

Monthly Performance % - as at 31 October 2007

NAV	October	Financial YTD	Asset size
A\$14.17	0.35%	-5.73%	A\$95M

Looking back over the events in October, it is difficult to identify anything in Japan that would have persuaded one to change one's position – be it positive or negative. Moody's upgraded Japan's sovereign debt rating on October 10th and the market rose strongly to reach its October peak on the 11th. Moody's would be relieved that at least in Japan, their credit ratings still seem to carry that sort of weight. On the 11th, not only did the Topix index reach its (monthly) zenith, but the Yen also reached its weakest level against the already weak USD by hitting 117.3/\$. Usually, a strong Yen has been associated with a better equity market and vice versa, but over the past year or two, this long-term relationship has gone into reverse, and so it was in October. From the 11th of October's lows, the Yen has risen strongly against most currencies and is now at Y110.6/\$, whilst over the same period, the Topix index is off 11%. The equity market finished October with a tiny monthly increase, but in the first third of November, selling has swamped buying and the Topix market sits almost 8% lower now (November 9th) than it was a mere nine days ago.

We wish we had an interesting answer as to why this is so. We know that there have been a couple of cases of Japanese companies admitting losses on their US mortgage-backed securities forays (Nomura Holdings and Mizuho Securities) but the amounts are not particularly big and certainly nothing compared with the losses we are seeing spew out from US corporates on a daily basis. Uncertainty is the gremlin that equity investors fear most, and investors in Japan seem more skittish than others, so it appears to us a case that Japan's banks and financials groups are being punished for their past (admittedly heinous) sins. The thinking runs that as they lost a fortune doing dumb things in the past, they've probably done it again but are too scared to admit it. We believe that the most likely case is that being so deeply scarred by the 1990's deflation and property losses, Japanese city banks have been fully engaged trying to properly manage their mergers and have been only marginally involved in the area of sub-prime loans. A lot of others clearly do not hold this same view.

Results for the half year ending September have been coming thick and fast. Of the companies in the Nomura 400 universe that had reported as at November 5th, 65% had exceeded forecast profits by more than 5%, 25% had reported profits within 5% of the forecast and only 10% had fallen short by more than 5%. They now have a revised forecast for Nomura 400 recurring profits to grow by 11.7%

in the full year to March 2008. Many of the companies are benefiting from the rising trade between Asia and Japan with the region's share of total sales now at 14.9% against that of the USA at 16.3%. The gap between the USA's share and that of Asia's has narrowed from over 3% to 1.4% in the past two years and will inevitably narrow further. A number of companies that we follow (Hitachi Construction Machinery for example) are reporting significant weakness in their US business but are still experiencing overall sales and profits growth due to even bigger increases in their business from other regions. The Japanese market now trades below 16x forward earnings while our long positions are as follows:

1 year forward PER:	14.8x
Operating Profit Margin:	17.5%
Last FY PBR:	2.2x
Last FY RoE:	13.4%
Last FY RoA:	10.2%
Gearing(Equity to assets):	47.3%

We can't believe the buying opportunity that we are being given with the market at these levels and intend to hang on tight while the Sub-Prime storm rages over Wall Street.

SYDNEY: Level 5, Wyoming, 175 Macquarie St, Sydney NSW 2000 **Phone:** 61 2 8239 3300 **Fax:** 61 2 8239 3333 **Email:** optimal@optimalasia.com

TOKYO: 5F Izumikan Kioicho, 4-3 Kioicho, Chiyoda-ku, Tokyo 102-0094 **Phone:** 81 3 3238 1671 **Fax:** 81 3 3238 1687

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Recent 3 month Fund Exposure

% of NAV in	Aug 07	Sept 07	Oct 07
Long Stock Position	84.64	85.43	86.65
Short Stock Position	-13.47	-15.68	-11.98
Index Futures	-17.71	-15.52	-21.36
Equity Derivatives			
Net Exposure	53.46	54.23	53.31

Optimal FUND MANAGEMENT

Should you wish to make an enquiry about the Optimal Japan Trust, please see our website – www.optimalasia.com or contact us at – optimal@optimalasia.com

Position Concentration

	Top 5	Top 10
Longs	22.25%	41.56%
Shorts	-7.08%	-11.65%
Total no. positions	47	

Top Five Positions

Komatsu Ltd
Sumitomo Corp
Hitachi Construction Machinery
Mitsubishi UFJ Financial Group
Fanuc

Winners

Mitsubishi UFJ Financial Group
Nachi-Fujikoshi
Ushio
Suzuki Motor
OSG

Losers

JFE Holdings
Sumitomo Corp
Taiheiyō Cement
Isuzu Motors
Sumitomo Metal Industries

Sector Exposure as at 31 October, 2007

	Longs	Shorts	Net
Materials	12.11%	-3.21%	8.91%
Industrials	34.45%	-4.40%	30.04%
Futures		-21.36%	-21.36%
Financials	17.93%	-2.15%	15.79%
Energy			

	Longs	Shorts	Net
Consumer Non Disc		-1.04%	-1.04%
Consumer Disc	16.11%	-1.14%	14.97%
Utilities			
Telecom			
Technology	5.77%		5.77%

Historical Returns - Distributions Reinvested

Optimal Japan Trust Net Monthly Returns in AUD %

The table below outlines the monthly returns of the Fund's Series 1 since its inception in August 2002.

Year to June	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD
2002													
2003			1.68	-4.38	-3.66	-0.42	1.80	1.98	0.41	-0.10	2.55	3.48	3.06
2004	1.54	5.20	3.86	3.55	-1.67	3.06	-0.33	1.24	7.11	0.15	-1.14	3.93	29.47
2005	-2.14	4.01	0.23	-1.21	1.30	1.51	2.74	2.02	0.07	-0.14	0.99	1.47	11.24
2006	1.81	3.68	6.81	1.36	2.41	4.38	1.82	0.43	3.86	0.35	-4.05	0.18	25.14
2007	-0.79	1.43	0.13	2.10	0.77	2.49	1.99	0.55	-1.03	1.35	3.45	2.28	15.66
2008	-0.87	-6.98	1.88	0.35									-5.73

Annual Distributions

Year to 6/07 A\$2.4179	Year to 6/05 A\$1.4218	Year to 6/02 A\$ 0.8983	Year to 6/00 A\$1.4158
Year to 6/06 A\$ 1.24	Year to 6/04 A\$0.4713	Year to 6/01 A\$0.8989	

The table below outlines the monthly returns of the Fund's Initial Series since its inception in December 1999.

2000						0.58	-0.32	12.76	8.99	-1.53	2.45	11.82	39.0
2001	-9.05	4.02	-0.37	0.90	-0.18	-3.86	-2.34	3.13	1.36	8.47	-2.14	3.96	2.82
2002	-2.88	1.49	-3.58	1.77	-3.89	-5.46	1.10	1.47	2.07	-0.26	7.13	2.92	-4.55
2003	-1.46	-1.39	2.04	-4.47	-3.65	-0.44	1.80	1.98	0.41	-0.20	2.65	3.97	0.89
2004	1.91	5.90	3.81	3.58	-1.73	3.02	-0.33	1.22	7.01	0.23	-1.20	3.95	30.56
2005	-2.26	4.03	0.82	-1.55	1.65	1.92	2.83	2.05	0.00	-0.14	1.04	1.37	12.22
2006	2.38	4.15	6.71	1.31	2.39	4.30	1.82	0.42	3.79	0.34	-4.04	0.24	26.09
2007	-0.77	1.46	0.13	2.72	0.99	2.62	1.96	0.58	-0.99	1.35	3.47	2.23	16.82
2008	-0.89	-6.99	1.85	0.40									-5.74