

Monthly Report to Unitholders of the Optimal Japan Trust 11th July, 2006

Date	NAV	Monthly % Return*
30 June 2006	A\$ 16.91	+0.24%

* 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

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.

Although the Topix index managed a slight gain in June, it does not give a true indication of the sharp fall and subsequent rebound that took place over the month. In the first third of the month, the main index fell almost 8%. The reasons most often put forth for the weakness are first, the growing concerns of a US economic slowdown, and second, the revelations of insider trading by Yoshiaki Murakami of the eponymous Murakami Fund (see last month's report for details). Whichever theory one subscribes to, there is a familiar (and mildly depressing) pattern of Japan's market rising and falling in line with that of the USA – but with more bite to it. Given time zone differences, an optimist might point out that as both the S&P 500 and the Topix index bottomed on June 13th, the Japanese market rebound could be taken as the trigger for the US market's recovery. We like the optimistic view, but one can't shrug off the feeling that a weaker US market is most likely to have a negative effect on Japan.

There are two economic issues that we believe are to blame for the current bull market hiatus. First is the uncertainty over the corporate profits outlook for the year 2006 and beyond. Japanese listed companies produced a fourth consecutive year of strong profits growth in the financial year ended March 2006 but spoiled the announcement by predicting low single digit growth in the year ahead. This looks unlikely to us (for many reasons) but one of the beauties - and frustrations – of the Japanese equity market is that a lot of the market participants refuse to look ahead and prefer to act upon announcements. The next opportunity for this timid bunch to reassess will be with the announcement of the June quarter (Q1) profits due from the second half of July onwards. Our visits lead us to remain bullish on profits for 2006 and expect the market to react well to the numbers. Major economic indicators such as labour market data, machinery orders, capex plans and bank lending have all been strong and while most input prices remain quiescent, top line and profits growth is all but certain.

The second issue is harder to judge but of perhaps even greater relevance. As Japan recovers and asset prices rise, Japan's vast pool of surplus funds will begin to trickle back home, or pour out at a decreasing rate. Stephen Roach of Morgan Stanley and other experienced market watchers have written of the withdrawal of global excess liquidity and perhaps this Friday the Bank of Japan will join recent moves by other major central banks to raise official interest rates. We are not much good at predicting what all this means but it does seem a cruel twist of fate that by dint of the long awaited

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Optimal FUND MANAGEMENT

recovery in Japan's economy, interest rates may rise and with tighter liquidity elsewhere, financial markets struggle even to mark time. Japan's success may be the seeds of its problems. Time will of course tell us the answers, but given the copious good news we are gleaning from our corporate contacts, it seems that on balance, it is right to remain at the party. The summer months are not usually a time for big moves in Japan (at least not upwards) although 2005 bucked the trend of the previous five years. We expect a stronger return from Japanese equities in the second half of 2006 as better earnings become obvious to all, and will use the hotter northern months to position the portfolios to benefit from this.

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) Sumitomo Trust & Banking , Showa Denko KK, Mizuho Financial Group
(short) Toppan Printing Co Ltd, Sumitomo Osaka Cement, Advantest

Negative contributors (long) Tokyu Corp, Arrk Corp, Suzuki Motor Corp
(short) Topix Index, Shiseido Co Ltd, Makita co

Major Positions

Sumitomo Trust & Banking, JFE Holdings Inc, Tokyu Corp, Kubota, Mitsubishi Co

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Return Snapshot	
Period	%(AUD)
Year to Date Return	2.42
Return since inception Inception 20 Dec, 1999	120.16
Fund size at 30 Jun 06	AUD 66.8 mil

Portfolio Composition at Month End			
% of NAV	Apr 06	May06	Jun06
Long Stock Position	81.09	77.12	83.52
Short Stock Position	(19.31)	(20.57)	(18.82)
Index Futures			(12.57)
Equity Derivatives			
Net Exposure	61.78	56.55	52.13

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	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							2.42

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