

Monthly Performance % - as at 31 October 2011

	NAV	October	YTD	Strategy AUM
A\$ Series 1	A\$10.65	-0.09%	-5.08%	US\$60M

Japan refused to join in the general excitement in October and Topix closed barely changed from the end of September. The range from low to high within the month was 6.2%, which seems high by the standards of normal times, but in the feverish financial conditions we endure, Japan was an oasis of calm. It was rather too calm in fact as the rest of the world of equities had a very strong month, with the US up 11%, the European markets up over 9% and MSCI Asia-ex Japan up 13%. With the exception of the remarkably resilient US equity market which is up 4% year-to-date, and to a lesser extent the UK (down 3%), the returns from other parts of the world are remarkably similar at approximately -13%.

In an investment universe where country or regional returns are so similar, an active manager of equities needs to be able to justify his fees by showing his stock selection produced a better return than that of the market in which he operates. Some markets have proved more fertile in this regard than others, and we are pleased that Japan has indeed seen a higher dispersion among stock returns than many other equity markets in the region – Hong Kong and Australia in particular. At other times, macro factors have totally dominated stock returns and made the skills of the good stock picker redundant. The period from mid-2007 to mid-2010 was a particularly severe case of macro factor dominance in Japan but over the past year or more, the macro influences have been less powerful. By way of illustration of the dispersion within sector returns, in 2011 year-to-date, the best performing sector in Japan is up 14% (rubber) while the worst is down 49% (shipping). Twenty sectors have beaten the Topix index while thirteen are worse, but in the latter camp are the heavyweight index sectors transport equipment (auto), electrical appliances and banks. Not surprisingly, small caps have also significantly outperformed the largest cap stocks, continuing a trend that has been evident over the past couple of years.

One of our larger positions is the trading company Itochu – sometimes referred to as C. Itoh. We initiated the position in April 2010, buying the stock at a price of Y880 which valued it on a historic PER (3/10) of 10.9x and on a PER of 8.6x for the year that had just ended (3/10). The Itochu results for the first half of 2011 (year ending March 2012) were released a few days ago and net profits were up 54% versus the pcp. Although Itochu has seen strong revenue and profits growth from their Energy, Metals & Minerals division, there were also solid gains in their textiles and food divisions. At the current price of Y790, the shares trade at a PER of 5.2x the company's own estimate for full year profits and 4.7x the analysts' consensus forecast. A bear might say that with world growth prospects poor and minerals prices (coal, iron ore etc) set to fall, 4.7x is not cheap. The largest mining and energy stocks trade on significantly higher multiples however, with Petrobras on 12.3x, BHP on 8.1x and RIO on 7.3x. Only Vale is comparably lowly rated on 5.4x consensus estimates of December 2012 earnings – but that is on a declining earnings profile.

Having a large share of its revenue earned from handling fees and commissions, debt to equity of 2x is very unleveraged, and on historic Book Value of Y730, the company generates a return on equity of 23%. All of the indicators of balance sheet health, profitability, valuation and dividend yield are the most attractive ever, and we are confident that the shares will generate a good return. While the Topix index is down 16% so far this year, Itochu shares are down 3% but carry a dividend yield of over 4%. From these valuation levels, it is unlikely the total return over the coming year will be so paltry.

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Recent 3 month Fund Exposure

% of NAV in	Aug 11	Sep 11	Oct 11
Long Stock Positions	92.74	101.14	82.92
Short Stock Positions	-11.56	-13.29	-13.29
Index Futures	-41.66	-45.69	-30.46
Equity Derivatives	-	-	-
Net Exposure	39.52	42.16	39.17

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Position Concentration

	Top 5	Top 10
Longs	24.67%	44.07%
Shorts	-12.42%	-
Total no. of positions	36	

Top Five Positions

Mitsubishi Estate Co Ltd
 Canon Inc
 Asahi Kasei Corp
 JS Group Corp
 Aeon Co Ltd

Winners

CyberAgent Inc
 Sumitomo Realty & Development Co Ltd
 Softbank Corp
 Mitsubishi Estate Co Ltd
 Itochu Corp

Losers

JS Group Corp
 Nikkei Index Futures (short)
 Nabtesco Corp (short)
 Toagosei Co Ltd
 Nitto Denko Corp (short)

Sector Exposure as at 31 October 2011

	Longs	Shorts	Net
Consumer Discretionary	23.13%	-2.08%	21.05%
Consumer Non-Discretionary	4.65%	-2.87%	1.78%
Energy	2.96%	-	2.96%
Financials	19.19%	-	19.19%
Futures	-	-30.46%	-30.46%
Health Care	-	-3.25%	-3.25%
Industrials	12.86%	-2.19%	10.67%
Information Technology	8.61%	-0.87%	7.74%
Materials	9.11%	-2.03%	7.08%
Telecommunications	2.41%	-	2.41%

Performance Contribution

	Longs	Shorts	Futures	Other	FX Forwards	Total
October 2011	3.26%	-0.49%	-1.38%	-1.48%	N/A	-0.09%

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Historical Returns – Distribution Reinvested

Optimal Japan Trust Net Monthly Returns in AUD %

Annual Distributions

Year to Jun 00 *A\$1.4158*
Year to Jun 01 *A\$0.8989*
Year to Jun 02 *A\$0.8983*
Year to Jun 04 *A\$0.4713*
Year to Jun 05 *A\$1.4218*
Year to Jun 06 *A\$1.24*
Year to Jun 07 *A\$2.4179*

Year to June	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD
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The table below outlines the monthly returns of the Trust's Series 1.

2003			1.68	-4.38	-3.66	-0.42	1.80	1.98	0.41	-0.10	2.55	3.48	3.07
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	29.46
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	15.65
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	-3.24	-5.66
2011	0.49	-1.96	2.89	0.97	1.34	3.89	3.38	2.12	-3.46	-0.54	0.90	0.09	10.32
2012	-0.36	-3.94	-0.74	-0.09									-5.08

The table below outlines the monthly returns of the Trust's Initial Series since its inception in December 1999.

2000						0.58	-0.32	12.76	8.99	-1.53	2.45	11.82	38.99
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	-2.87	1.49	-3.58	1.77	-3.89	-5.46	1.10	1.47	2.07	-0.26	7.13	-2.92	-4.54
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	-3.25	-5.71
2011	0.47	-1.86	2.84	1.01	1.36	3.86	3.37	2.09	-3.44	-0.51	0.85	0.17	10.44
2012	-0.42	-3.90	-0.79	-0.09									-5.15

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