Report to Unitholders of the Optimal Japan Trust – *June 2010*

Optimal FUND MANAGEMENT

Performance % - *as at 30 June2010*					
	NAV	June	Qtr.	YTD	Asset size
OJT Series 1	A$10.17	-3.24%	-6.44%	-5.66%	A$40M

Investing in equity markets continues to be a case of "Panic now, ask questions later". This unfortunate state of affairs has been the norm since 2008 (and in fact 2007 in Japan's case) and makes it very difficult for analytical - rather than reactive – investors. With air continuing to leak from the credit bubble, investors are understandably concerned with the outlook for lower economic growth rates in many of the G20 countries. Banks and other financial companies are hungry for more capital but this is costing more than it used to and risk aversion on the part of lenders is still high. Despite being in an environment where governments look to cut spending and raise revenue, the corporate sector is generally sitting with relatively unleveraged balance sheets and generating strong cash flow. As we have seen in Japan over the past decade, low nominal interest rates do not necessarily lead to corporate demand for loans and thus banks take advantage of negligible short-term rates to invest in longer dated government bonds - even when these have been pushed close to record low yields. It is little wonder that "deflation" has become such a commonly used word in investment circles and equities in most of the developed markets have been de-rated in keeping with these deflationary fears.

In spite of all the pessimism, it is worth taking a quick glance at the Bloomberg to remind ourselves just what a bad decade or more this has been for equities. Investors in US, UK and European equities have made no money for twelve years, with all the major indices currently where they were in late 1997 or 1998. With the focus on achieving high returns on equity, companies have also paid relatively little in dividends as they preferred to use excess cash to re-invest in their businesses or to buy back shares. Even accounting for dividends over the past twelve years, the return from equities has failed to match inflation. We have invested in Japan for over twenty five years and are painfully aware how long a bear market can last, but we suggest that with the current bearish expectations for global growth, the outlook for equities is coloured by the past decade of dismal returns rather than by an assessment of current valuations.

We do not follow US and European markets in detail at the stock level, but for the first time in at least ten years, we can say that we wish we were mandated to invest in those regions as well as in Asia. High quality businesses of long standing appear to be selling at bargain prices, and believing as we do, that the economic consensus is usually a reliable contrary indicator for equities, the current bearishness coupled with genuinely cheap valuations makes us more confident that the returns from these stocks will surprise us in the years ahead. The caveat to all this is that equities on cheap valuations can remain "undervalued" for as long as demand remains poor, and especially while consumers expect prices to fall. In the July 9th edition of "Grant's Interest Rate Observer", the author points out that in recent years, P/Es have been falling in tandem with interest rates, an unusual situation for financial theorists.

To quote: "It could be that this multiple compression presages lower profit margins, slower growth or a more punitive regulatory environment. Or it could be that sagging P/Es are simply the mirror to a demoralized world. Or it could be that the world is at last coming to realize that P/Es were previously too high."

It might be some time before investors are willing to pay higher multiples for equities, but at least markets are now priced a lot cheaper than they were at the end of the 1990s. A lot of the pain has already been taken.

In a world of de-rating amid prolonged deflation, nowhere comes close to Japan in terms of duration and scale. After a bright start to 2010, Japan's equity market buckled at the knees as soon as Greece's financial problems took over the headlines and the Topix index fell 14% in the June quarter. Since our previous monthly letter, the market has been wallowing without so much of a flutter in July while

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most markets have strengthened. As is so often the case, the non-pessimists hoping that there would be an event that could bring decisive change were disappointed by the July 11th upper house election results. The ruling DPJ lost a couple of seats and is now in discussion with minor parties to find common ground to ensure that legislation can get through the house of review with a minimum of delay. We count ourselves as non-pessimists and were hoping for a clear majority, but now wait to see what agreements can be reached.

We began the second quarter with the Trust's net exposure at 45% and ended it slightly lower at 42%. In between, we had raised exposure - too soon as it turned out – following the big falls in April and May and performance suffered somewhat as a result. In weak market conditions, the classic defensive sectors of drugs, electric power & gas utilities and railways did least badly, while commodities, exporters and financials were amongst the worst. Whereas shares in higher quality companies (higher and more stable profit margins, unleveraged balance sheets) usually change hands at a premium, the recent weakness in the Japanese market has brought a number of these down to record low valuations. These are not cyclicals that are usually sells when they look cheap on earnings (and expensive on book value) but stable earners in dominant positions in their sectors. In this regard, Japan appears similar to other developed markets and we are continuing to boost the Trust's positions in this group of stocks.

Recent 3 month Fund Exposure

% of NAV in	Apr 10	May 10	Jun 10
Long Stock Position	82.92	92.61	87.91
Short Stock Position	-9.85	-7.02	-7.08
Index Futures	-21.14	-28.97	-38.54
Equity Derivatives	-	-	-
Net Exposure	51.93	56.62	42.29

Performance Statistics

Last 12 Months	-5.66%
3 Yr Annual Average Return	-4.42%
5 Yr Annual Average Return	1.68%
Average Annual Return Since Inception*	6.54%

* Initial Series Used

Position Concentration

	Top 5	Top 10
Longs	23.81%	39.86%
Shorts	-	-
Total no. positions	45	

Top Five Positions

- Chuo Mitsu Trust Holdings Inc
- Mitsubishi Estate Co Ltd
- Nippon Telegraph & Telephone Comp
- Hitachi Ld
- Fanuc Ltd

Winners

- Nikkei Index Future (Short)
- Taiyo Yuden Co Ltd (Short)
- Asahi Breweries Ltd (Short)
- Nabtesco Corp
- Hitachi Construction Machinery Co Ltd (Short)

Losers

- Mitsubishi Estate Co Ltd
- Toyota Motor Corp
- FUJIFILM Holdings Corp
- Shin-Etsu Chemical Co Ltd
- Tokyo Tatemono Co Ltd

Sector Exposure *as at 30 June, 2010*

	Longs	**Shorts**	**Net**
Materials	8.76%	-	8.76%
Industrials	19.65%	-4.57%	15.09%
Financials	27.91%	-	27.91%
Energy	-	-	-
Consumer Non-Disc	3.78%	-2.52%	1.26%
Consumer Disc	13.95%	-	13.95%
Utilities	-	-	-
Telecom	4.58%	-	4.58%
Technology	9.28%	-	9.28%
Total Equity	87.91%	-7.08%	80.83%
Index Futures		-38.54%	-38.54%
Net Exposure	87.91%	-45.62%	42.29%

June Qtr Sector Performance – P&L

	Longs	**Shorts**	**Total**
Materials	-1.81%	0.10%	-1.71%
Industrials	-1.85%	0.44%	-1.41%
Financials	-5.37%	-	-5.37%
Telecom	-0.40%	0.11%	-0.29%
Consumer Non-Disc	-0.58%	0.27%	-0.31%
Consumer Disc	-3.15%	-	-3.15%
Health Care	-	-	-
Technology	-1.39%	0.47%	-0.92%
Fx and Others	-	-	1.69%
Index Futures	-	5.03%	5.03%
Total	-14.55%	6.42%	-6.44%

Performance Contribution	Longs	Shorts	Futures	Other	FX Forwards	Total
June 2010	-5.77%	0.44%	1.57%	0.52%	NA	-3.24%

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.

Annual Distributions

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

Year to	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	5.74	2.76	-5.91	-3.24	-5.66

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

Year to	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD
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	5.81	2.70	-5.94	-3.25	-5.71

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*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***