

Monthly Performance % - as at 30 September 2015

| | NAV | September | YTD | AUM |
|--------------|-----------|-----------|--------|--------|
| A\$ Series 1 | A\$11.131 | -7.96% | -7.18% | A\$11M |

The equity sell-off in Japan in August (Topix -7.4%) became even uglier in September with the Topix index falling 8.2% for the month. It had been worse than that however, as a strong rally on September 30th dragged the index back from a monthly decline of 10.5%. It left the market flat for the year (at that point) and wiped off the gains that had seen Topix up almost 18% as at the end of July.

It has been foreigners who have led the rush for the exit. Japanese individuals, investment trusts and trust banks (pensions) have all been net buyers over the past two months, but with over Y7trillion (US\$58bn) of indiscriminate and desperate selling from foreigners, the domestic buyers found their buy orders matched at steadily lower prices. With barely a global equity market in positive territory by September, and rising fear over policy impotence and China/emerging market woes, it would be almost inconceivable that Japan could stand immune, but the urgency and scale of the foreign selling was significant.

Leaving aside universal fears and concerns, we suspect that some of the selling by foreigners is due to a growing disappointment with Abenomics. Inflation has not reached 2%, wages are growing but the rate of growth is less than 1%pa and GDP for the September quarter might have contracted. Abe and his ministers continue to send an upbeat message to the world but indicators of economic strength and investor confidence are equivocal. For every positive indicator (jobs growth, property prices and rents and foreign tourist numbers) there is a countervailing negative one. We still have not had a significant merger of Japanese companies, let alone a take-over. Profit growth in listed companies remains strong, but RoE is barely increasing as companies – even well-capitalised ones – retain the vast majority of their profits rather than using them in other ways.

The effect of the hoarding of profits by Japanese companies is more than just an impediment to higher returns on equity. The failure to free up this unproductive cash into other areas of the economy leads to lower consumption and less consumer confidence, complacency in management and industry and is directly linked to the shortfall in tax revenue which leaves Japan with a significant Budget deficit. Although there are far fewer comments on Japan's public debt situation now than there were pre-Abe Mark II, debt continues to mount, albeit at a slower rate given the significant growth in the tax take over the past three years. We do not see the level of debt as a problem in itself, but if Japan wants to stabilise, and ultimately, reduce the level of national debt, its leaders will have to tackle the situation which permits companies to maintain their cash flow at the expense of employees, shareholders and ultimately, the nation.

A current thought-provoking critique of Japan by Charles Dumas of Lombard Street Research highlights the problem with Japan's cash hoarding, but we find it more interesting to examine why it is able to persist in spite of the government's urgings. Dumas writes "Lurking behind these financial realities is a corporate elite that is largely impervious to capital market discipline.....Corporate Japan's immunity to the outside is reinforced by ...the hierarchical and *deferential behaviour of the labour force*, enabling firms to preserve cash flow by cutting wages." (our italics). If the Japanese worker is simply too acquiescent and obedient, and companies continue to largely ignore the government's urgings to invest – or divest – their surplus cash, then we agree with Dumas that the most effective option will be for the government to use tax as both carrot and stick to bring about the desired change in behaviour. It bears close watching.

Our fund had a very poor month and, by extension, a bad quarter. While our large overweight position in financials was a big drag on performance, it was not the only – or even main – culprit. The Industrials sector was responsible for the largest losses in September as companies with sensitivity to global demand were sold off. Komatsu, Nidec, DMG Mori Seiki, Fanuc, Hitachi and Mitsubishi Electric were all weak, but are up by between 10-15% in October so far. In most cases, these companies are priced between very cheap and inexpensive, and are well managed with an eye to shareholder returns. It is more than can be said for many of the supposed "low vol, defensive" sectors such as food, pharma and retail which have led the market until very recently.

The Fund entered September with net exposure of 78% which reflected our optimism in the companies we own and the broader objectives of the government. For the month at least, that optimism was ill-placed. Current net exposure remains close to that level however, and that has held the Fund in good stead – month-to-date. We hope it remains so, but do intend to use any price weakness as opportunities to improve the quality and resilience of the companies in the fund. We are bullish on companies in Japan, but the investment world is nervous and the macro/policy watchers are twitchy and not known for their long-termism. It is likely to be a bouncy ride to higher levels.

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.

DISCLAIMER:

This material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our opinions only. The material is based upon information, which we consider reliable, but we not represent that it is accurate or should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities.

