Report to Unitholders of the Optimal Japan Trust – *March 2009*

Optimal FUND MANAGEMENT

Performance % - *as at 31 March 2009*

	NAV	March	Qtr.	YTD	Asset size
OJT Series 1	A$10.69	1.91%	-2.02%	-11.58%	A$46M

It is no surprise that with information so immediately available and overly abundant, investors have already begun worrying that the rally since early March has been no more than a slowing in the rate of deterioration of the global economy. Their worry might easily prove to be well-founded however, as few countries have shown evidence that the private sector is willing to either invest more or consume more. Governments have willingly or unwillingly embarked on massive fiscal stimulus programmes and central banks have all cut rates and eased monetary conditions. Housing affordability has improved greatly - a cocktail of lower prices and cheaper borrowing – but consumers remain fearful that they will lose their jobs while companies worry that re-financing will be difficult and punitively expensive. Where the market conditions permit, companies are taking the opportunity to re-capitalise with fresh equity capital and thereby give themselves a buffer should bank lending or bond issuance become impractical. In this regard, Japanese company management and boards are behaving like their western peers and looking to equity investors for new funds, but the market certainly feels like it is willing to pay a premium for stronger balance sheets and dominant market share. For the moment, the idea of attaining a higher RoE by re-leveraging the balance sheet is no more popular than a banker at a barbeque. What a change from two short years ago.

In times such as these, when companies have little confidence in their ability to predict demand, it is easy for portfolio investors to become weather-cocks that turn in whatever direction the wind (daily commentary) blows towards. We admit culpability here and sometimes struggle to recall why one felt bullish last week and bearish this one. Certainly the extent of the decline in many economic indicators makes it very difficult to predict a better economic picture with any confidence about timing or magnitude. In the industries that are heavily dependent on global economic demand, the procession of downgrades to earnings and production cuts would normally be associated with poor performance in the stock market. In the past six months however, these are precisely the areas that have led the market and achieved strong positive returns. Non-ferrous metals, machinery, trading companies, shippers, autos and paper have all returned greater than 20% since late October (the "Cyclicals' bottom") whereas the Topix index is up by 6% in that period. The worst returns have come from a mixed bag of sectors that include securities companies, leasing and consumer finance companies, electric power & gas, drugs, real estate, railways and retail. None of these account for a huge part of the market on their own, but generally, they are of a domestic nature and are mainly seen as defensives. Nothing could better illustrate the old maxim that the equity market is a "forward looking discounting mechanism" when one considers the highly cyclical industries that have performed best in spite of a relentless deluge of disappointing earnings and shocking forecasts. Just as the cyclicals looked cheap on estimates of earnings back in mid 2007, they now look expensive as analysts slash their forecasts for company profits. In mid-2007, the cyclical sectors traded on Price-to-Book ratios of two or more – well above the average for the market as a whole – whereas by late 2008, the PBR was down to 0.5-0.9x while the market average had fallen to around 1x. If there is a lesson to be learned, at the very least it must be to reduce cyclicals when their PBR exceeds the market average and look to add to them when it is well below. It is counter-intuitive, but one rarely makes money by doing what most people have already done.

The same distinction between the winners and losers in the March quarter can be seen looking at our best and worst stocks. On the long side, we did well in auto (Suzuki Motor), materials (Hitachi Metals and Mitsubishi Materials), machinery (Fanuc) and glass (Asahi Glass) while our worst came from retail (Yamada Denki & Daiei), telecom (NTT) and real estate (Mitsui Fudosan & Tokyo Tatemono). Our shorts showed a similar split along industry sector lines.

As we write, the Japanese equity market is up 21% from the closing low of Topix 700 on March 12th, but it is still down 52% from the level it reached at the end of June 2007. We believe there is an "air-pocket" between 700 and 1000 as the Y34tn (USD 340bn) net buying by foreigners (and they were the only real buyers) that occurred in the four years to March 2007 took place with Topix index average levels between 990 and 1650. Should Topix approach the 1,000 level, we would expect some stale bulls to begin liquidating their positions, but our experience tells us that up until then, buyers will encounter only modest selling from foreigners.

