

Monthly Performance % - as at 29 April 2011

NAV	April	YTD	Strategy AUM
A\$11.11	-0.54%	9.24%	US\$63M

We are in the midst of the results announcements for the fiscal year ending March and the news has been very encouraging. Many companies have incurred temporary losses of revenue due to disruptions and costs stemming from the earthquake, but in general, the recovery of production is coming back faster than first thought. The dire predictions of power shortages over the summer are also appearing less plausible now as alternative power sources are brought back on-line. Demand is also lower as the Japanese people have already shown admirable restraint in electricity usage for heating, cooling and lighting, thereby reducing the expected gap between the electricity supply capacity and potential maximum demand in mid-summer. It is easy to go without air-conditioning in the Spring time, but before we declare victory, there are some very hot and muggy months ahead for Tokyo. Our money is on further “restraint”.

There has been widespread praise for the way in which the Japanese have coped with the ordeal of the earthquake/tsunami/Fukushima reactor, and I suspect very few of us (non-Japanese) could have great confidence that our own countrymen would have been quite so stoical if confronted with the same situation. This stoic attitude has a downside however, as the dissatisfaction that most Japanese feel towards their political leaders is never really expressed in a sufficiently dramatic way, and so the government and the administrators aren't pressured into taking bold action.

It would be nice if there was a bit more of the Greek character in the Japanese, as I bet that a few unruly demonstrations in downtown Kasumigaseki would wake up Mr Kan and his cronies from their torpor. Countless tomes have been written on the subject of Japan's willingness to endure what others might not and I can't add much of value on this topic, but when so many positive signs are evident at the individual and corporate level, it is tragic that the politicians seem incapable of serving their people better.

This Yin-Yang situation of macro “bad” and micro “good” stops investors from allocating money to Japanese equities, despite it being arguably the cheapest equity market in the world. We were in Europe last week and attended a conference where fund managers presented their views on all parts of the world of equities. Many of the attendees have heard the case for Japan over the past few years and have sympathy for the arguments put forth. Macroeconomic issues and the sense of Japanese political constipation however, prevent most of

them from taking the leap. Somebody out there is buying however, as the Tokyo Stock Exchange data of investor activity shows.

Apart from the horror year of 2008, when equities were deeply unloved everywhere, foreigners have been net buyers in 2007, 2009, 2010 and so far in 2011. In the first four months this year, foreign buying of \$45bn has already exceeded the total amount bought in 2010 and we have seen 26 consecutive weeks where foreigners have been net buyers. Who has been the seller then? This year, trust banks (managers of the Japanese pension funds) have turned seller after net buying in the past three calendar years, while individuals continue their net selling seen in 2009 and 2010 – albeit on a small scale. We expect foreigners to buy more – either because they are value investors and find Japan a bargain, or they want a proxy on Asian growth, or simply because the market goes up. Domestic investors – particularly individuals – are the vital part missing from a bullish conclusion to our story. Their attitude towards their home market is indicative of their disillusionment with government. We need better politicians to put the final piece of the jigsaw together. Although we usually tend not to dwell on it too much, politics – or at least policy – does matter.

SYDNEY: Level 5, Wyoming, 175 Macquarie St, Sydney NSW 2000 **Phone:** 61 2 8239 3300 **Fax:** 61 2 8239 3333 **Email:** optimal@optimalasia.com

TOKYO: KS Building 10th Floor, 2-9 Minami Aoyama 6-chome, Minato-ku, Tokyo 107-0062 **Phone:** 81 3 5774 6507 **Fax:** 81 3 5774 6508

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Recent 3 month Fund Exposure

% of NAV in	Feb 11	Mar 11	Apr 11
Long Stock Position	96.03	83.96	88.75
Short Stock Position	-5.49	-3.98	-4.86
Index Futures	-36.95	-23.18	-23.77
Equity Derivatives	-	-	-
Net Exposure	53.59	56.80	60.12

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Position Concentration

	Top 5	Top 10
Longs	24.61%	41.63%
Shorts	-	-
Total no. positions	40	

Top Five Positions

Hitachi Ltd
 JS Group Corp
 Mitsubishi Estate Co Ltd
 Canon Inc
 Mitsubishi Materials Corp

Winners

Ryohin Keikaku Co Ltd
 Canon Inc
 Fanuc Ltd
 Dr. Ci:Labo Co Ltd
 United Arrows Ltd

