

Monthly Performance % - as at 31 August 2011

	NAV	Aug	YTD	Strategy AUM
A\$ Series 1	A\$10.74	-3.94%	-4.28%	US\$62M

We wrote the last monthly letter mid-way through August when the Japanese market had fallen about 11%. The other major developed markets were even worse – and with correlations between markets high, even the MSCI Asia-Pacific ex-Japan index was down 14% at that point. There was welcome relief in the final week of August with markets rallying between 4 & 8%, but all in all it was an awful month for global equities.

2011 has been a year of gloom and bleak news, and the worst performance has come from European equities (no surprise) and – more surprisingly - emerging markets. The US has been the best of a bad lot, while Japan and the UK have been among the most resilient. We speak with little detailed knowledge of the UK and US equities markets, but pinch ourselves daily when looking at the valuations on offer now in Japan. It seems to us that starting from where we are now, either equity returns over the next decade will be good, or it's a case of fortifying the battlements, stocking up on pitchforks and preparing the vats of boiling oil.

The FT carries a regular column called "The entrepreneur" by Luke Johnson, and in the 14 September edition, he wrote about Italy and Japan and the common problems besetting them. It was an excellent and insightful piece and worth reproducing in part. To take his conclusion first: "Leaders in countries such as Japan and Italy – and to a degree in Britain and the US – must raise the spirit of twenty-somethings, and break down obstacles in areas such as housing and business start-ups. Such initiatives will boost morale, and might counter a national mood of slow-motion self-destruction; anything less would be a tragedy."

His list of the signs of stagnation is long and yet it is frustrating in the extreme that the leaders in these countries have neither the wit nor the will to address the roots of the problems. He concludes that vested interests have failed to take the tough decisions.

"Each suffers from disastrously low fertility rates, negligible economic expansion, huge public debts, incestuous ties between politicians and industry, and are (sic) dominated by cadres of elderly men, content to

manage decline. Yet both Japan and Italy are manufacturing and export powerhouses, inventive places that have created many of the best-known brands in the world."

"Their traditional cultures have not caught up with modern lifestyles. The male bureaucrats, policymakers and bankers who run all the major institutions must be forced to take radical steps to unleash the energy and imagination of their young, because in both countries they are very pessimistic.....Traditional employees enjoy cast-iron protections, so companies are reluctant to create such positions. So, only temporary or part-time work is available for most newcomers to the workplace. Consequently, young Japanese and Italians pursue increasingly cautious lifestyles. Nearly 80 per cent of unmarried Japanese between the ages of 18 and 35 live with their parents. The ratio is nearly as high in Italy." No wonder the birth rate is so low!

He goes on to conclude that such unadventurous and uncertain living means that people do not grow up, and do not take risks – such as starting a business or having children. The older generation, meanwhile, live comfortably in retirement on substantial savings or generous pensions. Given the conditions described, one can understand the inertia to change, but elected governments are meant to force change for long term survival and the prosperity of future generations.

Well Japan now has a new Government – if not directly elected – under the leadership of Mr Noda. Being merely 54 years of age, Mr Noda is a young man by the standards of Japanese politics. Let's hope he is more in touch with the issues that prevent confidence from recovering amongst the younger Japanese. After all, for two-thirds of his adult life, Japan has been trying to work through the after effects of the 1980s Monster Bubble, and he has had plenty of time to think about the root causes of the problems and how to address them. Low confidence and complacency do not make for rising asset prices, so we look for policy action to provide support for the improved performance of corporate Japan.

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Recent 3 month Fund Exposure

% of NAV in	Jun 11	Jul 11	Aug 11
Long Stock Positions	90.54	92.61	92.74
Short Stock Positions	-12.88	-13.64	-11.56
Index Futures	-23.99	-24.74	-41.66
Equity Derivatives	-	-	-
Net Exposure	53.67	54.23	39.52

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Position Concentration

	Top 5	Top 10
Longs	25.56	45.88
Shorts	-11.56	-
Total no. of positions	39	

Top Five Positions

Softbank Corp
 JS Group Corp
 Asahi Kasei Corp
 Canon Inc
 Komatsu Ltd

Winners

Brother Industries Ltd (short)
 Mori Seiki Co Ltd (short)
 Don Quijote Co Ltd
 Nabtesco Corp (short)
 Tokyo Electron Ltd (short)

Losers

Softbank Corp
 Mitsubishi Materials Corp
 Sumitomo Realty & Development Co Ltd
 Mitsubishi UFJ Financial Group Inc
 Hitachi Ltd

Sector Exposure as at 31 August 2011

	Longs	Shorts	Net
Consumer Discretionary	24.43%	-1.92%	22.51%
Consumer Non-Discretionary	2.20%	-2.79%	-0.59%
Energy	2.80%	-	2.80%
Financials	18.32%	-	18.32%
Futures	-	-41.66%	-41.66%
Health Care	-	-3.28%	-3.28%
Industrials	19.24%	-2.06%	17.18%
Information Technology	11.08%	-	11.08%
Materials	9.26%	-1.51%	7.75%
Telecommunications	5.41%	-	5.41%

Performance Contribution	Longs	Shorts	Futures	Other	FX Forwards	Total
August 2011	-7.86%	1.57%	1.86%	0.49%	N/A	-3.94%

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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\$1.24*
Year to Jun 07 *A\$2.4179*

Year to June	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD
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The table below outlines the monthly returns of the Trust's Series 1.

2003			1.68	-4.38	-3.66	-0.42	1.80	1.98	0.41	-0.10	2.55	3.48	3.07
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	29.46
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	15.65
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	0.90	0.09	10.32
2012	-0.36	-3.94											-4.28

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

2000						0.58	-0.32	12.76	8.99	-1.53	2.45	11.82	38.99
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	-2.87	1.49	-3.58	1.77	-3.89	-5.46	1.10	1.47	2.07	-0.26	7.13	-2.92	-4.54
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	0.85	0.17	10.44
2012	-0.42	-3.90											-4.30

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