

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

Date	NAV	Monthly % Return*
30 October 2005	A\$ 15.46	+1.31%

\* 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
+1.31 %	+ 1.43 %	- 0.15 %

*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.*

“Koizumi’s greatest achievement has been to get rid of the monsters from his own party” said one of our Tokyo based colleagues recently in response to a question over how much of a genuine reformer is Japan’s prime minister. Faint praise perhaps, but for any observer of Japanese government over the past twenty years, it is a significant achievement. The “monsters” were the disciples of the centrally planned economic model that served Japan well in the crisis years following WW2 but which remained in place past its useful life and contributed to the excesses and imbalances of the 1980s and ensuing mega-recession of the ‘90s. Their fellow travellers can still be found in the upper levels of the Ministry of Finance (the ones with the serious Japanese Government Bond habit) but Mr Koizumi has been adept at marginalising their parliamentary supporters and eventually one should see these administrative “monsters” slain as well.

The share market surprised us in October as we had expected a pullback after September’s exceptional gains. Up until the start of the last week of the month, the Topix index had indeed retreated (2.5%) from end September levels but fired by more aggressive buying from foreigners, it rose almost 5% in the last five trading days. The gainers were exclusively domestic in nature with warehousing, insurance and real estate all putting on more than 12% rises. Shipping (one of Optimal’s oldest friends) was the worst sector (down 7.5%) and steel also fell (-1.3%). Since month-end however, steel has recovered strongly, led by JFE Holdings who announced their first half results on November 7<sup>th</sup>. JFE’s shares have risen almost 10% in November (MTD) and without doubt the company is firing on all cylinders. Having announced operating profits up 42% yr/yr to Y264bn they also gave some of it back to shareholders by raising the annual dividend by 20 Yen to Y100. On the Nov 7<sup>th</sup> closing price of Y3760, this is a 2.7% dividend yield. The stock jumped 7% on Nov 8<sup>th</sup> and although foreigners were no doubt on the buy side, at least some of the \$470mn of turnover must have come from Japanese investors deciding that this was an offer worth taking. The good news is that there is plenty of room to increase it further as the company “considers the return of profits to shareholders to be among its top management priorities and has a policy of distributing

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# Optimal FUND MANAGEMENT

dividends in light of financial result trends...” (taken from their “Basic Guidelines on Profit Distribution” section in the interim results announcement. Given that they are expecting to make Y529 in earnings per share this year (ending March 2006), the payout ration implied by the Y100 dividend of 19% is hardly indicative of a “top priority” (wonder what the other ones are?). We expect higher dividends in the coming years and believe that these will boost the share price.

Noteworthy in the JFE announcement was their statement that the “JFE Group’s corporate vision is to contribute to society with the world’s most innovative technology”. This is the first sentence under the title “Basic Management Policy” and is consistent with the message I received loud and clear on my last company visit to them in August. Over and over again, the spokesman stressed their confidence in the future based on their technological leadership in the steel making and related engineering businesses. The positive side of corporate Japan’s lack of focus on shareholder returns is that they have been able to invest heavily in R&D (take Toyota’s hybrid car engines as a prime example) and in many materials and manufacturing industries this has left them as undisputed world leaders. We know that our continued faith in materials companies such as JFE, Nippon Steel and Sumitomo Metal Mining will be tested as investor confidence in global economies waxes and wanes, but we are confident that the Japanese companies are adding value in their respective areas and will hold or improve margins where less advanced competitors will find profits under pressure.

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) Mitsui Fudosan, Mizuho Financial Group, Diamond Lease, Star Micronics  
(short) Goldcrest Co, Murata Manufacturing, NTT Data Corp

Negative contributors (long) Mitsui OSK Lines, Kawasaki Kisen Kaisha, Nippon Mining  
(short) Nitto Denko Corp, Shiseido, Daiwa House Industry

## Major Positions

Mizuho Financial Group, Toyota Motor, Mitsui Fudosan, Tokyo Tatemono

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# Optimal FUND MANAGEMENT

Return Snapshot	
Period	%(AUD)
Year to Date Return	22.42
Return since inception Inception 20 Dec, 1999	105.66
Fund size at 30 Sept 05	AUD 49.7 mil

Portfolio Composition at Month End			
% of NAV	Aug 05	Sept 05	Oct 05
Long Stock Position	83.44	80.61	77.30
Short Stock Position	(23.43)	(27.25)	(24.95)
Index Futures		(30.28)	(16.16)
Equity Derivatives	1.11	0.99	
Net Exposure	61.12	24.07	36.19

## 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			22.42

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