MONTHLY REPORT TO SHAREHOLDERS OF OPTIMAL JAPAN TRUST

Optimal FUND MANAGEMENT

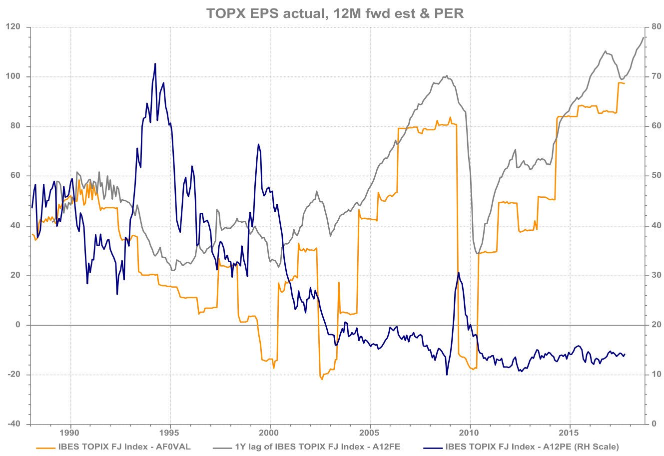
Monthly Performance % - *as at 29 September 2017*

	NAV	September	YTD	AUM
A$ Series 1	A$8.854	5.44%	6.49%	A$7M

We do not want to tempt fate, but after the gains of September, the Topix index has risen 11% for the year and is within one good day's return of 1700. As anyone with access to a long term chart of Topix can see, the index level between 1700-1800 has been a barrier that the market has been unable to break through in at least half a dozen attempts since the market collapsed in the early 1990s. This barrier has been labelled the "Iron Coffin Lid" but we recently saw it referred to as "Ama no Iwato" which comes from Japanese mythology and describes the heavy rock which covered the cave in which the Sun Goddess went into hiding to punish her mischievous brother and deprive the world of light. The Ama no Iwato analogy is much more attractive than that of the iron coffin lid. After all, who would not rather see the Sun Goddess emerge from hiding than something rise from out of a coffin?

The chart below puts the current market into some sort of context from a valuation perspective. The yellow line (actual rolling Topix EPS) and the grey line (IBES estimated Topix EPS 1 Yr forward) both refer to the scale on the chart's left axis while the dark blue line (Topix PER using the forward EPS estimate) relates to the right axis. With the exception of 2007, in the previous periods when Topix peaked against the "Ama no Iwato", the forward PER was a lot higher and consistent with the widely held view that Japanese valuations were "unique", or just plain crazy. In June 2007, when the Topix index got within a whisker of 1800, the forward PER was 18x, whereas today the figure is 14x.

Analysts are obviously forecasting solid earnings growth in the year ahead, and if that optimism turns out to be misplaced, the market looks less attractive, but given the slew of positive economic indicators – both hard and soft – we have seen in the past few months, we feel that any new assault on the "Ama no Iwato" is better supported than all the previous failed attempts.



Source: Thomson Reuters Datastream

Acting as a handbrake on a higher index level is the continuing de-rating of a number of important sectors. Some of these sectors' woes are global in nature while others are more local. Among the former we count:

Autos – held back by the rise of HEV and EV and the prospect of autonomous driving
Financials – cursed by deflation and a flat yield curve
Retail – threatened by Amazon and the other e-commerce ghouls

Driven by local (demographic) issues:
Housing - a declining population makes overall growth in housing stock inconceivable

In aggregate, these sectors account for more than 26% of the Topix index market cap, so are not an insignificant weight for the market to have to deal with.

