Monthly Report to Unitholders of the Optimal Japan Trust – *November 2009*

Optimal FUND MANAGEMENT

Monthly Performance % - *as at 30 November 2009*

NAV	November	YTD	Asset size
A$9.94	-5.15%	-7.79%	A$38M

While every other equity market in the universe was up in November, Japan's Topix index fell 6.1%. This - for investors in Japan - is disappointing but unfortunately not a new phenomenon. The unusual aspect of November is that the Nikkei 225 index actually fell further than the Topix (-6.9%) whereas for the 2009 year-to-date, the Nikkei's return is more than 10% greater than that of the Topix.

Commentators often talk of the Nikkei when describing the Japanese equity market's performance, but it is a strange and unrepresentative index that is compiled on a price-weighted basis (like the Dow Jones Industrial Average) rather than a market cap-weighted basis (like the S&P 500). This results in some very strange anomalies, and a particularly big one this year is the contribution to the indices by Fast Retailing. At a share price of over Y15,400, Fast Retailing is the largest component in the Nikkei 225 with a weight of 6.16% while in the Topix index it is a mere 0.28%. The shares have risen over 19% this year and thus have made a significant positive contribution to the Nikkei while their impact on the Topix has been minimal. Other factors at work in explaining the big divergence between these indices is the higher weighting of tech stocks (namely via Electrical Appliances and Precision Instruments) in the Nikkei index and low weighting of Banks. Tech has done well in 2009, with Precision the best sector so far +47% and the Electricals 6th best +30% while Banks come 30th of the Topix 33 sectors -23%.

Whilst never particularly heavy in Banks, the Fund has had more than we'd wished and less than we would have liked in Tech stocks. Coupled with an index short position over the year using Nikkei futures, these decisions have been negatives for our return this year.

Part of the weakness in the banks can be put down to the sluggish demand for loans in a deflationary economic environment while more recent weakness has been caused by expectations that they would need to raise more equity. November was a big month for equity issuance in Japan with deals of almost Y2trillion (USD 22bn) being announced. This new equity supply, coupled with a Yen which stubbornly rallied from Y90/US$ to 86/$ over the month, were generally seen as the culprits for Japan's dismal performance. Currency forecasting is not a strong suit of ours but I think it safe to say that should the Yen weaken (and the USD strengthen) we will see a strong rally in Japanese equities. Already in December, with a modest move to dollar strength, there has been a 5% gain in the index and it is tempting to believe that the massive consensus that is bearish on the USD might well signal the bottom.

The long-running saga that was the takeover of Sanyo Electric by Panasonic finally came to a conclusion in early December as Panasonic announced it had formally acquired 50.1% of Sanyo's shares. The deal makes sense for Panasonic if the premise is correct that Sanyo's technology in Lithium Ion batteries (especially for auto use) is better than the rest and can be translated into corporate value for Panasonic and its long-suffering shareholders. Although it is unlikely to ever admit it, Panasonic seems to be pursuing a strategy that eschews further low-margin competition in production of digital consumer electronics products in favour of being a maker of energy efficient electrical and automotive appliances. The diffusion of whitegoods and autos is rising rapidly in the developing economies and where afforded by public finances (or grants from richer countries) consumers will be encouraged to purchase the energy efficient and "clean" model. In spite of strained public finances, developed world governments are all likely to encourage consumers shifting to the fuel efficient products and it might well be an area where Japanese producers (from Panasonic to Toshiba) hold a globally dominant position.

Japan Airlines (JAL) lurches from suitor to suitor as the Japanese government looks at ways to keep the national "flag-carrier" afloat with input from the private sector as well as the taxpayer. This is a potentially important test case as a huge part of the problem with JAL is the massive cost of paying for past employees' retirement benefits and providing for those due to current workers. Public opinion has surprisingly (to me) moved in favour of mandating a reduction in these entitlements and should this happen, it will ignite further debate about the desirability of allowing other Japanese companies to follow suit. Neither Delta nor American Airlines will be eager to commit their shareholders' funds to buy a stake in a business that continues to bleed, so the importance of this matter can't be overstated. Younger workers in Japan are acutely aware of the large and growing burden they will carry to support older and retired workers, and we are hopeful that the Japanese government shows leadership on this matter and takes a hard decision to allow for reduced entitlements.

Looking at forecasts for profits for 2010 and valuations, Japan trades at a significant discount to its ten year average in terms of PER, PBR, PCFR and at a much higher dividend yield. In spite of this it will produce an RoE greater than its ten year average and so one can conclude it is relatively undervalued. Using the same methodology for non-Japan Asia, the markets look to be valued at "average" levels. Rather than us stating the obvious conclusion from this, we will finish with the following comments from CLSA's strategists:

Not all good but certainly not as bad as prices suggest. We are no apologists for Japan. The country certainly has its fair share of problems. But valuations have fallen to an extreme level that will make it dangerous to ignore one of the largest economies on the planet. While earnings are still depressed, the market is extremely cheap on a PB basis as well as on a price/sales basis. If earnings recover as we believe, valuations should rise from here. Our target price for the market is a modest one, as it is based on a target PB multiple that is one standard deviation below its long-term average. Yet even that offers still 26% upside to our Topix target of 1,120.

CLSA Japan strategy from 14 Dec 2009

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Recent 3 month Fund Exposure

% of NAV in	Sept 09	Oct 09	Nov 09
Long Stock Position	77.56	77.71	81.15
Short Stock Position	-9.11	-10.68	-13.84
Index Futures	-19.99	-18.38	-18.73
Equity Derivatives			
Net Exposure	48.46	48.65	48.58

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Position Concentration

	Top 5	Top 10
Longs	24.02%	42.06%
Shorts	-12.04%	-
Total no. positions	40	

Top Five Positions

Nippon Telegraph & Telephone Corp
Mitsui Trust Holdings Inc

Toyota Motor Corp
Mitsui & Co Ltd

Nippon Steel Corp

Winners

Nikkei Index Future (Short)

Hitachi Construction Machinery Co Ltd (Short)
Mitsubishi Estate Co Ltd
Nomura Holdings Inc

Sumitomo Realty & Development Co Ltd (Short)

Losers

Tokyo Tatemono Co Ltd

Mitsui Trust Holdings Inc

Nintendo Co Ltd
Sumitomo Mitsui Financial Group Inc
Nippon Steel Corp

Sector Exposure as at 30 November 2009

	Longs	**Shorts**	**Net**
Materials	10.97%	-	10.97%
Industrials	12.66%	-4.02%	8.64%
Technology	7.80%	-3.05%	4.75%
Financials	14.66%	-0.80%	13.86%

	Longs	**Shorts**	**Net**
Consumer Non Disc	2.93%	-	2.93%
Consumer Disc	21.63%	-1.98%	19.65%
Telecommunication	10.49%	-3.98%	6.51%
Futures	-	-18.73%	-18.73%

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	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								-7.79

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	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								-7.82

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