

Monthly Performance % - as at 29 March 2013

| | NAV | March | FYTD | Strategy AUM |
|--------------|------------|--------------|-------------|---------------------|
| A\$ Series 1 | A\$12.49 | 3.82% | 18.50% | US\$35M |

The first full quarter under the Abe government has closed with the Topix index gaining 20% in local currency but less than 10% in USD unhedged. Even the return in USD compares well with other markets as evidenced by the 8% rise in the MSCI (developed) World index – and particularly relative to the -2% return of the MSCI Emerging Markets index.

The fireworks really went off in Japanese financial markets on the afternoon of Thursday April 4th at the press conference following the end of the Bank of Japan’s first meeting under new governor Mr Kuroda. Jaded observers of Japanese policy had wearily predicted another underwhelming set of policies and only a minority of commentators warned not to underestimate Mr Kuroda’s resolve to change monetary policy. Having been down 2%, the Topix index closed up nearly 4% on the day, the Yen fell from 93/\$ to 96/\$ and JGB yields – both in the 10 year and 30 year maturities – plummeted as the aggressive bond-buying policy was announced. There has been plenty of commentary and not a few commentators are concerned that the BoJ has overplayed its hand. We believe that these policies should have been introduced at least fifteen years ago, and had that happened the size of the response could have been a lot smaller, but the build-up of inertia that has occurred under Japan’s deflationary era required a “shock to unblock”, and Mr Kuroda has certainly delivered a big one.

Writing in an opinion piece in the Financial Times on April 5th, the day after the BoJ “bombshell”, Gavyn Davies called it a complete reversal of two decades of BoJ policy and an experiment in quantitative easing writ large. He finished his piece with the following paragraph:

“We are about to discover whether domestic monetary policy, working alone, can overcome a deflationary trap. In sharp contrast to all previous efforts by the BoJ, the Kuroda strategy will not fail for lack of scale. Although inherently risky, it has a reasonable chance of success, via its impact on financial markets, and on inflation expectations. Those are the places to look for early indicators of whether this unprecedented monetary “big bang” is succeeding or exploding in the wrong direction.”

Although loathe to lock horns with such an eminent economist, we think he is wrong to believe that the BoJ policy will be the sole instrument by which Japan exits deflation. Taxes are being cut (the corporate tax rate will fall from 40 to 30%) and companies given incentives to raise pay and hire workers. A growing list of major companies has already announced increased salaries or bonuses and consumer confidence is rising. To compensate for the planned increase in the consumption tax rate from 5 to 8% in April 2014, taxes on house and car purchases will be lowered and gifts for educational purposes (such as from grandparents) will be exempt from tax on amounts up to Y15mn.

The Bank of Japan will play a massive role through monetary policy, but will also be involved in broader macroeconomic discussions as the Governor is one of the eleven members of the Council for Economic and Fiscal Policy (CEFP), a body chaired by PM Abe and meant to design policy for the government in both monetary and fiscal matters. PM Abe will also sit on the Industrial Competitiveness Council which is focused on microeconomic policy with an emphasis on growth strategies. The third new policymaking body is the Regulatory Reform Council which will produce concrete proposals in time for the Government’s announcement of its economic growth strategy in June.

Already we have seen the effects of the BoJ’s new policy initiatives in the dramatic weakening of the Yen, the increase in equities and continued activity in J REITs and the property market. If these three advisory bodies do their work properly, Mr Kuroda and his deputy governors at the Bank of Japan will not feel they are acting in isolation and the passage from deflation will not be the work of the BoJ acting alone.

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Recent 3 month Fund Exposure

| % of NAV in | Jan 13 | Feb 13 | Mar 13 |
|-----------------------|--------|--------|--------|
| Long Stock Positions | 82.25 | 92.10 | 92.69 |
| Short Stock Positions | -10.88 | -11.63 | -8.96 |
| Index Futures | -13.19 | -14.22 | -13.75 |
| Equity Derivatives | - | - | - |
| Net Exposure | 58.18 | 66.25 | 69.98 |

Position Concentration

| | Top 5 | Top 10 |
|------------------------|--------|--------|
| Longs | 34.04% | 55.44% |
| Shorts | -8.96% | - |
| Total no. of positions | 30 | |

Winners (Qtr)

Mazda Motor Corp
Mitsubishi UFJ Financial Group Inc
Toshiba Corp
Sumitomo Mitsui Financial Group Inc
Itochu Corp

