

Monthly Report to Unitholders of the Optimal Japan Trust January 12th, 2006

Date	NAV	Monthly % Return*
29 December 2006	A\$16.82	2.62

* After all fees

* NAV is ex-distribution of **A\$ 1.24 (for Yr to 6/06)** A\$1.4218 (for Yr to 6/05), A\$0.4713 (for Yr to 6/04) A\$ 0.8983 (for Yr to 6/02) A\$0.8989 (for Yr to 6/01) and A\$ 1.4158 (for Yr to 6/00)

* Returns are based on the redemption price of the initial series

Important: With effect from July 3rd, 2006, the Trust's administrator is EFA of Luxembourg. A new Private Placing Memorandum has been created and is available on our website (www.optimalasia.com) or can be emailed by the manager upon request.

One year the markets will plummet in December, but it seems that the arrival of the year's end and the hopes that a new year bring are usually enough to tempt the stales of bulls out of the closet and back into the buyers ring. After a very insipid performance for eleven months, the Japanese market celebrated December in style with a gain of 4.9% for the month. In doing so, the bulls managed to push the Topix index return for 2006 into the black with a small positive return of 1.9% for the year. As is always the case, however, this index figure fails to tell the more interesting parts of the story. More than 10 of the 33 sectors that make up the Topix index produced negative returns in excess of 10% for the year, whereas 9 sectors celebrated the year with double digit positive returns. There were some strange bedfellows. In the positive return camp, Steel was number one with a 31% gain, but in second place was Electric Power & Gas, with 26%. No doubt there is a macro factor model that will prove that these two sectors often dance to the same music, but I can't recall seeing it before. The 25% gain from Foods is also interesting, especially when compared with the dismal showing from other domestic sectors such as Retail (-21%) and Construction (-15%).

Our Fund's return in 2006 was helped by our holdings in steel majors JFE Holdings and Nippon Steel – the latter rising 31% in December alone – and by the positive 13% in Real Estate, where we held Mitsui Fudosan and Tokyo Tatemono. The Japanese car makers flourished again in 2006, and their Transport Equipment sector gained 24% for the year. Our holdings in Suzuki Motor and Toyota were the Fund's 4th and 3rd biggest contributors respectively. In the true Howler department, our shareholding in Arrk cost the Fund about 1% but we still hold it and will revisit again soon to check on how they are progressing with problem subsidiaries in South Korea and the USA.

Short positions had little overall impact on the Fund's return for 2006, with only Funai Electric producing a positive contribution in excess of 33bps, and Ajinomoto (Food) and Eisai (Pharma) costing us more than 33bps each.

2007 has begun with signs that sectors aligned with global growth expectations making a poor start to the year. The struggle to balance a slower US economy with strength in developing economies is a subject unlikely to be off the front pages of strategy pieces for some time to come, but we continue to

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Optimal FUND MANAGEMENT

take the view that it “is too early to tell” and keep the faith with our favourite companies that fall in those sectors.

To finish on an administrative matter, we wish to stress that any applications for redemptions or subscriptions in our funds that come in to EFA (administrator) after the dealing deadline will be rejected. Please visit our website www.optimalasia.com for related information and we encourage you to contact us through the web-site.

Positive contributors (long) Nippon Steel, JFE Holdings, Toyota Motor
(short) Leopalace21, Funai Electric, Trend Micro

Negative contributors (long) Taikisha, Diamond Lease, Teijin
(short) Topix Index future, Elpida Memory, Ajinomoto

Major Positions

Makino Milling, Toyota Motor, Tokyu Corp, Sumitomo Trust and Banking

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Return Snapshot	
Period	%(AUD)
Year to Date Return	9.42
Return since inception Inception 20 Dec, 1999	131.71
Fund size at 29 Dec 06	AUD 76.4 mil

Portfolio Composition at Month End			
% of NAV	Oct06	Nov06	Dec06
Long Stock Position	83.97	84.43	70.02
Short Stock Position	(20.49)	(21.38)	(19.25)
Index Futures	(11.67)	(10.94)	(10.52)
Equity Derivatives			
Net Exposure	51.81	52.11	40.25

Historical Returns

Below we provide a table detailing the monthly returns of the Fund since its inception in December 1999. The returns are of the Trust's Initial Series

Optimal Japan Trust Net Monthly Returns in AUD													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
1999												0.58*	0.58
2000	-0.32	12.76	8.99	-1.53	2.45	11.82	-9.05	4.02	-0.37	0.90	-0.18	-3.86	26.63
2001	-2.34	3.13	1.36	8.46	-2.14	3.96	-2.88	1.49	-3.58	1.77	-3.89	-5.46	-0.25
2002	1.10	1.47	2.07	-0.26	7.2	-2.9	-1.43	-1.47	2.04	-4.47	-3.65	-0.42	-0.59
2003	1.80	1.98	0.41	-0.20	2.55	3.97	1.91	5.90	3.81	3.58	-1.73	3.02	30.43
2004	-0.33	1.22	7.01	0.23	-1.20	3.67	-2.26	4.03	0.82	-1.55	1.65	1.92	15.95
2005	2.83	2.05	0.0	-0.13	1.04	1.37	2.38	4.15	6.71	1.31	2.39	4.30	30.03
2006	1.82	0.42	3.79	0.34	-4.04	0.24	-0.77	1.46	0.13	2.72	0.99	2.62	9.42

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