

Monthly Report to Unitholders of the Optimal Japan Trust July, 2005

Date	NAV	Monthly % Return*
30 June 2005	A\$14.80	+1.37

* 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

	Apr05	May05	June05
Topix %	-4.4	1.27	2.87
OJF longs %	-0.13	-1.75	0.84
OJF shorts %	0.79	0.92	-0.34

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.

With 2005 already half over, it is hard to know what made the time pass so quickly. Limited market volatility has hardly been a cause for excitement – but maybe it was the usual market commentary volatility that kept us occupied. Thankfully reality is never as schizophrenic as the daily views of financial markets. Overall June was a good month for Japanese equities continuing on the momentum from the end of May. It was also a good month for the Trust which is a nice way to finish its fiscal year. By way of comparison the Trust has risen +7.32% in 2005 and +11.93 % over the past year, whereas the Topix (in Yen) only managed +2.4% and -1.04% over the same periods. Having increased net exposure of the Trust over the course of the last twelve months with the market producing a negative return, we are very pleased with the success of our stock picking.

Taking a look at the market on a broader level, for the first half of the year 25 out of the 33 Topix sectors have produced a return that is better than the overall market. For those of you who have followed the Trust for some time you would know that on the long side we favour positions in Steel, Mining, Marine Transportation and Real Estate. While at present there has not been much controversy on the Real Estate view, the other mentioned sectors have generated plenty of debate. While happily they have been among the top performing sectors year to date, many analysts have downgraded their view. Put simply, the downgrades have largely been based on expectations of a global growth slowdown, with increasing supply, which would lead to a deterioration of earnings and makes valuations actually more expensive than they may appear. While the desire for brevity prevents us from going into the debate in too much detail, a lot of the noise has been generated from movements in the spot markets which are both seasonal and prone to some manipulation by

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speculators. We have seen information, albeit limited, that would suggest that the contract based sales are not as grim. There is an undeniable macroeconomic element to be considered when investing in the likes of steel, mining and marine transport. Playing devil's advocate should that macro slowdown view turn out to be too pessimistic, we believe that investors would return to these sectors with enthusiasm. Recent price weakness suggests that these stocks are not as well held as they were in the first quarter and we still believe that the risks lie on the upside from here.

Further to things that are hard to predict, the move in the Y/US\$ rate for the first half of 2005 has been spectacular and likely taken many by surprise. Starting the year around 104/US\$ it had fallen to 110/US\$ at the end of June and even more recently to 112/US\$. We see ourselves in the camp of those who can't predict the currency exchange rates, as opposed to those who don't know they can't. The Yen has also been weak against \$A, but as the Trust is fully hedged there was no negative impact on returns. Interestingly, should the Y/US\$ stay around the current levels then a lot of companies that receive US\$ for goods and services rendered and have used conservative exchange rates (eg. 100/US\$ to 103/US\$) when giving earnings guidance for the coming year may have to revise up their expectations at a later date. However, even without this we thought general earnings guidance for the current fiscal year looked conservative, so this could be a bonus.

Positive contributors (long) Nakanishi, Nippon Mining, ARK Co
(short) Victor Co, Funai Elec, Nippon Paper

Negative contributors (long) Ushio, Mizuho Financial, Tokyo Tatemono
(Short) Softbank, Nippon Oil, Shiseido

Major Positions

Toyota Motor, Mizuho Financial, Tokyo Tatemono, Mitsui Fudosan

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Return Snapshot	
Period	%(AUD)
Year to Date Return	7.32
Return since inception Inception 20 Dec, 1999	84.84
Fund size at 30 June 05	AUD 38mil

Portfolio Composition at Month End			
% of NAV	Apr 05	May 05	June 05
Long Stock Position	79.15	79.55	72.73
Short Stock Position	(20.78)	(19.92)	(27.61)
Index Futures			
Equity Derivatives	1.09	1.05	1.01
Net Exposure	59.46	60.68	46.13

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							7.32

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