

**Monthly Report to Unitholders of the
Optimal Japan Trust
8th August, 2005**

Date	NAV	Monthly % Return*
29 July 2005	A\$13.73	+2.38

* After all fees

* NAV is ex-distribution of **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

Contribution – Longs & Shorts

	May05	June05	July05
Topix %	1.27	2.87	2.36
OJF longs %	-1.75	0.84	1.88
OJF shorts %	0.92	-0.34	-0.41

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.

In recent years, the month of July has not been a good month for equities in Japan. Last month's gain was only the second positive July this millennium and it is fortunate that we were not seduced into going short in advance of a seasonally sickly month. Perhaps next year we will be tempted to increase exposure coming into July as by then, we will be able to say that there have been gains in 66.6% of the past three periods in our data set (2003 was also a positive July return) – but that is a long way away.

As is often the case, the greatest caution and concern about the outlook for Japan coincided with the market's lows in April-May. We had been heartened by evidence of greater appetite for equities from Japanese investors as the Topix index fell towards 1100 in May. Investment Trust management companies (Japanese mutual funds) launched a large number of funds in the period – many of which focused on higher dividend yields. The average dividend yield on Japanese stocks is at or above the current JGB 10yr bond yield and although nominally low, is beginning to feature more frequently in the calculation of total return expected from equities. We expect dividends to rise steadily as company management and boards spend more time thinking about their share price and the vulnerability of their companies to control by “outsiders”.

This is no doubt part of the reason behind the announcement that the management of clothes-maker World were bidding shareholders to buy out the company at Y4700 a share – a premium to the closing price on July 25th of just 7%. It has often struck us that there are many Japanese companies that

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Optimal FUND MANAGEMENT

would be better off going private rather than remaining listed. In the case of World – whose basic business we see as unexciting but stable – it is likely that management saw upside in the business if incentivised for profits, and also realised that borrowing might never get cheaper. The company is well capitalised with shareholders equity equal to 65% of total assets, is expecting operating profits of Y19bn this year and at the offering price, the management has a maximum requirement of Y218bn (just under US\$2bn). Even assuming that was all debt funded, the interest payable of Y6-9bn is easily covered by cash flows. We are sure that Japanese banks would be delighted to lend to management familiar with all aspects of a reasonably well run business like this, but believe that the MBO will have to be raised to get sufficient acceptances. The announcement is in our view far more significant to investors than the Livedoor-Fuji TV battle as the business rationale is clearer. It also signals a willingness to act which hitherto has been depressingly rare in corporate Japan. We can expect a higher price from World's management – and a great deal more corporate action in the coming years.

Finally we would like to point out that the NAV per share of the Optimal Japan Fund's US\$ Series breached \$20 at the end of July. For an investor at inception (\$10), this represents a total return of over 100% and an annualised return of 12.5%.

Here's what you would have made on an investment in some other assets over the same period (from 14 October 1999):

	Total return over period
Gold in US\$	+37.1%
Oil (WTI) in US\$	+174%
S&P Index in US\$	-3.8%
S&P Index (with dividends)	+8.1%
FTSE Index (with divs) in US\$	+14%
FTSE Index (with divs) in GBP	+8.0%
Australian All Ords Index (with divs) in US\$	+128.4%
Australian All Ords Index (with divs) in A\$	+75.2%
US Housing Price Index in US\$	+135.4%
Topix Index (with divs) in US\$	-21.0%
Topix Index (with divs) in JPY	- 16.1%

Positive contributors (long) Toyota Motor, Star Micronics, Nachi-Fujikoshi Co
(short) Victor Co, Funai Elec, Nitto Denko

Negative contributors (long) Ajinomoto, Tokyo Tatemono, Hirose Electric
(Short) Shiseido, Sumitomo Metal, Oracle Corp Japan

Major Positions

Toyota Motor, Mizuho Financial, Tokyo Tatemono, Mitsui Fudosan

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Return Snapshot	
Period	%(AUD)
Year to Date Return	9.88
Return since inception Inception 20 Dec, 1999	88.36
Fund size at 29 July 05	AUD 35mil

Portfolio Composition at Month End			
% of NAV	May 05	June 05	July 05
Long Stock Position	79.55	72.73	83.21
Short Stock Position	(19.92)	(27.61)	(29.91)
Index Futures			
Equity Derivatives	1.05	1.01	1.10
Net Exposure	60.68	46.13	54.40

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						9.88

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