

Monthly Report to Unitholders of the Optimal Japan Trust 7th March, 2005

Date	NAV	Monthly % Return*
28 February 2005	A\$14.47	2.05

* After all fees

* NAV is ex-distribution of 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

Contribution – Longs & Shorts

	Dec04	Jan05	Feb05
Topix %	4.63	-0.30	2.73
OJF longs %	3.95	2.80	3.00
OJF shorts %	-2.65	0.15	-0.52

Important: The Optimal Japan Fund and Optimal Japan Trust are both hard-closed. The administrator (HSBC Institutional Trust Services) will request any applicant for investment to contact the manager and require Directors' consent before acceptance.

Since the index low in late October 2004, the Japanese market has gained 10%. It has been a rise by stealth. The last months of 2004 were characterised by fears of a slowing economy and the last few weeks have been notable for rising confidence on the economic outlook for 2005. What has not been in dispute is the steady and impressive profit gains by Japanese companies and now it is commonplace to hear Japan strategists - and fund managers – proudly stating that their market is now as cheap as those of Europe and North America without having to resort to such questionable ratios as the infamous “BEYR” (bond equity yield ratio) to validate the claim. Enough said.

We too are confident that Japanese profits are growing and that valuations in Japan are attractive. As a result, we expect the Topix index to reach 1700 within the next two years and thus keep looking for more stocks to buy and continuously worry about shorts. Nevertheless, the issues that have us most interested are broadly ones concerned with corporate governance. There is much talk of late about the prospects for rising dividends and specifically rising dividend payout ratios. Japan's corporate payout ratio of 18% takes last place in a global comparison and with cash flows strong and balance sheets largely repaired, this lowly level is unacceptable. We also hear that Japanese management is worried that their companies' market capitalisations are too low and with changes to the corporations law making it (theoretically) easier for foreign firms to acquire Japanese ones, there is apparently some anxiety that they will become takeover targets. Raising dividends to attract more investors is a

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Optimal FUND MANAGEMENT

Return Snapshot	
Period	%(AUD)
Year to Date Return	2.05
Return since inception Inception 20 Dec, 1999	81.54
Fund size at 28 Feb 05	AUD 38mil

Portfolio Composition at Month End			
% of NAV	Dec 04	Jan 05	Feb 05
Long Stock Position	86.93	87.51	75.48
Short Stock Position	(24.52)	(29.00)	(23.04)
Index Futures	(10.87)	(10.50)	(10.23)
Equity Derivatives	1.34	1.34	1.15
Net Exposure	52.88	49.35	43.36

Historical Returns

Below we provide a table detailing the monthly returns of the Fund since its inception in mid-December 1999.

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											4.93

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