Report to Unitholders of the Optimal Japan Trust – *March 2008*

Optimal FUND MANAGEMENT

Performance % - *as at 31 March 2008*

NAV	March	Qtr.	Financial YTD	Asset size
A$11.94	-0.67%	-5.24%	-20.56%	A$56M

As we wrote in our December quarterly report, we began 2008 with a cautious outlook on the Japanese stock market. We were right to be cautious, but one is never cautious enough for a period in which the major Japanese stock index fell by 17% . We reduced our net exposure to 20% in mid January but had already suffered heavy falls in most of our larger holdings by then. Whenever we decide to sell after a fall, we usually find that thanks to the whimsy of Mr Market, we have "rung the bell" for the bottom of the market, and I feared that this would be the case when we cut back aggressively in January. How nice to be wrong. After a false dawn in February, cock-eyed optimists were dealt another resounding blow in March when foreign selling of the market pushed the Topix index down a further 13 % by mid-March. The net selling by foreigners was the heaviest in the 21 years since the October 1987 stock market crash and in our view, has most likely marked the bottom for Japanese equities in the current bear market.

We made a research trip to Japan in February and following this, travelled to America in early March to see investors. The mood and reaction from US investors was very mixed. Many were frustrated by Japan's seemingly insatiable desire to lure foreign investors into its value trap but a similar number shared our view that this was an historic opportunity to buy Japan at rock bottom prices which would generate great returns in the years ahead. We have just read an account of a similar trip through the US by Daiwa Security's Japan strategist Mr Kazuhiro Miyake and think his final paragraph summarizing his meetings is an excellent assessment of where the best investment opportunities lie and what one needs to see from Japanese companies:

"External demand oriented companies that are developing multinational business platforms are the most attractive investments in the Japanese market, in our opinion, but the winners need to further burnish their investment appeal if they are to attract further buying. We think the judicious use of leverage to make acquisitions of overseas companies as well as more aggressive investment in overseas platform building are imperative. Why is speed so important? Investors are analyzing economies and companies in Asia and other emerging markets, and they are expecting high levels of growth. Thus, even winning Japanese multinationals need to accelerate their commitments to growth. Valuations are now at attractive levels, and the final step is to embark on more decisive expansion strategies."

In other words, if you've got it, make the most of it. Earlier in his piece, Miyake is dismissive of the domestic sectors in Japan when looking at attractive areas in which to invest. "…a rebound by the dollar and an improvement in conditions for Japanese shares would benefit the multinationals (external demand plays), and thus we would recommend diversifying portfolios across both areas*. Other sectors are not attractive for investment, in our view"

* The term "both areas" refers to defensive shares and multinationals while "other areas" refers to the domestic sectors.

We share this view about domestic sectors in general. We, and many others, have commented frequently about the urgent need for wholesale consolidation in most domestic sectors as their over-crowded nature keeps profitability at abysmal levels. The recent establishment of a fund sponsored by Mitsubishi Corp and Mitsubishi UFJ Financial Group with the aim of promoting such consolidation is a welcome positive sign that someone in Japan cares and wants to do something for shareholders' interests. Where foreign activists have tried and met limited success, perhaps the Mitsubishi gang can succeed. We certainly hope so, because if they can't, no one will.

Our favourite Japanese market daily rejoiced in late February when the front page of the "Economist" magazine was entitled "Japain". The financial press has an excellent record as a contrary indicator of market tops and bottoms and his view was that surely the "Economist's" predictably negative piece might presage a bottom in the market (or at least a top in negative sentiment). Short term traders who rushed to sell Japan on reading the economist looked clever a few weeks later as the Topix index suffered melt-down in the first half of March. At the March 17th low, the index was down 13% for the month, but their unrealised gains would have

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

been largely whittled back in the four weeks since that point. Maybe it was the bottom.

