

**Monthly Performance % - as at 31 October 2008**

NAV	October	YTD	Asset size
A\$11.29	-0.44%	-6.62%	A\$52M

We have stopped counting how many days on which the market set a new record of one sort or other during October. Events that were thought so statistically unlikely as to interest only the most gloomy of Cassandras have been popping up on a daily basis. The canaries in the coal mine have long since expired, the pious birds of good omen were last sighted heading west over the Galapagos Islands but the dreaded black swans are seen everywhere – not just in their native Western Australia. We are sick of them and hope a statistical magician can make them disappear – before the equity markets do!

In the interest of completeness we feel the need to record that in the month of October, the Topix index fell 20.26% in local currency but *only* 13.8% measured in USD.

The return from the thirty three Topix industry sectors ranged from -38% for ships to +2% for the electric & gas utilities. Readers might recall that we were long standing supporters of the Japanese shipping companies (from 1999 until 2007 in fact) but we are mightily relieved that we did not own any last month. Such was the carnage in investments during October I expect that in the global league tables for worst performing assets, Japanese equities do not come close to taking a medal. We have had quite enough disappointment in the Japanese equity market over the past two decades that relatively smaller losses are of no comfort to us.

Over the past couple of months, we have reduced our total long equity positions and in that we are typical of the foreign investor in Japan. Up to the end of the first week of November, foreigners have sold a net Y2.1tn while the other investor category that has used leverage - “proprietary Trading” – has sold Y3.1tn. This selling has been taken up by the combined net buying of Trust Banks (who manage Japanese pension funds), Business Corporations and Individual Investors. All these three investor types are largely unleveraged. In the three years to the end of 2007 however, the actions of these two camps were the opposite. Foreigners and Prop Trading bought a combined Y20tn in that period while individuals and the Trust Banks sold Y20tn. Leaving long-held assumptions about investment acumen to one side, it is noteworthy that as de-leveraging sucks money out of equities and into cash, Japanese un-leveraged investors are clearly willing to buy equities at levels of undoubted good value.

In another positive sign, there has been a rush of companies announcing buy-backs since a change in the law came into effect on October 13th which allows company boards to announce buy-backs without the need to get approval from shareholders. In the month since October 13th, 354

companies have announced buy-backs against a more “usual” number of between 100-200. Japanese companies have been steady and significant buyers over the past four years with net purchases of Y6.3tn - almost 2% of total market capitalisation. In addition to the corporate buying, we see the apparent appetite for greater risk evident in the buying from individuals as an extremely positive sign, and one that we believe needs to be monitored very closely. Foreigners will keep selling as long as global sentiment remains so negative towards equities. Their record in the Japanese equity market however, has been more of a contrary indicator for future returns than anything else.

We won't try and predict when the market recovers to what we consider is fair value. We are very comfortable with the fact that bargains abound if one has a modest time horizon for one's demanded return. I will borrow from Grant's Interest Rate Observer (Oct17th edition) to best describe the current stasis in the hunt for investment bargains: “...the experience of losing large sums of money has impaired their capacity for concentrated study”. It is hard to get anyone to concentrate on potential upside when the next day's downside might set a new record.

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## Recent 3 month Fund Exposure

% of NAV in	Aug 08	Sept 08	Oct 08
Long Stock Position	74.93	62.19	60.89
Short Stock Position	-29.67	-22.35	-16.08
Index Futures	-28.57	-32.50	-35.22
Equity Derivatives			
Net Exposure	16.69	7.34	9.59

## Optimal FUND MANAGEMENT

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## Position Concentration

	Top 5	Top 10
Longs	23.36%	39.08%
Shorts	-8.93%	-14.62%
Total no. positions	40	

## Top Five Positions

Sony CB 12/18/08  
Fanuc  
Mitsui Fudosan  
Yamada Denki  
Nomura Holdings

## Winners

Nikkei Index Future Dec 08  
Mazda Motor Co  
Sumitomo Realty and Development  
Nikon Co  
Konica Minolta Holdings

## Losers

Yamada Denki  
Asahi Glass  
Taiheiyo Cement  
Mitsubishi UFJ Financial Group  
Nomura Holdings

## Sector Exposure as at 31 October 2008

	Longs	Shorts	Net
Materials	6.30%	-	6.30%
Industrials	13.17%	-	13.17%
Technology	4.95%	-4.33%	0.63%
Financials	14.17%	-6.47%	7.70%

	Longs	Shorts	Net
Consumer Non Disc	-	-2.22%	-2.22%
Consumer Disc	19.22%	-3.06%	16.16%
Telecommunication	3.08%	-	3.08%
Futures	-	-35.22%	-35.22%

## 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									-6.62

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									-6.58

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