

## Monthly Report to Unitholders of the Optimal Japan Trust June 7<sup>th</sup>, 2007

Date	NAV	Monthly % Return*
31 May 2007	A\$17.91	3.47%

\* 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](http://www.optimalasia.com)) or can be emailed by the manager upon request.***

Even with hindsight, it is usually difficult to point to an event or announcement that causes a rise in a stock market. By Japanese standards, the 3.2% jump in the Topix index in May was startling, (although not as good as the MSCI Asia Ex Japan Index's +3.67% ) and yet we cannot identify the trigger. Given the continued strong corporate profits news flow, the positive – albeit mixed – economic signals and buoyant world equities markets, it may be only natural that Japanese stocks should also rise, but as we have pointed out many times, the Japanese equity market does not always respond in a natural fashion.

Shipping continued to perform brilliantly (+11%) but the most notable sector was the banks where May's rise of 10.3% would have raised a cheer from many Japanese fund managers. Between March 2006 and April 2007, this important sector fell 24% whilst the market fell less than 2%. As the bank sector ranks second in market cap behind the electricals and accounts for 12% of the Topix index, its jump in May would have accounted for more than one third of the total rise for the month. With lots of banks one should be smiling whilst having none – or even worse, being short – would have been painful. We have two large banks, and so were happy to participate, but one never has enough of the stuff that is going up.

Bank shares rise with interest rates, and indeed since the recent lows in mid March, both three month bills and ten year government bonds have seen yields rise by 16 and 21 basis points respectively. The ten year JGB is now yielding 2.07% and has opened up a spread over the dividend yield of Toyota of almost 0.35%. At a share price of Y7,600 Toyota's forecast dividend per share of Y130 gives a yield of 1.7%, but how much better could it be? The estimated dividend payout ratio is a meagre 28% and we believe that the shares would rise by the best part of 30% if Toyota would resolve to pay out half of its profits by way of dividend. If I were a Japanese investor and faced a choice of lending to my government at 2.07% versus buying a share of Toyota's business at a dividend of 3.0%, I know

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# Optimal FUND MANAGEMENT

who'd get my money. With \$20bn in cash and marketable securities on their balance sheet, it is amazing that Toyota is not willing to cough up a bit more. We still hold Toyota, but it is more than a little frustrating that they continue to hoard their cash.

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](http://www.optimalasia.com) for related information and we encourage you to contact us through the website.

Positive contributors (long) Mizuho FG, Mitsubishi UFJ FG, Komatsu, Mitsubishi UFJ Lease  
(short) IHI, Funai Electric, Dai Nippon Printing

Negative contributors (long) Tokyu Corp, Isuzu Motors, Press Kogyo  
(short) Sony, Sharp, Trend Micro

## Major Positions

Sumitomo Corp, Mitsui Fudosan, Tokyo Tatemono, Mizuho FG, Mitsubishi UFJ FG

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# Optimal FUND MANAGEMENT

Return Snapshot	
Period	%(AUD)
Year to Date Return	3.47
Return since inception Inception 20 Dec, 1999	142.61
Fund size at 31 May 07	AUD 90 mil

Portfolio Composition at Month End			
% of NAV	Mar07	Apr07	May07
Long Stock Position	81.98	89.33	92.58
Short Stock Position	(16.73)	(16.51)	(17.13)
Index Futures	(37.99)	(38.51)	
Equity Derivatives	(0.62)	(0.20)	(0.22)
Net Exposure	26.64	34.10	75.23

## 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	2.65	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	0.58	-0.99	1.35	3.47								6.48

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