Performance Statistics

| | |
|-------------------------------------|--------|
| Last 12 Months | 12.12% |
| 3 Yr Annualised Return | 4.74% |
| 5 Yr Annualised Return | 0.90% |
| Annualised Return Since Inception * | 6.10% |
| * Initial Series Used | |

Top Five Positions

Mitsubishi UFJ Financial Group Inc
Sumitomo Mitsui Financial Group Inc
Hitachi Ltd
Sumitomo Realty & Development Co Ltd
Itochu Corp

Losers (Qtr)

Nikkei Index Futures (short)
Alps Electric Co Ltd (short)
Shiseido Co Ltd (short)
Dainippon Pharmaceutical Co Ltd (short)
Start Today Co Ltd (short)

Sector Exposure as at 29 March 2013

| | Longs | Shorts | Net |
|------------------------|--------|---------|---------|
| Consumer Discretionary | 16.55% | -1.59% | 14.96% |
| Consumer Non-Disc | 3.64% | -3.24% | 0.40% |
| Energy | 3.47% | - | 3.47% |
| Financials | 34.21% | - | 34.21% |
| Health Care | 2.56% | - | 2.56% |
| Industrials | 9.60% | -1.88% | 7.72% |
| Information Technology | 15.15% | -2.25% | 12.90% |
| Materials | 5.12% | - | 5.12% |
| Telecommunications | 2.39% | - | 2.39% |
| Total Equity | 92.69% | -8.96% | 83.73% |
| Index Futures | - | -13.75% | -13.75% |
| Net Exposure | 92.69% | -22.71% | 69.98% |

March Qtr Sector Performance – P&L

| | Longs | Shorts | Total |
|------------------------|--------|--------|--------|
| Consumer Discretionary | 5.65% | -0.85% | 4.80% |
| Consumer Non-Disc | 0.59% | -0.83% | -0.24% |
| Energy | -0.14% | - | -0.14% |
| Financials | 6.10% | - | 6.10% |
| Health Care | 0.36% | -0.52% | -0.16% |
| Industrials | 1.88% | -0.42% | 1.46% |
| Information Technology | 2.44% | -0.67% | 1.77% |
| Materials | -0.21% | - | -0.21% |
| Telecommunications | 0.59% | - | 0.59% |
| Index Futures | - | -2.50% | -2.50% |
| | 17.26% | -5.79% | 11.47% |
| FX and Other | - | - | -0.15% |
| Total | - | - | 11.32% |

| Performance Contribution | Longs | Shorts | Futures | Other | FX Forwards | Total |
|--------------------------|-------|--------|---------|--------|-------------|-------|
| March 2013 | 5.98% | -1.05% | -1.08% | -0.03% | N/A | 3.82% |

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Historical Returns – Distribution Reinvested

Annual Distributions

Optimal Japan Trust Net Monthly Returns in AUD %

| | | | |
|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| 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 | FYTD |
|--------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|------|
|--------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|------|

Series 1 (Inception August 2002)

| | | | | | | | | | | | | | |
|-----------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| 2012/2013 | -1.80 | -1.06 | 1.17 | 0.39 | 1.73 | 6.05 | 6.42 | 0.75 | 3.82 | | | | 18.50 |
| 2011/2012 | -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 |
| 2010/2011 | 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 |
| 2009/2010 | 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 |
| 2008/2009 | -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 |
| 2007/2008 | -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 |
| 2006/2007 | -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 |
| 2005/2006 | 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 |
| 2004/2005 | -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 |
| 2003/2004 | 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 |
| 2002/2003 | | | 1.68 | -4.38 | -3.66 | -0.42 | 1.80 | 1.98 | 0.41 | -0.10 | 2.55 | 3.48 | 3.07 |

Initial Series (Inception December 1999)

| | | | | | | | | | | | | | |
|-----------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| 2012/2013 | -1.71 | -1.10 | 1.11 | 0.37 | 1.73 | 6.09 | 6.42 | 0.71 | 3.86 | | | | 18.53 |
| 2011/2012 | -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 |
| 2010/2011 | 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 |
| 2009/2010 | 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 |
| 2008/2009 | -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 |
| 2007/2008 | -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 |
| 2006/2007 | -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 |
| 2005/2006 | 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 |
| 2004/2005 | -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 |
| 2003/2004 | 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 |
| 2002/2003 | -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 |
| 2001/2002 | -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 |
| 2000/2001 | -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 |
| 1999/2000 | | | | | | 0.58 | -0.32 | 12.76 | 8.99 | -1.53 | 2.45 | 11.82 | 38.99 |

Optimal FUND MANAGEMENT

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