

**Monthly Performance % - as at 30 May 2008**

NAV	May	Financial YTD	Asset size
A\$12.85	1.34%	-14.51%	A\$60M

Coming after an extraordinarily strong April, we were surprised to see the Japanese market continue to rise in May. The Yen weakened slightly against the USD (which has signaled a better equity market in recent times) but even when measured in USD, the Topix index was up 2.5% for the month. Global equity markets have been broadly stronger since mid-March but display increasingly schizophrenic tendencies. I know that we – along with many participants - like to ascribe some animus to the Market, as if it exercised some independent will in pushing stocks up and down. If the Markets have been schizophrenic however, the commentary of the professionals (we use the word in its loosest sense) is even more topsy-turvy. Today we came to work to find that the US equity indices were all up by 2% or so and to our amazement, this strength was apparently (so Bloomberg news told us) because “the oil price rose”. I am sure it was only a couple of days ago that we read of the risks of higher oil prices and General Motors’ likely decision to stop producing their iconic Hummer vehicles because they guzzle too much fuel. Now we are asked to believe that equity markets go up when the oil price rises. It is better not to dwell on it for too long.

May’s worst performing sectors in Japan were mainly the domestics ones although this neat explanation falls down when we see Paper, Oil and Construction filled three of the top four positions. Our portfolios are not heavily exposed in many of these sectors but happily we do have steel and trading companies which were up 9 and 8% respectively. These are big gains, but pale when compared with the rise in some sectors since the low in mid-March. Banks (+34%), Real Estate (+39%) and Steel (+40%) have been stand outs and have helped our Fund’s performance over that two-and-a-half month period. Our other financials have also done well with MUFJ Lease up 48% and Nomura Securities up 27% to the end of May. In total, the Fund has almost 20% of its long exposure in financials and we do not plan to cut this exposure any time soon.

It is funny how as prices rise, so too does the output of positive commentary. It is usually a warning sign to us. In Japan’s case however, we do think it is different. As we have mentioned in previous monthly reports, the western world’s financial press is biased against Japan and creates bad news out of thin air. We are firmly of

the opinion that by the time the financial press runs positive news on Japan the Topix index will be closer to 2000 than where it sits today (at 1420). Given the hand-wringing from journalists over the failure of The Childrens Fund to get their way with J-Power, it must have been a surprise to them when the management and directors of Aderans (venerable maker of wigs for men) were turfed out by shareholders’ vote at the company’s AGM in late May. What will result from this we do not know, but are delighted that shareholder democracy has finally had a victory. Our strong suspicion is that all of us will be shocked by the improvements in corporate governance - or at least shareholder rights - that will take place in the year ahead. It is not before time, and will inevitably not go far enough, but share markets respond more to a change of direction than to guessing where the journey might end, and in this area at least, the effect on Japanese equities could be large.

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## Recent 3 month Fund Exposure

% of NAV in	Mar 08	Apr 08	May 08
Long Stock Position	76.96	77.10	79.48
Short Stock Position	-20.54	-20.91	-15.90
Index Futures	-37.67	-23.08	-22.85
Equity Derivatives			
Net Exposure	18.75	33.11	40.73

## Optimal FUND MANAGEMENT

Should you wish to make an enquiry about the Optimal Japan Trust, please see our website – [www.optimalasia.com](http://www.optimalasia.com) or contact us at – [optimal@optimalasia.com](mailto:optimal@optimalasia.com)

## Position Concentration

	Top 5	Top 10
Longs	21.19%	38.78%
Shorts	-7.93%	-13.43%
Total no. positions	48	

## Top Five Positions

Mitsubishi UFJ Financial Group
Fanuc
Sumitomo Co
Sumitomo Mitsui Financial Group
Hitachi Construction Machinery

## Winners

Sumitomo Co
Hitachi Construction Machinery
Suzuki Motor
Mitsubishi Electric
Mitsubishi Co

## Losers

Nikkei 225 Index Future
Showa Denko
Mitsubishi UFJ Financial Group
KK Davinci Advisors
Japan Steel Works

## Sector Exposure as at 30 May 2008

	Longs	Shorts	Net
Materials	9.80%	-4.47%	5.33%
Industrials	30.54%	-0.90%	29.64%
Futures	-	-22.85%	-22.85%
Financials	23.11%	-1.12%	21.99%

	Longs	Shorts	Net
Consumer Non Disc	-	-1.12%	-1.12%
Consumer Disc	10.60%	-6.13%	4.47%
Options	-	-	-
Technology	5.43%	-2.17%	3.26%

## 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	2.21	-0.67	6.20	1.34		-14.51

## 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	2.17	-0.71	6.19	1.42		-14.50