Another area that has been a drag on the index has been real estate. We have long had exposure to the strong Tokyo office real estate market through the blue-chip developer Mitsubishi Estate, but pared our position some months ago after a visit to the company early this year and finally sold out of the stock last month. Despite its enormously strong financial position with almost unlimited access to low cost borrowing, Mitsubishi Estate has failed to convey a sufficient interest in the return to equity holders and we have reluctantly concluded that hoping for this to change is like waiting for Godot. We think an activist assault on fortress Mitsubishi Estate is overdue and would not be surprised to see this happen – at some stage. If and when this occurs, we would happily join in support as we suspect many foreign and even domestic investment managers would, but for now we want to invest with management teams that are aligned to minority shareholders.

The market dynamics this year are noteworthy in a couple of ways. First of all, equity prices have risen in spite of a stronger Yen, breaking a nexus that has existed for the past decade or so. Secondly, the market has risen in 2017 without foreign buying. The biggest buying has come from the category "Securities" which in some reports appears as "Proprietary Trading" and we suspect this somehow covers the BoJ's ETF buying, while companies themselves have been significant buyers and pension funds small net buyers. Foreigners were enthusiastic buyers in the second half of September along with a rising market, but have been small net sellers YTD.

It seems to us that there is an increasing flow of corporate deals in Japan and we believe this stems in part from the Abe government's promoting of better corporate governance. Corporate actions include the agreement by Toshiba to sell its highly rated semiconductor (NAND) business to a consortium led by Bain Capital with participation from Hynix, Apple, Dell, Seagate and Kingston. This sale has had more false dawns than a vampire's nightmare, so we are wary that there might be more changes, but the deal appears to be holding for now.

Bain have been very active and late in the month announced a bid to acquire Asatsu DK – a leading Japanese ad agency. The bid is conditional on them getting at least 50% and they have announced plans to de-list it if they can get all the stock. Given the tough environment for advertising agencies – including WPP which is Asatsu's current largest shareholder with almost 25% - it will be intriguing to see how Bain intends to add value to the Asatsu business.

In banking, Resona also announced the creation of a new Osaka-based bank which will be used to buy out the equity of three small Kansai-based regional banks. The process is a little messy but by April 2018, Resona should be the 51% owner of the new listed holding company Kansai Mirai Financial Group (KMFG) which will in turn own the shares of Kinki Osaka Bank, Kansai Urban Banking and Minato Bank. SMFG is a participant in the consolidation and will hold around 25% of the new KMFG shares. We expect to see a lot more consolidation in the regional bank area so that ultimately, only the largest of the regionals will survive as stand-alone listed entities.

September is seasonally one of the worst months for Japanese equities, but this year the market bucked the trend and was strong. Leading the gains were Mining (which is really the LNG producer Inpex), Oil refiners and then Rubber and Autos, boosted by the slightly weaker Yen. Banks were also firmer, although real estate lagged the Topix return. Our recently added positions in Tokai Carbon and Idemitsu were both major pluses for the portfolio while MUFJ accounted for 0.70% of the monthly return. Fortunately there were no significant poor performers with HIS the biggest drag with a -0.13% return.

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Recent 3 month Fund Exposure

% of NAV in	Jul 17	Aug 17	Sep 17
Long Stock Positions	100.03	92.08	84.18
Short Stock Positions	-7.63	-9.98	-4.12
Index Futures	-	-	-
Index Options	-	-	-
Net Exposure	92.40	82.10	80.06

Performance Statistics

Last 12 Months	23.67%
3 Yr Annualised Return	3.24%
5 Yr Annualised Return	9.23%
Annualised Return Since Inception *	6.84%
* Initial Series Used	

Position Concentration

	Top 5	Top 10
Longs	28.51%	49.28%
Shorts	-4.12%	-
Total no. of positions	26	

Top Five Positions

Mitsubishi UFJ Financial Group Inc
Izumi Co Ltd
Panasonic Corporation
Hitachi Ltd
Toray Industries Inc

Winners (Qtr)

Tokai Carbon Co Ltd
Kasai Kogyo Co Ltd
Toray Industries Inc
Hitachi Ltd
Idemitsu Kosan Co Ltd

Losers (Qtr)

