

Monthly Report to Unitholders of the Optimal Japan Trust December 12th, 2006

Date	NAV	Monthly % Return*
30 November 2006	A\$16.39	0.99

* 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) or can be emailed by the manager upon request.

Japan's poor performance relative to most equity markets continued in November as the Topix index fell almost 1% in local currency terms while the MSCI Asia-ex Japan index rose 6.3% in November and is now up 24% for the 2006 to date. Topix is down almost 3% YTD (in Yen) while the S&P is up over 12%. Europe meanwhile, whilst up about 8% in Euros, has gained almost 20% when measured in USD. Many people are baffled - and most are disappointed - by Japan's tepid performance this year. We have tried to answer this question in numerous meetings and calls with investors in the past month or so and think it worth going over once more:

The first thing we would say is that people's expectations had got ahead of reality by early this year after the market had risen 51% over nine consecutive months from the low at the end of April 2005. Over the same period, the Topix banks index had risen 74% and was up 270% from the Big Bottom in April 2003. Although the probability of a coin turning up heads again after nine consecutive heads is still 50%, our experience of stock markets and share prices tells us that another rise after nine up months is less than an even money proposition. Buyer fatigue will set in eventually – though shorting markets whilst waiting is not always the best strategy.

Valuations had also reached a level in early 2006 where the likelihood of more upside in the short term had shrunk considerably. At the Topix level of 1780 (reached in early April), the market was on around 20X FY2005 earnings and looking reasonable – but not outstanding – value to us. As we approach the last quarter of FY2006, and with Topix at 1603, the market now trades on just over 18x historic and around 16.5x current year's earnings. The extent of earnings growth for FY2006 has been another moot point of late with companies (and many analysts) continuing to set full year numbers that imply a dramatic slowing of earnings for the second half of the year ending March 2007. As some famous wit once remarked: "it feels like déjà vu all over again" as we have faced exactly this issue at the same time of the year for the past three years or so. Just as the stopped clock is right twice a day, it is inevitable that the pessimists will be correct in their forecast for a H2 slump in earnings – eventually. Based on the message we continue to get from company contact and visits however, we do not see any real warning signs of a slowdown at large. In particular the manufacturing sector – where we have well over half our long exposure – continues to see strong earnings growth and huge order back-logs. In the first half year to September 2006, Sales for the manufacturers grew by 10%,

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Optimal FUND MANAGEMENT

Operating Profits by 13.9% and Net Profit by 31.8%. The companies are forecasting that full year Sales growth will be 7.4%, Pre-Tax Profit to be up 6.9% and Net Profit 15.7%. Whilst All Companies Sales grew by 9.6% in H1 and Pre-Tax Profit by 12.9%, the full year estimates are 7.0% and 5.3% respectively. It is a forecast that we find difficult to square with the story that we are getting from Japanese companies and from our frequent visits in the rest of the Asia Pacific region.

And just what is happening in the stodgy world of Japanese food producers? In the past month, we have had three instances of attempted takeover/merger after decades of inaction. In mid November, Kirin Brewery announced an aggressive bid to acquire Mercian (a small liquor and wine producer) with a price 41% above Mercian's closing price. At the same time, Nissin Food gazumped Steel Partner's attempted takeover of Myojo Foods with a bid pitched 20% above Steel's and 15% or so above Myojo's previous close. Yesterday we had match-making in the fishery and frozen fish-food world when Maruha (market cap. Y96bn) announced it would merge with the smaller Nichiro (Y35bn). Foreign investment banks have been conspicuous by their absence in these deals and it confirms our view that the M&A bonanza seen in the US, Europe and Australia might eventuate in Japan as hoped, but it would not bring the same free lunch for the investment banks that they have been waiting...and waiting for. They do some things different in Japan after all.

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) JFE Holdings, Makino Milling
(short) Credit Saison, Sharp, IHI

Negative contributors (long) Showa Denko, Tokyo Tatemono, Mitsui Fudosan
(short) Leoplace21, Ajinomoto, Nissin Steel

Major Positions

JFE Holdings, Tokyo Corp, Makino Milling, Toyota Motor

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Optimal FUND MANAGEMENT

Return Snapshot	
Period	%(AUD)
Year to Date Return	6.81
Return since inception Inception 20 Dec, 1999	127.41
Fund size at 30 Nov 06	AUD 72.4 mil

Portfolio Composition at Month End			
% of NAV	Sep06	Oct06	Nov06
Long Stock Position	79.13	83.97	84.43
Short Stock Position	(19.87)	(20.49)	(21.38)
Index Futures	(12.35)	(11.67)	(10.94)
Equity Derivatives			
Net Exposure	46.91	51.81	52.11

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	-0.77	1.46	0.13	2.72	0.99		6.81

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