

**Monthly Performance % - as at 31 August 2009**

NAV	August	YTD	Asset size
A\$11.09	2.59%	2.88%	A\$40M

August saw Japan's Topix index advance for the sixth consecutive month to finish up 1.6% for the month and at the highest monthly closing level since the end of September 2008. Despite the 28% gain in the index since March it hasn't felt like a bull market but rather more like being in one of those war movies where in the process of regaining ground ceded as the enemy retreats, one expects every bridge to be booby-trapped and every deserted village to be an imminent ambush. The absence of major set-backs in markets since March has been a welcome surprise, but it has clearly taken us too long to readjust to peace-time conditions and we would have rather captured more of the upside than we have. August was therefore a welcome return to meaningful positive gains for the Fund and for the first month in a long time, both our longs and shorts made positive contributions to the total return. In general we have had reasonable success with our long selection this year, but our shorts have really hurt us, so we hope that August signals an end to that frustrating period.

Going back over many years, September has been the worst month of the year for equities in Japan. I believe that the same is true in quite a few other developed markets, but so far this September, only Japan is acting true to form. The US and the major European markets are all ahead for the month, but Japan is down 1.6% as at Sept 11th close and has gone back to the level at the end of July. This (admittedly slight) market weakness is in spite of the landslide victory of the DPJ in Japan's lower house election held on August 30th. We say in spite of the landslide rather than because of it as we cannot see how anyone with a pulse would rather see the pantomime of LDP rule continue for any longer than it has (fifty years plus at last count) and do not believe that economic policies and management under the new government will be "bad for business". The DPJ are not total novices as the senior leadership have already tasted power when they previously held office as members of past LDP governments. Most cabinet appointments so far have been plausible – if slightly predictable – but incoming Prime Minister Hatoyama will not have all the positions in place until September 15th – the deadline for the swearing in of the new government. It is noteworthy that media comment on the DPJ's win has seemed to us to be a begrudging rather than enthusiastic endorsement of the victory. All Japan-watchers have learned that it is best to expect little and avoid disappointment. This cynicism might prove deserved, but it is surely too early to be so dismissive of an historic win and the repudiation by the electorate of the status quo.

We will be spending the coming week in Japan and Korea and have a full and interesting schedule of company research meetings in place. Over many visits over the years to companies in Korea, Taiwan, China and elsewhere in Asia we have come to understand the strengths and weaknesses of Japan's companies better than had we been dependent purely on research conducted in Japan. A recent visit to Taiwan has helped firm our view that companies involved merely in assembly of digital consumer electronics (such as flat screen TVs) have little upside to their profitability other than by seeking higher volumes and capacity utilization rates. Japanese companies in these areas will not win against their lower cost rivals in locations such as Taiwan. In materials essential for such products however, Japanese companies still have dominant positions because of greater sophistication in areas such as chemical compounds, metallurgical processes, plastics and resins. Korean ship builders already have scale advantages over their Japanese counterparts and have improved their production processes to match or exceed the best in the world. We are not sure that there are too many other areas in Korean manufacturing where one can say the same, and feel that Korean companies will need to be more creative in thinking about how they can best compete with not just Japan, but with Chinese and Taiwanese up-and-comers too. Even in the past few years it is clear that new Chinese players are building fast-growing businesses from very humble beginnings. Much of our research will continue to be centred around trying to identify the other Asian companies that can adapt in whatever way necessary to capture the growing demand from BRICs and other developing markets. It is amazing how companies that less than a generation ago were touted as "world class" are now seen as sub-scale and also-rans. Not a few of these are Japanese companies that have failed to adapt to global circumstances. Korean companies should have learned valuable lessons from their Japanese rivals, because if they have not, it will not be long before Chinese companies have overtaken them in scale and in substance.

Finally, for the record, (and not that it is of much interest to us), England defeated Australia in the fifth and final cricket test match at The Oval in London and thus took back The Ashes. They will defend them in Australia in December 2010-January 2011 and we would welcome visitors to watch the Sydney Test with us at that time. Book soon, as flights from the UK (and the US?) might well fill up early.

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## Recent 3 month Fund Exposure

% of NAV in	Jun 09	Jul 09	Aug 09
Long Stock Position	54.50	76.04	77.35
Short Stock Position	-14.92	-8.44	-11.15
Index Futures	-17.17	-19.97	-20.26
Equity Derivatives			
Net Exposure	22.41	47.63	45.94

## 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 at – [optimal@optimalasia.com](mailto:optimal@optimalasia.com)*

## Position Concentration

	Top 5	Top 10
Longs	25.71%	45.04%
Shorts	-9.03%	-
Total no. positions	37	

## Top Five Positions

Nippon Telegraph & Telephone Corp  
 Toyota Motor Corp  
 Suzuki Motor CB  
 Mitsui & Co Ltd  
 Mitsui Trust Holdings Inc

## Winners

Tokyo Tatemono Co Ltd  
 Mitsui Trust Holdings Inc  
 Nippon Telegraph & Telephone Corp  
 Shin-Etsu Chemical Co Ltd  
 Press Kogyo Co Ltd

## Losers

Suzuki Motor CB  
 Honda Motor Co Ltd  
 Nikkei Index Future (Short)  
 Kirin Brewery Co Ltd  
 Capcom Co Ltd

## Sector Exposure as at 31 August 2009

	Longs	Shorts	Net
Materials	9.35%	-	9.35%
Industrials	14.17%	-5.31%	8.86%
Technology	11.29%	-	11.29%
Financials	15.90%	-1.01%	14.89%

	Longs	Shorts	Net
Consumer Non Disc	2.73%	-	2.73%
Consumer Disc	17.03%	-4.83%	12.20%
Telecommunication	6.88%	-	6.88%
Futures	-	-20.26%	-20.26%

## 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											2.88

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											2.81

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