Izumi Co Ltd
Mitsubishi Estate
Mitsubishi UFJ Financial Group Inc
Towa Pharmaceutical Co Ltd (short)
Zojirushi Corp

Sector Exposure *as at 29 September 2017*

	Longs	Shorts	Net
Consumer Discretionary	36.23%	-	36.23%
Consumer Non-Disc	1.46%	-	1.46%
Energy	4.07%	-	4.07%
Financials	7.37%	-	7.37%
Health Care	3.12%	-4.12%	-1.00%
Industrials	10.86%	-	10.86%
Information Technology	9.68%	-	9.68%
Materials	11.39%	-	11.39%
Telecommunications	-	-	-
Total Equity	84.18%	-4.12%	80.06%
Futures	-	-	-
Net Exposure	84.18%	-4.12%	80.06%

September Qtr Sector Performance – P&L

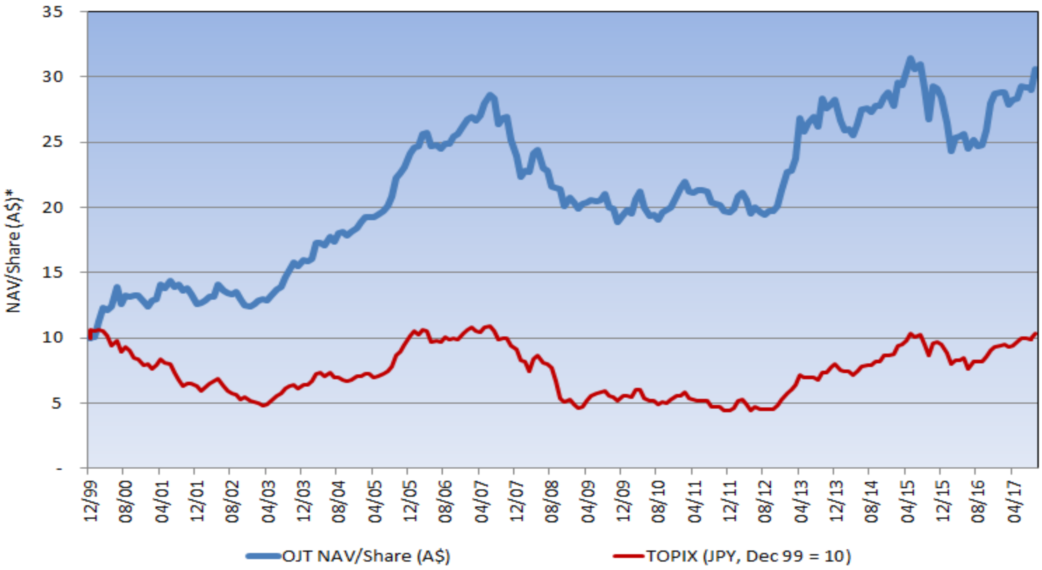
	Longs	Shorts	Total
Consumer Discretionary	1.63%	0.14%	1.77%
Consumer Non-Disc	-0.06%	-	-0.06%
Energy	0.73%	-	0.73%
Financials	-1.22%	0.16%	-1.06%
Health Care	0.19%	-0.35%	-0.16%
Industrials	0.22%	-0.16%	0.06%
Information Technology	0.85%	-	0.85%
Materials	2.34%	-	2.34%
Telecommunications	-	-	-
Total Equity	4.68%	-0.21%	4.47%
Futures	-	-	-
FX Forwards	-	-	2.77%
FX and Other	-	-	-2.62%
Total	-	-	4.62%

Performance Contribution	Longs	Shorts	Futures	FX Forwards	Other	Total
September 2017	5.78%	-0.42%	-	1.31%	-1.23%	5.44%

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.

Portfolio Performance *as of 29 September 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

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)													
2017	0.41	-0.12	-3.13	1.31	0.22	3.19	-0.10	-0.69	5.44				6.49
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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