

## Monthly Report to Unitholders of the Optimal Japan Trust November 11th, 2004

Date	NAV	Monthly % Return*
29 October 2004	A\$13.53	1.65

\* 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

	Aug04	Sept04	Oct04
Topix %	-0.86	-2.43	-1.51
OJF longs %	4.38	-0.10	0.71
OJF shorts %	0.76	0.85	-0.28

*Important: The Optimal Japan Fund and Optimal Japan Trust are both hard-closed. The administrator (BTFE) will request any applicant for investment to contact the manager and require Directors' consent before acceptance.*

Japan has now had four consecutive down months and at the end of October, the YTD return is not quite 4%. There certainly is a lot of underlying worry out in the market as both economic and especially profits data has been largely encouraging. I believe that equities are more likely to rise now that the US election is behind us and we can get used to another four years with President Bush in charge. At least Mr Koizumi and his senior men at the Ministry of Finance will likely commit to ongoing buying of US Treasuries by the Bank of Japan - accepting that the loss they incur on these (in Yen at least) is a price worth paying for no trade friction, no undue pressure for Yen appreciation and the comfort of the Seventh Fleet patrolling the Pacific.

The Japanese first half reporting season is nearing the end and profits growth has again surprised on the upside. Pre-tax profits are up between 15-20% versus H1 2003 and companies are keeping some good news up their sleeves by retaining full year forecasts that imply worse-than-previously-forecast numbers for the second half. At this rate, the FY2004 year (ending March 2005) should see Japanese equities trading at 15-16x PERs – assuming of course the index stays where it is. We have said it before but will repeat that domestic sentiment and confidence in Japan is not yet strong enough to push the market higher in the face of weaker markets in the US. The good news is that I believe the downside at 1100 on Topix is negligible and am adding to positions at this level.

Optimal's biggest loss in October however occurred on October 24<sup>th</sup> when our colleague and dear friend Atsunori Ushioka passed away. He had been diagnosed with cancer in mid 2003 and had been

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# Optimal FUND MANAGEMENT

in and out of hospital since then as part of his brave fight to beat it. Right up until the last weeks of his struggle he believed he would recover and return to his favourite spot - sitting in front of the Bloomberg and on the phone. His conviction was such that we too felt he would return and his absence is hard to accept. Any of our investors who have visited Tokyo would have met Ushioka-san and would remember his good natured and enthusiastic ruminations on Japan and Japanese companies. Not only was he responsible for much of our funds' success, his phlegmatic approach in the tough times and his strong convictions certainly made my job so much easier than it might have been otherwise. In a country where risk taking has become a rarity in recent times, Ushi's willingness to join me in 1999 in establishing Optimal was remarkable in itself and something I will always feel very grateful for. However much we at Optimal miss Ushi's company, I know that it cannot be compared with the loss suffered by his wife and two daughters. Ushioka-san was 43.

Positive contributors (long) Tokyo Tatemono, Fuji Photo, Topcon, Mitsubishi Corp, Haseko  
(short) Citizen Electronics, Nippon Yusen

Negative contributors (long) Sekisui Chemical, Nippon Mining, Kohnan Shoji  
(short) Teijin, Saizeriya, Fanuc, Shiseido

## Major Positions

Toyota Motor, Fuji Photo, Mitsubishi Co, Tokyo Tatemono, Mizuho Financial

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# Optimal FUND MANAGEMENT

Return Snapshot	
Period	%(AUD)
Year to Date Return	12.04
Return since inception Inception 20 Dec, 1999	69.94
Fund size at 29 Oct 04	AUD 34mil

Portfolio Composition at Month End			
% of NAV	Aug 04	Sept 04	Oct 04
Long Stock Position	83.17	75.26	77.08
Short Stock Position	(25.36)	(28.46)	(25.03)
Index Futures	(20.43)	(19.20)	(19.04)
Equity Derivatives	2.91	1.77	1.78
Net Exposure	40.29	29.37	34.79

## Historical Returns

Below we provide a table detailing the monthly returns of the Fund since its inception in mid-December 1999.

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			12.04

\* Trust inception 20 December, 1999

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