

Monthly Performance % - as at 31 May 2010

NAV	May	YTD	Asset size
A\$10.51	-5.91%	-2.50%	A\$41M

The drama in markets at the start to May continued through the month. It was a dreadful month in all markets, with USD returns ranging from the bad (such as Topix -7.9%) to the ghastly (such as Australia -16%). We must confess that we did not see it coming. Compared with dramatic events in other countries, Japan's May was not particularly newsworthy. The UK got a new coalition government, Greece grabbed more world-wide attention with its bail-out than it has for over 2000 years, Australia's government scared mining entrepreneurs and capitalists alike by declaring a tax on "super profits". Japan merely drifted towards another change of Prime Ministers (albeit this occurred in early June).

With his own support levels below 20%, the writing was on the wall for PM Hatoyama and with upper house elections due in July, he duly resigned his position. He may well have done a great deal more good for his party than by making way for a new leader in that he clearly demanded the simultaneous resignation of Mr Ichiro Ozawa as Secretary General of the DPJ. Mr Ozawa has long been a divisive figure in Japanese politics, but in light of recent further accusations of financial misconduct, his presence in the powerful party leader's role was not helping his parliamentary colleagues. The new Prime Minister Naoto Kan quickly moved to erase Ozawa's legacy by appointing new ministers to important posts who are known as being independent of his influence and the resultant surge in the DPJ's popularity would seem to confirm that the electorate is keen to make a fresh start with hard-nosed and capable policy makers. The upper house poll date has not been confirmed but should be in mid-July and Mr Kan has made a good start to his premiership in the past week.

There is mounting speculation that the consumption tax rate will be lifted from 5% to 10% (and to go higher later) with likely effect from March 2012 and that this will be sweetened by a cut of 5% in the corporate tax rate from its current level of 40%. Unlike in the mid 1990s when then Prime Minister Hashimoto lifted the consumption tax from 3% to 5%, polls show that the majority of Japanese support the mooted increase and the tax hike is not likely to have the severe dampening on consumption that the small increase had back then. We believe that a lot more needs to be done by the Japanese government in addressing their inefficient tax system, but these moves certainly make sense to investors.

The 15% fall in the market (Topix index in Yen) since mid April has brought Japanese company valuations back into their bottom zone and we expect support from domestic

investors around these index levels. Apart from the market's spike low after Lehman's demise, the current situation is as cheap (oversold) as it was in late 2002 and at the risk of going over familiar ground, is worth a few comments. The market (defined here as the stocks listed on the Tokyo Stock Exchange's First Section) trades on a PBR of 1.04x, on a 12 mth forward PER of 16x and carries a dividend yield of 2.04%. Of this universe of companies, fully 65% trade at prices below book value and this compares with 63% in December 2002. Profits are expected to grow by 43% in the current year to March 2011 and then by a further 21% in the following year, which would take the market PER down to around 13x. This in a country where the 10 year government bond currently yields 1.2%. Enough said I think.

New additions:

We would like to advise readers that we have been busy in the past couple of months with new hires and are delighted to introduce two new members of the investment team. In early May, **Boon Hong Yeo** joined Optimal to work with the Sydney investment team on Asia – ex Japan. Boon has 23 years experience in investing in Asian equities and most recently was head of Asia (ex-Japan) equity portfolio management for Credit Suisse Asset Management – based in Singapore and Sydney. We are thrilled to have someone with Boon's experience and quality join us and plan to launch an Asian absolute return long fund for Boon to manage in the near future.

In addition to this, we have hired **Tanuj Dutt** who will start work in the investment team from July. Tanuj's role will encompass portfolio risk analysis and construction and will work with the portfolio managers across both Japan and Asian investments. Tanuj has had many years experience working in the highly regarded quantitative research unit for Citigroup (formerly Salomon) based in Singapore and also had a number of years working in a large buy-side firm covering pan-Asian equity markets. His experience will be highly relevant in a number of areas of our portfolio management and we are all looking forward greatly to working with him.

We look forward to introducing both Boon and Tanuj to investors at the earliest opportunity.

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Recent 3 month Fund Exposure

% of NAV in	Mar 10	Apr 10	May 10
Long Stock Position	77.83	82.92	92.61
Short Stock Position	-10.13	-9.85	-7.02
Index Futures	-22.24	-21.14	-28.97
Equity Derivatives			
Net Exposure	45.46	51.93	56.62

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Position Concentration

	Top 5	Top 10
Longs	25.59%	42.67%
Shorts	-	-
Total no. positions	44	

Top Five Positions

Mitsubishi Estate Co Ltd
 Toyota Motor Corp
 Chuo Mitsui Trust Holdings Inc
 Hitachi Ltd
 Nippon Telegraph & Telephone Corp

Winners

Nikkei Index Future (Short)
 Taiyo Yuden Co Ltd (Short)
 Asahi Breweries Ltd (Short)
 Nabtesco Corp
 Mitsui & Co Ltd (Short)

Losers

Mitsubishi Estate Co Ltd
 Tokyo Tatemono Co Ltd
 Fujifilm Holdings Corp
 Toyota Motor Corp
 Sumitomo Realty & Development Co Ltd

Sector Exposure as at 31 May 2010

	Longs	Shorts	Net
Consumer Disc	17.41%	-	17.41%
Consumer Non Disc	3.83%	-2.44%	1.39%
Financials	25.49%	-	25.49%
Futures	-	-28.97%	-28.97%

	Longs	Shorts	Net
Industrials	21.29%	-0.66%	20.63%
Technology	12.72%	-2.27%	10.46%
Materials	7.45%	-	7.45%
Telecommunication	4.41%	-1.65%	2.76%

Performance Contribution	Longs	Shorts	Futures	Other	FX Forwards	Total
	-11.33%	0.72%	3.35%	1.35%	NA	-5.91%

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	-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		-2.50

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	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		-2.55

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