

Monthly Report to Unitholders of the Optimal Japan Trust February 13th, 2007

Date	NAV	Monthly % Return*
31 January 2007	A\$17.15	1.96%

* 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.*

We were in Tokyo last November at the time of the Goldman Sachs Japan Hedge Fund Conference and the mood was dark. Investors were “disappointed” after a tough year following 2005’s abnormally strong return and fund managers were hesitant. 2006 turned out to be a poor year for Japanese equities in the relative world of borderless capital markets but it was hardly cataclysmic – especially coming after the 40% gain of 2005 – and in terms of the competing Japanese asset classes it was quite respectable. Yen deposits would have returned 0.1%, JGB 10 year yields averaged 1.5%, and the Topix index in Yen rose by 1.9% - before factoring in dividends. We would hate investors to think we’d be satisfied with a 3% annual return from the Fund but it did strike us as a touch melodramatic to witness such hand wringing and despair. Rather than selling one’s investments after leaving the conference, a good contrarian should have bought call options, as the months of December and January have seen the Topix index rise 10% from November 13th (when we gathered in Tokyo). We did neither, but, as we mentioned last month, at least the Fund benefited from renewed interest in steel and autos and this trend continued in January with foreigners big buyers and both Nippon Steel and JFE up significantly.

Japan’s recovery from the 1990s malaise and the stock market crash has been slow, steady and is far from over in our view. The stock market recovery began when the weak domestic holders of equity unloaded the last large parcels of their cross-holdings, coinciding with aggressive buying by foreign investors. On the corporate front (at least in the listed segment), the return on capital has been rising since 2002 and an understanding of the cost of capital and the notion of an acceptable return has become evident – if not universal. Mitigating these positives is the fact that economic growth has been hampered by weak private consumption and with inescapable ageing of the population to consider, the modest GDP growth of recent years may well be the norm rather than the exception. With this as a background to our investment approach, we are sometimes tempted to reduce positions where a sharp upward move in the price looks to be a product of (transient) improvement in sentiment rather than

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Optimal FUND MANAGEMENT

being due to a shift in the business outlook for the company in question. We have faced this again recently with the example of the steel stocks. From the share price lows of 2006, JFE has risen 94% and Nippon Steel 95%. Earnings, meanwhile, are expected to be slightly lower in the year ending March 2007 versus the actual profits of March 2006. We have previously said (only slightly tongue-in-cheek) that the big Japanese blast furnace companies constitute the true technology sector in Japan and lamented that they were afforded such measly multiples of cashflow and earnings when compared with the truly unimpressive electronics sector - which is still referred to as “tech” and afforded a farcically high share price rating as a result. Just to be clear: we love the steel sector.

Everything has its price however, and at Y6900 (JFE) and Y730 (Npn Steel) we decided to write call options against our holdings. When we wrote these, the strike prices were 5% or more out of the money, but now they are there or thereabouts. If our stock is called away, we will have mixed feelings – knowing that we are selling some of Japan’s finest companies – but I can’t help but recall the words of the song “You’ve been laughing pretty baby, but some day soon you will be crying” and know how much I’d be hurting if the prices retraced their strong gains of late and I had done nothing. A 50% share price rise in three months in an industry where conditions have not changed dramatically just seems a most welcome gift we would not like to give back. As the song says, we’ll find out further on up the road.

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) Tokyo Tatemono, Tokyu Co, Makino Milling
(short) Elpida Memory, Sanken Electric, Tokyo Electron

Negative contributors (long) Teijin, JSR Co, Fanuc
(short) Topix Index future, IHI, Funai Electric

Major Positions

Toyota Motor, Tokyu Corp, Sumitomo Co, Tokyo Tatemono, Makino Milling

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Return Snapshot	
Period	%(AUD)
Year to Date Return	1.96
Return since inception Inception 20 Dec, 1999	135.0
Fund size at 31 Jan 07	AUD 78.0 mil

Portfolio Composition at Month End			
% of NAV	Nov06	Dec06	Jan07
Long Stock Position	84.43	70.02	74.79
Short Stock Position	(21.38)	(19.25)	(20.96)
Index Futures	(10.94)	(10.52)	(10.63)
Equity Derivatives			(2.08)
Net Exposure	52.11	40.25	41.11

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
2007	1.96												1.96

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