

Monthly Performance % - as at 26 February 2010

NAV	February	YTD	Asset size
A\$10.28	-1.53%	-4.64%	A\$40M

The tentative start to 2010 has continued in February with another small decline in Japanese equities. Other equity markets fared better in February after the weakness of January but there is still a feeling – albeit a faint one – that Japan is doing better. There is a widespread perception that the investment return from Japanese equities has been incredibly poor for a long time. The perception is largely correct, but people tend to underestimate just how badly an equity investor in most other developed markets has fared over the past ten or more years. At the end of 1998, the S&P 500, the FTSE100 and the Euro Stoxx 50 indices were all higher than they were at the end of 2009. In common currency terms, the Japanese market has more or less matched global equities since the late '90s and only in the period from mid 2007 through 2009 did it really underperform.

Where the comparison truly is unflattering for Japan is in the relative return of the other markets of the Asian region. This might be no more than a case of Developed vs Developing, or perhaps Budget Deficit vs Budget Surplus, but certainly Asia has done a lot better than the G7 markets since late 1998.

We mention this not because we have any particular prediction about relative returns from here, but merely to address a dogged bias in the world's investment commentariat that singles out Japan for particular scorn. As a UK investor would know well, it has been a horrible twelve years or so to have been in equities – particularly with the added weakness of the Pound.

A similar tendency to accentuate the negative is evident when looking at the performance of Japan's economy as measured by the real GDP. In this case, the Japanese government and its ministers tend to be in the forefront of the gloomy horde, taking every opportunity to bemoan the precarious state of the economy and the problems ahead. In the most recent example of this, the current Chief Cabinet Secretary (Mr H Hirano) used the occasion of the revised Q4 2009 GDP figures to lament that the "economic conditions remain severe". In fact, the annualised growth figure had indeed been revised down from 4.5% to 3.8% - equal to a QoQ growth rate of 0.9%. This is hardly disastrous however, especially when compared with the larger economies of Europe where growth in the same quarter was zero

(in the case of Germany) or 0.3% (UK). The picture we have of the Japanese economy over the past few years is one of higher mountains and deeper valleys than those of the developed countries. In some areas (machinery orders) it closely resembles Germany, but the decline in industrial production (for example) in 2008-09 was vastly greater in Japan than in any of the G7 nations and the rebound tends to be stronger. The greater amplitude is likely due to the smaller role that private consumption and public spending play with a correspondingly large dependence on capital expenditure and net exports. These were crushed from late 2008 through to late 2009 and so too, therefore, was Japan's GDP.

Although the Topix index fell 0.7% in both January and February, the composition of the sector returns was somewhat reversed. In January, Banks rose 4% and fell 2% in February. Rubber fell 10% then rose 8%, while Steel fell 9% and then gained 2%. Autos were consistently poor in both months with a decline of 6% in January followed by another 4% fall last month. This was mainly due to the Toyota shock which has dragged Toyota's price down by 14% by end-February (though it is up 4.5% MTD) and caused much angst in Japan and a fair amount of schadenfreude in the US and Europe. Our stock-picking success in January was not followed by more in February as our longs put in a very poor month with real estate hurting us especially badly (-56bps of performance). Although Toyota is one of our larger holdings it did not rank in our "top" 5 negative contributors whereas Kirin Brewery fell 11% after they called off their merger with Suntory and cost the fund 36bps.

Month-to-month ups and downs are part and parcel of an equities portfolio and we are pleased that March has started well. We remain positive on the outlook for Japanese equities and look forward to reporting on the company visits we have scheduled for the end of March.

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

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 do 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	Dec 09	Jan 10	Feb 10
Long Stock Position	74.05	86.24	89.28
Short Stock Position	-10.89	-5.56	-9.84
Index Futures	-19.14	-23.88	-24.54
Equity Derivatives			
Net Exposure	44.02	56.80	54.90

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 at – optimal@optimalasia.com

Position Concentration

	Top 5	Top 10
Longs	30.42%	47.61%
Shorts	-9.13%	-
Total no. positions	38	

Top Five Positions

Mitsui & Co Ltd
Nippon Telegraph & Telephone Corp
Toyota Motor Corp
Mitsui Trust Holdings Inc
Mitsubishi Estate Co Ltd

Winners

Mitsui & Co Ltd
ABC-MART Inc
Asahi Breweries Ltd (Short)
SHO-BOND Holdings Co
Nikkei Index Future Mar 10 (Short)

Losers

Gulliver International Co
Kirin Brewery Co Ltd
Tokyo Tatemono Co Ltd
Fuji Television Network Inc
Panasonic Corporation

Sector Exposure as at 26 February 2010

	Longs	Shorts	Net
Materials	7.27%	-	7.27%
Industrials	17.82%	-0.71%	17.11%
Technology	6.94%	-1.21%	5.72%
Financials	18.97%	-0.80%	18.17%

	Longs	Shorts	Net
Consumer Non Disc	2.98%	-5.32%	-2.34%
Consumer Disc	28.98%	-	28.98%
Telecommunication	6.33%	-1.80%	4.53%
Futures	-	-24.54%	-24.54%

Performance Contribution	Longs	Shorts	Futures	Other	FX Forwards	Total
	-2.12%	0.29%	0.14	0.16%	NA	-1.53%

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					-4.64

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					-4.66

Optimal FUND MANAGEMENT

Should you wish to make an investment or further enquiry about the Optimal Japan Trust, please see our website – www.optimalasia.com or contact us at – optimal@optimalasia.com