

Monthly Performance % - as at 31 January 2008

NAV	January	Financial YTD	Asset size
A\$11.76	-6.67%	-21.76%	A\$80M

Along with other stock markets, Japan started 2008 in wretched fashion with the Topix index down by almost 9% in January. Among the thirty three sectors that comprise the Topix index, the best return (air transport) was 2.1% whilst the worst (oil & coal) was down 18.7%. In the scheme of volatile stock markets, a 21% range between best and worst might not sound too bad, but our Fund held more in the bottom half of the table and continued its recent poor performance. Frustrated by the weak market, we decided discretion to be the better part of valour and in mid-January, we cut the Fund's net exposure to 20% using index futures, individual stock shorts and selling some key positions. It is painful to sell favoured stocks after what seem to us unjustified falls, but it is clear that there are many determined sellers for the time being and it is even more painful to watch the Fund's returns continue to suffer.

2008 could well be a crucial turning point in Japan's long flirtation with deflation, and we believe the shock for the year will be a rising CPI. The BoJ would love that and jump at the chance to raise rates. Given the failure of low (read zero) interest rates to spur demand, perhaps higher rates might not be any worse for the asset markets and Japanese domestic consumption. Visitors to Tokyo nowadays are pleasantly surprised at how cheap it is compared with expectations and prices in their own home markets. We believe that the attractions of buying low and selling high will eventually redress the imbalance and prices in Japan will rise. The same argument goes for equities.

We spent the first week of February in Japan and met companies, economists and strategists. A common theme from the meetings is that imported prices are rising significantly in quite a few areas, and that producers are at a point where they seem determined to pass on their higher costs in higher selling prices. Until now, the companies paying the higher prices for their inputs have not passed on (enough of) these costs to their customers and have suffered lower profit margins. They tell us that they have suffered enough, and now the higher costs must be reflected in higher selling prices. The standard view of many commentators is that Japan's consumers are too fragile to pay higher prices and attempts to raise prices will lead to declining demand. We are not so sure, and suspect that the current deflationary mindset perpetuates this pessimistic view.

Japanese companies in the domestic sectors pride themselves on providing high quality goods and services at stable (or even lower) prices, but as shareholders we are not sympathetic to this approach. If they won't (can't) pass on their costs, investors are right to either sell their shares, or agitate for change.

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	Nov 07	Dec 07	Jan 08
Long Stock Position	95.65	89.16	77.62
Short Stock Position	-13.27	-14.92	-18.01
Index Futures	-23.24	-23.12	-37.76
Equity Derivatives			-4.99
Net Exposure	59.14	51.12	16.86

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	22.37%	38.21%
Shorts	-8.69%	-15.18%
Total no. positions	49	

Top Five Positions

Mitsubishi UFJ Financial Group
Sumitomo Corp
Toyota Motor
Fanuc
Mitsui Fudosan

Winners

Nikkei 225 Index Future Mar 08 (Short)
TDK (Short)
Nitto Denko (Short)
Dainippon Ink & Chemicals (Short)
Leopalace21 (Short)

Losers

Hitachi Construction Machinery
Komatsu
Star Micronics
Fanuc
Isuzu Motors

Sector Exposure as at 31 January, 2008

	Longs	Shorts	Net
Materials	13.10%	-3.24%	9.86%
Industrials	27.88%	-6.38%	21.50%
Futures		-42.75%	-42.75%
Financials	18.09%	-2.21%	15.88%
Energy			

	Longs	Shorts	Net
Consumer Non Disc		-0.87%	-0.87%
Consumer Disc	13.03%	-3.54%	9.49%
Utilities			
Telecom			
Technology	5.34%	-1.74%	3.60%

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						-21.76

Annual Distributions

Year to 6/07 A\$2.4179	Year to 6/05 A\$1.4218	Year to 6/02 A\$ 0.8983	Year to 6/00 A\$1.4158
Year to 6/06 A\$ 1.24	Year to 6/04 A\$0.4713	Year to 6/01 A\$0.8989	

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						-21.74