Monthly Performance % - *as at 31 August 2007*

NAV	August	Financial YTD	Asset size
A$13.86	(6.98%)	(7.79%)	A$85M

One month ago, the Japanese stock market entered a week that would have to rank as one of its worst and certainly ranks with the worst I can recall since 1984. In the five trading days beginning with Monday August 13th, the Topix index fell by 9.4% and was down over 13% for the month at that point. During that second week of August foreigners sold a net Y752bn of Japanese equities – an amount equal to 1.5% of the Tokyo market's capitalisation – and for the month their selling totaled almost Y1 trillion (or just under $9bn). The reasons behind the selling have been discussed in morbid detail but are in any case almost entirely unrelated to events in the Japanese economy or financial world. Foreigners' share of turnover has risen steadily and sharply since the late 1990s and the rise in Japanese equities since 2003 has been due in great part to foreign buying. Not surprisingly, in the face of such aggressive and concentrated selling, the Topix index plunged but of considerable interest to us was the fact that all categories of Japanese investor were buyers through the month. Trust Banks (who manage the Japanese pension funds) had their biggest buy month for seven years, whilst Investment Trusts (the mutual fund managers) and individuals also show up as moderate net buyers. Encouragingly, the Japanese corporate sector was the second largest buyer of equity in August – presumably taking advantage of the weakness to buy back their own stock. Maybe the much-maligned Japanese investor is not as fey as many – including us – have felt, but in any case their buying could not prevent an eventual decline in the Topix of 5.7% for the month.

In times of considerable uncertainty, valuations make little difference to share prices in the short term. Eventually, however, prices reach levels at which either the longer term earnings prospects or the cushion provided from net assets induces buying and prices stabilise. We share the concerns about the scale of the problems in the world of leverage and know that Japanese equities are far from immune to the spread of a financial virus. We do not wish to change our investment approach however from one which is based on a belief that the greatest risk to investment returns lies in an erroneous understanding of the industry and specific company business issues. We have found that failing to focus one's efforts on these issues leaves you largely relying on your ability to do the same thing as other investors do, but doing it a little quicker than the rest – all the time. In the current circumstances, that would translate into selling down – or adding shorts – on a belief that there will be more selling coming from others. Although that may well turn out to be right in the short term, we see remarkably good value in many successful Japanese companies (admittedly largely in manufacturing industries) and equally important is the fact that the companies that are not so successful – or profitable – are now down to levels where we would not be a seller. Given these are not our current favourite stocks, and given our long-held view that we represent the "average" investor, we draw the conclusion that most others will feel similarly.

The ten largest sectors of the Topix thirty three sectors account for 67% of total market capitalisation. We took the two largest stocks in each of these top ten sectors and reviewed their share price performance and their valuation – using the Toyo Keizai estimate for the 2007 fiscal year ending March 2008 (or December 2007). The simple average PER for the current year is just over 15 times. The large domestic demand sectors like retail, construction, pharmaceuticals, communications and electric utilities are now trading in the mid-teens and in many cases are priced at, or just over, book value. If these "low margin" sectors were still expensive, one could imagine a case to be more bearish on the market as a whole. Given that not only are the high margin sectors (auto, machinery, steel, trading companies etc) cheap, but that the low margin domestic sectors have fallen so far, we believe that an assessment of valuations and business outlook leads to the conclusion that the Japanese equity market is a buy. It may of course become cheaper, but looking across that (possible) valley, we see higher market levels in the not –distant future.

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Recent 3 month Fund Exposure

% of NAV in	Jun 07	Jul 07	Aug 07
Long Stock Position	85.53	106.08	84.64
Short Stock Position	(16.81)	(23.77)	(13.47)
Index Futures			(17.71)
Equity Derivatives			
Net Exposure	68.72	82.31	53.46

Optimal FUND MANAGEMENT

*Should you wish to make an enquiry about the Optimal Japan Trust, please see our website – **www.optimalasia.com** or contact us at – **optimal@optimalasia.com***

Position Concentration

	Top 5	Top 10
Longs	20.46%	38.16%
Shorts	(7.19%)	(12.15%)
Total no. positions	51	

Top Five Positions

Sumitomo Corp
Komatsu Ltd
Tokyo Tatemono
Toyota Motor
Mizuho Financial Group

Winners

Tokyo Tatemono
Mitsubishi Electric
Central Japan Railway
Topcon
Showa Denko

Losers

Sumitomo Corp
Mizuho Financial Group
Fanuc
Mitsubishi UFJ Financial Group
Hitachi Construction Machinery

Sector Exposure as at 31 August, 2007

	Longs	Shorts	Net
Materials	12.4%	(2.4%)	10.0%
Industrial	34.8%	(3.2%)	31.6%
Futures		(17.7%)	(17.7%)
Financials	17.2%	(1.1%)	16.1%
Energy			

	Longs	Shorts	Net
Consumer Non Disc		(1.3%)	(1.3%)
Consumer Disc	16.0%	(2.7%)	13.3%
Utilities			
Telecom			
Technology	5.4%	(3.0%)	2.4%

Historical Returns - Distributions Reinvested

Annual Distributions

Year to 6/07 *A$2.4179*	**Year to 6/05** *A$1.4218*	**Year to 6/02** *A$ 0.8983*	**Year to 6/00** *A$1.4158*
Year to 6/06 *A$ 1.24*	**Year to 6/04** *A$0.4713*	**Year to 6/01** *A$0.8989*	

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											-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											-7.82