There are many reasons to not be cheerful about Japan and we agree with the thrust of the "Economist's" piece. Where the investment world has got it wrong in our view is in the misperception that the Japanese economy is tumbling into recession. There is no hard data to support this view. The best one can point to is the reduced year-on-year gains in such quintessential cyclical series as the Machine Tool orders, which in March had recorded an annual rise of 2.9%. It is true that the domestic portion of this series is showing an annual decline, whilst the foreign portion remains positive. Given the fact that sales overseas are usually more profitable than those at home, I doubt if Japan's machine tool manufacturers are too concerned. Yesterday saw a major (upwards) revision to the February Industrial Production numbers with the new figure showing a 1.6% MoM increase against the earlier ones that recorded a 1.2% MoM decline. February's number was a new high and belies the view that economic activity has been slowing in Japan for the past half year or more.

So what does all that mean? Our portfolio still reflects a wary outlook. The Yen is stronger and the US economy is weaker. Both of these are "bad" for Japanese manufacturers. The Topix index has fallen 31% from June 2007 to end of March 2008 and one cannot suggest that the equity markets of Japan are dominated by wild-eyed optimists (even if you might think we are!). The worst performers are mixed, with Real Estate, Banks and Other Financials (all domestics) in the bottom six performing sectors in good company with Steel, Non-Ferrous Metals and Autos (externals) – all down between 34 and 44%. It is worth noting that the only seller of Japanese equities in the past nine months has been foreigners, so if they have sold enough, then there is little reason to think the market will decline. Japan is deeply unpopular, with global investors (per the latest Merrill Lynch survey) as underweight Japan as they have been since early 2003. It is not always wrong to be in the consensus, but it is not a comfortable place for us to sit. We aim to begin boosting our exposure in the near future.

Recent 3 month Fund Exposure

% of NAV in	Jan 08	Feb 08	Mar 08
Long Stock Position	77.62	75.04	76.96
Short Stock Position	-18.01	-17.95	-20.54
Index Futures	-37.76	-37.19	-37.67
Equity Derivatives	-4.99	-6.96	
Net Exposure	16.86	12.95	18.75

Performance Statistics

Last 12 Months	-11.86%
3 Yr Annual Average Return	6.38%
5 Yr Annual Average Return	12.22%
Average Annual Return Since Inception*	9.60%

* Initial Series Used

Position Concentration

	Top 5	Top 10
Longs	20.35%	35.83%
Shorts	-9.35%	-15.79%
Total no. positions	51	

Top Five Positions

Fanuc
Sumitomo Corp
Mitsubishi UFJ Financial Group
Toyota Motor
Mitsubishi Corp

Winners

Nikkei 225 Index Future (Short)
Dainippon Ink & Chemicals (Short)
Nikkei 225 Index Call Option (Short)
Olympus (Short)
Nippon Suisan Kaisha (Short)

Losers

Tokyo Tatemono
Star Micronics
Hitachi Construction Machinery
Tokyu Co
Komatsu

Sector Exposure *as at 31 March, 2008*

	Longs	Shorts	Net
Materials	13.10%	-1.70%	11.40%
Industrials	27.71%	-5.20%	22.51%
Financials	16.77%	-3.90%	12.87%
Energy			
Consumer. Non-Disc		-2.67%	-2.67%
Consumer Disc	14.20%	-3.73%	10.47%
Utilities			
Telecom			
Technology	5.18%	-3.34%	1.84%
Total Equity	76.96%	-20.54%	56.42%
Index Futures		-37.67%	-37.67%
Net Exposure	76.96%	-58.21%	18.75%

March Qtr Sector Performance – P&L

	Longs	Shorts	Total
Materials	-1.73%	0.95%	-0.78%
Industrials	-5.23%	0.22%	-5.01%
Financials	-2.76%	0.55%	-2.21%
Energy			
Consumer Non-Disc		0.05%	0.05%
Consumer Disc	-2.89%	0.45%	-2.44%
Utilities			
Technology	-2.00%	0.49%	-1.51%
Fx and Others	2.09%		2.09%
Index Futures		4.57%	4.57%
Total	-12.53%	7.29%	-5.24%

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 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				-20.56

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

Year to June	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				-20.61

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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***