

## Monthly Report to Unitholders of the Optimal Japan Trust 13<sup>th</sup> December , 2005

Date	NAV	Monthly % Return*
30 November 2005	A\$ 15.83	+2.39%

\* 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

### Approximate Contribution by Longs & Shorts

OJT A\$ Return	Longs – Contribution	Shorts - Contribution
+2.39%	+ 1.04 %	- 0.64 %

*Important: The Optimal Japan Fund and Optimal Japan Trust are not accepting new investments. The administrator (HSBC Institutional Trust Services) will only accept applications for investment from those with agreements with the manager.*

The 4<sup>th</sup> Quarter of calendar year 2006 has been good for a number of equity markets but amongst the larger ones, Japan's performance must surely rank first. As of yesterday's close, the Topix index return is up 14.5% and takes the YTD return to over 40%. With the exception of the ugly TMT year of 1999, this would be Japan's best return from equities since 1986. Most fund managers who ran money in Japan in 1986 have long since moved on to other markets (or retired) but we remember it with a good deal of nostalgia and hope lessons learned then might even be of use today.

You might recall early in 2005, we targeted a Topix index level of 1700 as a realistic goal to be reached by the second half of 2006. Extrapolating the rate of increase in the Topix index seen in the first twelve days of December, we are on track to hit 1700 by Christmas Eve. Even assuming it does not reach 1700 by Christmas, it will take a mere 5% move to get there so what do we do then? On current estimated EPS of Y80 for the Topix index constituents for the year to March 2007, the market would be trading on 21 times PER or a 4.7% earnings yield. Relative to the yield on the 10 year JGB of 1.6% and relative to Tokyo commercial property yields of 4-4.5%, this is reasonably attractive. The real issue is what happens to earnings in the years ahead. If Japanese companies can continue to improve profitability and returns on assets, there is no reason why the market should stop at 1700. With the economic outlook improving and asset deflation behind us, domestic investors are showing tentative signs that they are willing to reconsider buying equities for the first time since most Japanese fund managers wore shorts. We continue to feel that this process would be accelerated if Japanese companies paid out more of the profits to shareholders by way of dividends. It is quite possible to refute this theory however on the basis that it behoves Japanese corporates to reinvest the majority of their profits in the business as returns on equity rise to (and above) 10% in an environment when competing returns are modest at best. Time will tell, but for now, it is foreigners, Japanese investment trusts and individuals (on margin) who remain the buyers and Japan's pension fund managers the sellers.

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# Optimal FUND MANAGEMENT

What is clear is that we are in a market when earnings growth is rewarded with rising share prices whilst earnings disappointments yield poor share price returns. In the half year to September 2005, the sectors with the biggest profit gains also saw the biggest rise in stock prices – and vice-versa. Whilst Topix rose 19.46% in H1, the steel (Operating Profits +62% and prices +50%), mining (OP +62%, +49%) and Oil & Coal (61%, 38%) sectors soared. Airlines, Utilities, Electricals (how the mighty have fallen) and Paper all showed poor returns in both profits and prices. For the moment, the former group still trade on cheaper multiples than the latter, so we will continue to look for outperformance in line with profits growth.

To finish on an administrative matter, we wish to stress that any applications for redemptions or subscriptions in our funds that come in to HSBC Institutional Trust Services (Asia) 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 web-site.

Positive contributors (long) Toyota Motor, Ushio, Sumitomo Metal Mining, Mizuho Financial Group  
(short) Asahi Breweries, Oracle Co, Sumitomo Osaka Cement

Negative contributors (long) Nippon Mining Holdings, Kitamura Co, Nippon Steel  
(short) Funai Electric, Furukawa Electric, Toppan printing

## Major Positions

Mitsui Fudosan, Sumitomo Trust & Banking, Sumitomo Metal Mining, Mitsubishi Co, Sumitomo Co

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# Optimal FUND MANAGEMENT

Return Snapshot	
Period	%(AUD)
Year to Date Return	25.10
Return since inception Inception 20 Dec, 1999	109.36
Fund size at 30 Nov 05	AUD 51.1 mil

Portfolio Composition at Month End			
% of NAV	Sept 05	Oct 05	Nov 05
Long Stock Position	80.61	77.30	81.13
Short Stock Position	(27.25)	(24.95)	(25.24)
Index Futures	(30.28)	(16.16)	(10.22)
Equity Derivatives	0.99		
Net Exposure	24.07	36.19	45.67

## 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		25.10

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