Monthly Report to Shareholders of the Optimal Japan Trust – *February 2012*

Optimal FUND MANAGEMENT

Monthly Performance % - *as at 29 February 2012*

	NAV	February	YTD	Strategy AUM
A$ Series 1	A$10.98	4.87%	-2.14%	US$51M

"We are inclined to the view that the most important distinction in the styles of asset managers is that between those whose primary focus is on the activities of the company – its business, its strategy, and its likely future earnings and cash flow – and those whose primary focus is on the market for the shares of the company – the flow of buy and sell orders, the momentum in the share price, the short term correlations between the prices of different stocks."

Source: "The Kay Review of UK equity markets and long-term decision making " Interim report, February 2012

Deng Xiaoping apparently said it does not matter whether a cat is black or white as long as it catches mice. Investors might well say, similarly, that is doesn't matter what the asset manager's style is as long as it delivers good returns. We believe the distinction referred to above from the Kay Review (recommended reading even to those of us not involved in UK equities) is a very clear one and most fund managers would easily identify themselves as a follower of one approach or the other. We also believe good investment managers can make a difference and that investment style does matter. Both styles can work – but usually at different times.

Our approach is definitely one which looks at the activities of companies rather than more technical aspects of the shares of companies, but for much of the past four of five years, this has been tough going as macro economic news and views has dominated stock markets and asset prices in general. In the course of standard economic cycles, the fundamental style focusing on company activities enables a capable manager to deliver returns better than a passive investment would. In the increasingly tense economic environment of the past decade or so, neither a passive stance, nor a fundamental active stance has been very rewarding – and that is before we get to natural and man-assisted calamities of the type that befell Japan exactly one year ago. We certainly would welcome calmer waters ahead on all fronts.

So far 2012 has produced an investor's dream start with both developed and emerging market indices showing returns of 10% and more through early March. Japan has participated in the market gains to the full and on a local currency basis leads the Asia-Pac region and most world equity markets to boot. Yen weakness has cut the unhedged USD return to 9% versus 16% in local currency, but Yen weakness due to better expectations for the US economy and interest rate differentials should not be negative for Japanese equities. Particularly positive for Japanese manufacturers is the recent weakness in the Yen against the Korean Won. Since October last year, the Korean Won has risen from 15.5 per Yen to its current level of 13.7. To put that into perspective however, one needs to go back to mid 2007, when the Yen bought only 7.5 Won. The rate has averaged 9.8 Won/Yen over the past twenty years.

Leaving aside whether Hyundai Motors or Samsung Electronics have managed their businesses well (we believe they have), they – and their Korean peers – have had the most gigantic tailwind helping them in markets where they compete against Japanese makers. The most recent US auto sales figures have shown Japanese makers' share recovering relative to that of Hyundai & Kia Motors and we would expect that to continue if the Korean currency does not weaken again against the Yen.

For a Japanese market in full flight, our portfolio was lacking in the heavy weight sectors that went up the most, namely autos, banks and electrical appliances. Small & mid-cap stocks also lagged as foreign investors bought exposure in portfolios that were largely significantly under-represented in Japan. Notwithstanding the above, we achieved good results from both our long positions and our stock shorts with particularly strong gains from our long-held positions in real estate (Sumitomo Realty and Mitsubishi Estate) and banks (Mitsubishi UFJ & Sumitomo Mitsui Trust).

During March we also made some changes to portfolio construction by concentrating our holdings on the long side down to around twenty positions while replacing some index futures shorts with more stock shorts. Net exposure remained largely unchanged at just above 40% but we expect the Fund's return to benefit from our stock selection as a result of these changes.

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Recent 3 month Fund Exposure

% of NAV in	Dec 11	Jan 12	Feb 12
Long Stock Positions	91.03	89.30	82.22
Short Stock Positions	-14.94	-12.01	-24.81
Index Futures	-30.54	-31.07	-15.83
Equity Derivatives	-	-	-
Net Exposure	45.55	46.22	41.58

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Position Concentration

	Top 5	Top 10
Longs	37.57%	61.87%
Shorts	-14.98%	-24.81
Total no. of positions	31	

Top Five Positions

Sumitomo Realty & Development Co Ltd
Honda Motor Co Ltd
Mitsubishi UFJ Financial Group Inc
Toyota Motor Corp
Hitachi Ltd

Winners

Sumitomo Realty & Development Co Ltd
Mitsubishi Estate Co Ltd
Mitsubishi UFJ Financial Group Inc
Sumitomo Mitsui Trust Holdings Inc
Canon Inc

Losers

Nikkei Index Futures (short)
Nikon Corp (short)
Don Quijote Co Ltd
Dena Co Ltd (short)
NTT Data Corp (short)

Sector Exposure *as at 29 February 2012*

	Longs	Shorts	Net
Consumer Discretionary	21.51%	-5.01%	16.50%
Consumer Non-Discretionary	7.62%	-7.85%	-0.23%
Energy	9.76%	-	9.76%
Financials	18.23%	-	18.23%
Futures	-	-15.83%	-15.83%
Health Care	-	-2.97%	-2.97%
Industrials	10.84%	-1.99%	8.85%
Information Technology	9.44%	-6.99%	2.45%
Materials	4.82%	-	4.82%

Performance Contribution	Longs	Shorts	Futures	Other	FX Forwards	Total
February 2012	9.05%	-0.84%	-2.73%	-0.61%	N/A	4.87%

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
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	-0.74	-0.09	-2.54	-0.29	1.16	4.87					-2.14
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	-0.79	-0.09	-2.49	-0.27	1.10	4.89					-2.19

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