

Monthly Performance % - as at 31 July 2012

	NAV	July	FYTD	Strategy AUM
A\$ Series 1	A\$10.35	-1.80%	-1.80%	US\$43M

Although the Topix index return for 2012 is only 1.1% as at end of July, the monthly moves have been pretty wild with July's decline of 4.4% the smallest since March when the market rose a mere 2.2%. In the first seven months of the year, we have had two monthly moves greater than 10%, one of 7% and another of almost 6% and this is a year without either a man-made or natural disaster to speak of. It keeps us on our toes.

On the subject of disasters, ever since the Fukushima nuclear accident last March, the once staid and predictable utilities sector has been on a volatile trajectory – ultimately downwards - with sector heavyweights Kansai Electric and Chubu Electric both very weak in July. It is inconceivable that anyone actually sees Tokyo Electric Power's shares as investible at this point, especially with nuclear power policy still far from settled. In a poor month for Japanese equities, it is no surprise, however, that the other traditional defensive sectors all feature amongst the best performers with rail, food and pharma all making positive returns.

The rail sector is dominated by the three companies spun out of the former state-owned Japan National Railways Corp – JR East, JR Central and JR West – which to varying degrees have created a business model reliant on train travel, retail and property rental income. The laggard of these three has been JR Central, which operates the lucrative Shinkansen lines between Tokyo and Osaka. The reason for the lowly valuation is down to their plans to build a new super high-speed train using Maglev technology which will initially link Tokyo with Nagoya – the auto industry hub and Japan's third largest city. The capital requirement is so enormous that it has spooked investors who are naturally fearful that there will be an endless series of capital raisings. The irony is that their Shinkansen lines were largely built when the railway was a national public asset and JNR debt was government guaranteed. When the JNR was broken up into the three listed entities, the outstanding debt was parcelled out amongst the three companies and the steady revenue and cashflow has serviced this easily. We expect that for the new Maglev project to proceed, there will have to be a sizeable government contribution to the costs and were

this to occur, it would make the shares of JR Central a good investment. We do not own it, as we are not sure how much the return to shareholders features in the thinking of JR Central's board and management, but it is a subject that warrants further investigation.

As we have mentioned in previous reports our portfolio is biased towards domestic demand with most of the companies we own earning well over half their revenue in Japan. Amongst these are our holdings in the banks, which are domestic plays with an important growing exposure to lending and trade finance outside Japan.

Our non Japanese exposure is a mixture of auto-related, trading companies and heavy Electricals (Hitachi & Mitsubishi Electric) and we have just initiated a position in Shin-Etsu Chemical. Shin-Etsu is dominant in all its major products being number 1 globally in PVC (from its US subsidiary), number 1 in silicon wafers and number 2 in silicon resins. At a share price 20% off the 2012 high and less than half the level they reached in 2007 – despite maintaining net profits of more than \$1bn throughout the period – we believe they are a good buy below Y4,000.

The Fund's return in July was hurt by another large (-26%) fall in the shares of the airline Skymark and weakness in large positions such as Hitachi, JX Holdings and Sumitomo Mitsui Financial Group. Despite the 4.4% decline in the index we did have positive contributions from seven of our long positions, but by far the largest positive return came from the Fund's short position in Nikkei futures. The current June quarter earnings reporting season is nearing its end and it is clear that the strong Yen has hurt profits in a number of industries. Most companies have left their full year estimates unchanged, but on balance our impression is that profits have not quite met analyst expectations for the first quarter. While Japanese analysts will be aggregating the data over the next couple of weeks, outside Japan the real interest is just what is happening at Sharp, Sony and Panasonic. Their shares have plunged as losses mount and their combined market capitalisation is now less than one fifth of that of Samsung Electronics. They will need more than just a bit of Yen weakness.

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### Recent 3 month Fund Exposure

% of NAV in	May 12	Jun 12	Jul 12
Long Stock Positions	82.17	80.22	78.66
Short Stock Positions	-13.67	-15.62	-9.07
Index Futures	-17.32	-21.30	-24.71
Equity Derivatives	-	-	-
Net Exposure	51.18	43.30	44.88

### Optimal FUND MANAGEMENT

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### Position Concentration

	Top 5	Top 10
Longs	31.32%	51.48%
Shorts	-9.07%	-
Total no. of positions	31	

### Top Five Positions

Mitsubishi UFJ Financial Group Inc  
Hitachi Ltd  
Sumitomo Mitsui Financial Group Inc  
Itochu Corp  
Aeon Co Ltd

### Winners

Nikkei Index Futures (short)  
Brother Industries Ltd (short)  
Kao Corp (short)  
Unipres Corp  
Mitsubishi UFJ Financial Group Inc

### Losers

Skymark Airlines Inc  
JVC Kenwood Corp  
Hitachi Ltd  
JX Holdings Inc  
Sumitomo Mitsui Financial Group Inc

### Sector Exposure as at 31 July 2012

	Longs	Shorts	Net
Consumer Discretionary	12.63%	-	12.63%
Consumer Non-Discretionary	4.96%	-	4.96%
Energy	4.15%	-	4.15%
Financials	22.35%	-1.99%	20.36%
Futures	-	-24.71%	-24.71%
Industrials	24.42%	-4.09%	20.33%
Information Technology	7.74%	-2.99%	4.75%
Materials	2.41%	-	2.41%

### Performance Contribution

	Longs	Shorts	Futures	Other	FX Forwards	Total
July 2012	-2.90%	0.42%	0.66%	0.02%	N/A	-1.80%

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## Historical Returns – Distribution Reinvested

*Optimal Japan Trust Net Monthly Returns in AUD %*

## Annual Distributions

*Year to Jun 00* *Year to Jun 01* *Year to Jun 02* *Year to Jun 04*  
*A\$1.4158* *A\$0.8989* *A\$0.8983* *A\$0.4713*

*Year to Jun 05* *Year to Jun 06* *Year to Jun 07*  
*A\$1.4218* *A\$1.24* *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	-2.54	-0.29	1.16	4.87	1.46	-2.87	-4.99	2.53	-6.06
2013	-1.80												-1.80

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	-2.49	-0.27	1.10	4.89	1.47	-2.89	-4.99	2.49	-6.16
2013	-1.71												-1.71

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