Losers

JS Group Corp
 Nintendo Co Ltd
 Nikkei Index Futures (short)
 Matsui Securities Co Ltd
 Sumitomo Mitsui Trust Holdings Inc

Sector Exposure as at 29 April 2011

	Longs	Shorts	Net
Consumer Disc	14.81%	-0.65%	14.16%
Consumer Non Disc	3.50%	-	3.50%
Energy	2.06%	-	2.06%
Financials	14.39%	-	14.39%
Futures	-	-23.77%	-23.77%

	Longs	Shorts	Net
Industrials	15.99%	-2.21%	13.78%
Materials	12.90%	-	12.90%
Technology	18.94%	-2.00%	16.94%
Telecommunications	6.16%	-	6.16%

Performance Contribution

	Longs	Shorts	Futures	Other	FX Forwards	Total
April 2011	-0.28%	0.08%	-0.33%	-0.01%	NA	-0.54%

Historical Returns - Distributions Reinvested

Optimal Japan Trust Net Monthly Returns in AUD %

The table below outlines the monthly returns of the Fund's Series 1 since its inception in August 2002.

Year to June	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD
2002													
2003			1.68	-4.38	-3.66	-0.42	1.80	1.98	0.41	-0.10	2.55	3.48	3.06
2004	1.54	5.20	3.86	3.55	-1.67	3.06	-0.33	1.24	7.11	0.15	-1.14	3.93	29.47
2005	-2.14	4.01	0.23	-1.21	1.30	1.51	2.74	2.02	0.07	-0.14	0.99	1.47	11.24
2006	1.81	3.68	6.81	1.36	2.41	4.38	1.82	0.43	3.86	0.35	-4.05	0.18	25.14
2007	-0.79	1.43	0.13	2.10	0.77	2.49	1.99	0.55	-1.03	1.35	3.45	2.28	15.66
2008	-0.87	-6.98	1.88	0.35	-6.70	-4.69	-6.67	2.21	-0.67	6.20	1.34	-5.91	-19.57
2009	-0.83	-5.34	-0.09	-0.44	-6.38	3.22	-1.74	-2.15	1.91	0.47	0.84	-0.46	-10.84
2010	0.28	2.59	-4.87	-0.66	-5.15	3.02	1.95	-1.53	5.74	2.76	-5.91	-3.24	-5.66
2011	0.49	-1.96	2.89	0.97	1.34	3.89	3.38	2.12	-3.46	-0.54			9.24

The table below outlines the monthly returns of the Fund's Initial Series since its inception in December 1999.

2000						0.58	-0.32	12.76	8.99	-1.53	2.45	11.82	39.0
2001	-9.05	4.02	-0.37	0.90	-0.18	-3.86	-2.34	3.13	1.36	8.47	-2.14	3.96	2.82
2002	-2.88	1.49	-3.58	1.77	-3.89	-5.46	1.10	1.47	2.07	-0.26	7.13	2.92	-4.55
2003	-1.46	-1.39	2.04	-4.47	-3.65	-0.44	1.80	1.98	0.41	-0.20	2.65	3.97	0.89
2004	1.91	5.90	3.81	3.58	-1.73	3.02	-0.33	1.22	7.01	0.23	-1.20	3.95	30.56
2005	-2.26	4.03	0.82	-1.55	1.65	1.92	2.83	2.05	0.00	-0.14	1.04	1.37	12.22
2006	2.38	4.15	6.71	1.31	2.39	4.30	1.82	0.42	3.79	0.34	-4.04	0.24	26.09
2007	-0.77	1.46	0.13	2.72	0.99	2.62	1.96	0.58	-0.99	1.35	3.47	2.23	16.82
2008	-0.89	-6.99	1.85	0.40	-6.68	-4.73	-6.62	2.17	-0.71	6.19	1.42	-5.97	-19.60
2009	-0.78	-5.37	-0.08	-0.42	-6.38	3.23	-1.74	-2.21	1.90	0.53	0.79	-0.44	-10.82
2010	0.26	2.54	-4.79	-0.72	-5.15	3.05	1.94	-1.54	5.81	2.70	-5.94	-3.25	-5.71
2011	0.47	-1.86	2.84	1.01	1.36	3.86	3.37	2.09	-3.44	-0.51			9.32

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