Recent 3 month Fund Exposure

| % of NAV in | Jul 15 | Aug 15 | Sep 15 |
|-----------------------|--------|--------|--------|
| Long Stock Positions | 103.38 | 106.30 | 102.01 |
| Short Stock Positions | -12.10 | -7.16 | -6.01 |
| Index Futures | -15.81 | -20.19 | -20.71 |
| Index Options | - | - | - |
| Net Exposure | 75.47 | 78.95 | 75.29 |

Position Concentration

| | Top 5 | Top 10 |
|------------------------|--------|--------|
| Longs | 34.71% | 57.58% |
| Shorts | -6.01% | - |
| Total no. of positions | 32 | |

Winners (Qtr)

Nikkei Index Futures (short)
Jafco Co Ltd
Nidec Corp
Obayashi Corp
Takeda Pharmaceutical Co Ltd (short)

Performance Statistics

| | |
|-------------------------------------|--------|
| Last 12 Months | -3.80% |
| 3 Yr Annualised Return | 10.78% |
| 5 Yr Annualised Return | 6.44% |
| Annualised Return Since Inception * | 6.81% |
| * Initial Series Used | |

Top Five Positions

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

Losers (Qtr)

Mitsubishi Electric Corp
Toshiba Corp
Tokyo Electron Ltd
Komatsu Ltd
Hitachi Ltd

Sector Exposure as at 30 September 2015

| | Longs | Shorts | Net |
|------------------------|---------|---------|---------|
| Consumer Discretionary | 21.15% | - | 21.15% |
| Consumer Non-Disc | - | - | - |
| Energy | - | - | - |
| Financials | 45.51% | - | 45.51% |
| Health Care | - | -3.00% | -3.00% |
| Industrials | 26.25% | - | 26.25% |
| Information Technology | 9.10% | - | 9.10% |
| Materials | - | -3.01% | -3.01% |
| Telecommunications | - | - | - |
| Total Equity | 102.01% | -6.01% | 96.00% |
| Futures | - | -20.71% | -20.71% |
| Net Exposure | 102.01% | -26.72% | 75.29% |

September Qtr Sector Performance – P&L

| | Longs | Shorts | Total |
|------------------------|---------|--------|---------|
| Consumer Discretionary | -1.33% | - | -1.33% |
| Consumer Non-Disc | - | -0.36% | -0.36% |
| Energy | - | - | - |
| Financials | -4.14% | - | -4.14% |
| Health Care | - | 0.55% | 0.55% |
| Industrials | -5.68% | 0.53% | -5.15% |
| Information Technology | -3.07% | - | -3.07% |
| Materials | - | 0.22% | 0.22% |
| Telecommunications | - | - | - |
| Futures | - | 2.60% | 2.60% |
| | -14.22% | 3.54% | -10.68% |
| FX Forwards | - | - | -8.93% |
| FX and Other | - | - | 7.00% |
| Total | - | - | -12.61% |

Performance Contribution

| | Longs | Shorts | Futures | FX Forwards | Other | Total |
|----------------|--------|--------|---------|-------------|-------|--------|
| September 2015 | -9.35% | 0.24% | 1.47% | -1.84% | 1.52% | -7.96% |

DISCLAIMER:

Historical Returns – Distribution Reinvested

Annual Distributions

Optimal Japan Trust Net Monthly Returns in AUD %

| | | |
|------------------------------------|------------------------------------|------------------------------------|
| 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 | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| Series 1 (Inception August 2002) | | | | | | | | | | | | | |
| 2015 | -3.51 | 6.35 | -0.72 | 3.61 | 3.41 | -2.69 | 1.03 | -6.01 | -7.96 | | | | -7.18 |
| 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 |

Initial Series (Inception December 1999)

| | | | | | | | | | | | | | |
|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| 2015 | -3.52 | 7.22 | -1.04 | 4.71 | 3.35 | -2.69 | 1.33 | -6.28 | -7.96 | | | | -5.77 |
| 2014 | -5.74 | -2.71 | 0.35 | -1.66 | 3.10 | 4.44 | 0.17 | -0.96 | 1.86 | -0.08 | 2.46 | 1.24 | 2.07 |
| 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 | -1.02 | -6.99 | 1.85 | 0.40 | -6.68 | -4.73 | -8.90 |
| 2006 | 1.82 | 0.42 | 3.79 | 0.34 | -4.04 | 0.24 | -0.77 | 1.57 | 0.13 | 2.72 | 0.99 | 2.62 | 10.04 |
| 2005 | 2.83 | 2.05 | 0.00 | -0.14 | 1.04 | 1.37 | 2.63 | 4.15 | 6.71 | 1.31 | 2.39 | 4.30 | 32.45 |
| 2004 | -0.33 | 1.22 | 7.01 | 0.23 | -1.20 | 3.95 | -2.34 | 4.03 | 0.82 | -1.55 | 1.65 | 1.92 | 16.12 |
| 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 | -1.59 | -1.39 | 2.04 | -4.47 | -3.65 | -0.44 | -1.42 |
| 2001 | -2.34 | 3.13 | 1.36 | 8.47 | -2.14 | 3.96 | -3.09 | 1.49 | -3.58 | 1.77 | -3.89 | -5.46 | -1.22 |
| 2000 | -0.32 | 12.76 | 8.99 | -1.53 | 2.45 | 11.82 | -9.05 | 4.53 | -0.37 | 0.90 | -0.18 | -3.86 | 26.75 |
| 1999 | | | | | | | | | | | | 0.58 | 0.58 |

DISCLAIMER:

This material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our opinions only. The material is based upon information, which we consider reliable, but we not represent that it is accurate or should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities.