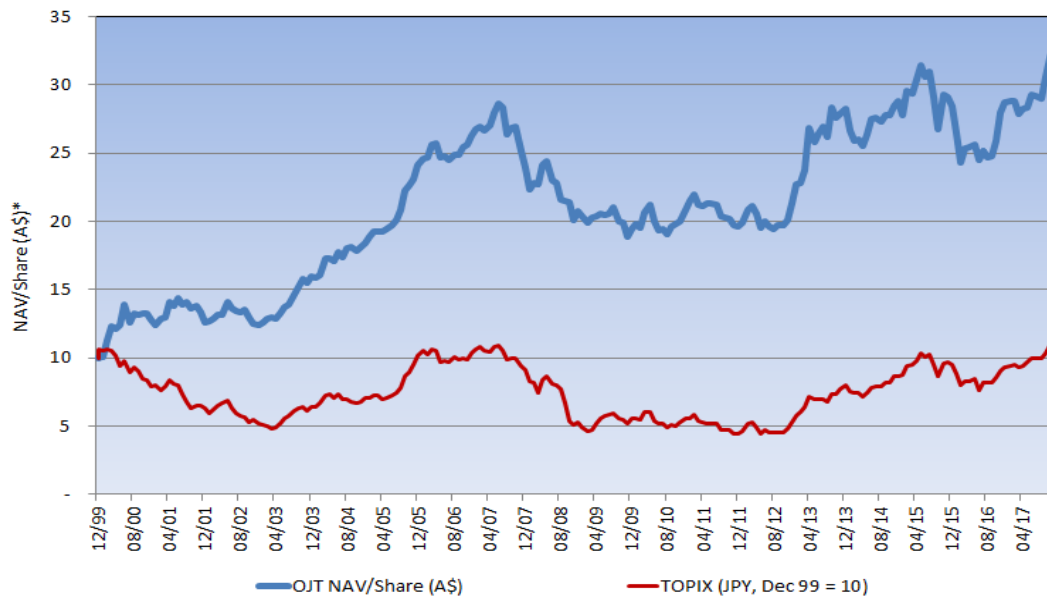
**Performance Contribution**

	Longs	Shorts	Futures	Other	FX Forwards	Total
November 2017	4.60%	-0.17%	-	1.06%	-2.37%	3.12%

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**Portfolio Performance as of 30 November 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**

<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	<i>Year to Jun 17</i> A\$3.0706	

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>Series 1 (Inception August 2002)</b>													
2017	0.41	-0.12	-3.13	1.31	0.22	3.19	-0.10	-0.69	5.44	4.56	3.12		14.82
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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