It would be unfair to Japan's government not to mention their uncharacteristic burst of energy and action over the past month. Far from taking the usual prone position that Japanese leaders prefer when building their profile at inter-governmental meetings, PM Aso was positively fire-breathing at the recent G 20 gathering in London. He promised more stimulus measures from his government and admonished the European leaders who felt that further public indebtedness was not the right approach to take in dealing with the GFC. It will be some time before we will know whether all this welter of pump priming and government guarantees has been the right medicine or not, and certainly Mr Aso will no longer be in office, but the range and scale of his government's actions has been a positive surprise to anyone who has had reason

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to observe Japanese leadership (an oxymoronic combination I know) over the past twenty years or so. These range from cash hand-outs to a capped and flat toll for motorists on Japan's highways. With domestic savings already high, these new attempts to spur consumption might not work, but that is not a reason to decry the attempt.

More imaginative was the law passed on March 27th that abolished the taxation on dividends earned by Japanese companies' overseas subsidiaries and brought back to Japan. For a long list of major Japanese manufacturers, this is a significant reduction in their accrued tax liabilities and importantly, it neither imposes a requirement that the proceeds be used for a particular purpose (i.e for capex as had been tried before in the US) nor includes a sunset clause. The tax break is open-ended.

The sums are not insignificant, while the foregone tax is presumably very significant for a government with a budget deficit. We have been surprised by the lack of attention paid to this new tax break and believe that the market's reaction has not factored it in by any means. Toyota is estimated to have Y657bn in such accrued liabilities, while Honda has Y268bn and Nissan Y456bn (equal to over 20% of market cap). Murata has already revised up its forecast for net profits in the current fiscal year due to writing back their tax liabilities, so it is real, and meaningful. We have added positions in Honda, Toyota, Rohm and increased the position in Shin-Etsu Chemical since month-end, largely on the back of this change and increased net exposure to around 25%.

Recent 3 month Fund Exposure

% of NAV in	Jan 09	Feb 09	Mar 09
Long Stock Position	57.28	53.80	50.44
Short Stock Position	-15.57	-15.56	-19.33
Index Futures	-13.09	-12.07	-15.83
Equity Derivatives			
Net Exposure	28.62	26.17	15.28

Performance Statistics

Last 12 Months	-10.47%
3 Yr Annual Average Return	-2.39%
5 Yr Annual Average Return	4.38%
Average Annual Return Since Inception*	7.78%
* Initial Series Used	

Position Concentration

	Top 5	Top 10
Longs	20.08%	34.82%
Shorts	-9.00%	-15.51%
Total no. positions	39	

Top Five Positions

Nippon Telegraph & Telephone Corp
Nintendo Co
Yamada Denki Co Ltd
Fanuc Ltd
Mitsui Fudosan Co Ltd

Winners

Nikkei 225 Index Future (Short)
Suzuki Motor Corp
Hitachi Metals Ltd
Fanuc Ltd
Asahi Glass Co Ltd

Losers

Yamada Denki Co Ltd
Nippon Telegraph & Telephone Corp
Mitsui Fudosan Co Ltd
Tokyo Tatemono Co Ltd
Nintendo Co Ltd

Sector Exposure *as at 31 March, 2009*

	Longs	**Shorts**	**Net**
Materials	4.71%	-2.63%	2.08%
Industrials	7.64%	-4.87%	2.77%
Financials	11.08%	-6.40%	4.68%
Energy	-	-	-
Consumer. Non-Disc	2.06%	-	2.06%
Consumer Disc	9.36%	-	9.36%
Utilities	-	-1.19%	-1.19%
Telecom	8.29%	-	8.29%
Technology	7.30%	-4.24%	3.06%
Total Equity	50.44%	-19.33%	31.11%
Index Futures		-15.83%	-15.83%
Net Exposure	50.44%	-35.16%	15.28%

March Qtr Sector Performance – P&L

	Longs	**Shorts**	**Total**
Materials	2.15%	-0.08%	2.07%
Industrials	2.78%	0.27%	3.06%
Financials	-3.75%	1.64%	-2.11%
Telecom	-2.61%	-	-2.61%
Consumer Non-Disc	-0.64%	0.94%	0.30%
Consumer Disc	-1.81%	-	-1.81%
Utilities	-	0.20%	0.20%
Technology	0.20%	-0.32%	-0.12%
Health Care	-1.06%	-	-1.06%
Fx and Others	-2.31%	-	-2.31%
Index Futures	-	2.38%	2.38%
Total	-7.05%	5.03%	-2.02%

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				-11.58
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				-11.60

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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***