

## Monthly Report to Unitholders of the Optimal Japan Trust November 10th, 2006

Date	NAV	Monthly % Return*
31 October 2006	A\$16.23	2.72

\* 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.*

The main corporate news in October continues to be the tighter controls to be imposed on the consumer finance companies' lending rates. This sector – of which there are four main listed companies – has long fascinated foreign investors who have marvelled at the juicy profits and returns on equity that have been generated. It was a constant source of amazement that the large banks would not try and muscle into what were obviously very high margin businesses. In recent years, a number of the large Japanese banks have formed joint ventures with the big consumer loan companies but one always had a strong sense that they never felt comfortable in this area. Foreign banks were not quite as circumspect with at least one major banking group taking over one of the larger (unlisted) consumer finance companies. Recent court rulings in Japan have imposed restrictions on the rates at which the finance companies can lend and the finance companies are setting aside reserves to make “compensation” payments to aggrieved borrowers who have been overcharged. The trouble we have always felt when trying to understand these companies was the opacity of the laws and guidelines that governed their operations. It also beggared belief that the massive returns generated could go unchallenged either by increased competition or vigilante politicians.

Finally, our scepticism seems to have been justified – although we must add that the our funds have not profited from short positions in these stocks (sadly).

To illustrate how rough it has been, Takefuji has seen earnings per share fall from Y525 in FY03 to Y488 in FY04 to Y333 last year and is expecting a loss of Y743 in the current year to 3/07. This year alone, the shares have more than halved from their high on January 5<sup>th</sup> of Y8470 to Y4100 yesterday – despite boasting a stated book value per share at last balance date of over Y6900. It is an interesting situation when a large company (with a market capitalisation still in excess of US\$5bn) trades at only 0.6x book value and normally one which would peak our interest at the very least. With maximum loan rates being slashed from 28% to between 18-22% however, the operational gearing has dramatically deteriorated and we do not believe that there is sufficient clarity to start bottom fishing.

There was remarkably little news (that we noticed) during the month other than the constant flow of announcements from companies releasing their results for the half-year to September. Recurring profits are up between 10-13% year-on-year but still Japanese company management insist on

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# Optimal FUND MANAGEMENT

keeping full year estimates to 3-5% growth. We will, of course, find out in due course, but our expectation is that share prices will be considerably higher by the time the truth becomes evident.

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 web-site.

Positive contributors (long) Makino Milling, Taikisha, Toyota Motor  
(short) Mitsubishi Materials, Sanken Electric, Funai Electric

Negative contributors (long) Tokyu Co, Ushio, Noritsu Koki  
(short) IHI, Ajinomoto, Trend Micro

## Major Positions

Tokyu Corp, JFE Holdings Inc, Toyota Motor, Makino Milling

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# Optimal FUND MANAGEMENT

Return Snapshot	
Period	%(AUD)
Year to Date Return	5.84
Return since inception Inception 20 Dec, 1999	125.81
Fund size at 31 Oct 06	AUD 68.6 mil

Portfolio Composition at Month End			
% of NAV	Aug06	Sep06	Oct06
Long Stock Position	84.86	79.13	83.97
Short Stock Position	(21.77)	(19.87)	(20.49)
Index Futures	(12.76)	(12.35)	(11.67)
Equity Derivatives			
Net Exposure	50.33	46.91	51.81

## 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			5.84

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