

**Monthly Report to Unitholders of the  
Optimal Japan Trust**

May 3, 2000

<b>DATE</b>	<b>NAV</b>	<b>Monthly % Return*</b>
28/4/00	A\$12.1325	-1.53

\* After all fees

It was a wild ride in most markets during April and Japan was no exception. Investors would be well aware of the dramatic price moves that are masked to a large extent by the recovery towards the end of the month. In local currency terms the Topix index fell 3.3% in April but was off 9% at the intra-month low. Hurt by the weaker Yen, the Topix AUD return was -4.5%. For mainly one-off technical reasons, the Nikkei index fell almost 12% but more on that later. We did increase our short position during the month so that net market exposure was reduced from 87% to below 50% by the end of the 3<sup>rd</sup> week and then raised slightly by month-end as markets stabilised (for now). The Fund remains hedged out of Yen into AUD with no plans to alter this strategy in the coming months.

With impeccable timing, the Japanese weekend newspapers announced the biggest change to the Nikkei 225 index in decades on the same day that they ran feature articles on the 10% decline in the Nasdaq index the previous night. Monday April 17<sup>th</sup> was therefore a particularly dramatic day as investors sold heavily in reaction to Nasdaq's fall as well as contemplated what they could/should do in response to the change in the Nikkei index components. In total there were thirty deletions and thirty additions to the index as well as re-weightings to all the remaining (195) companies and for index tracker funds and index arbitrage funds there was exactly five trading days in which to position themselves before the "new" index took effect. The Fund held two names on the deletion list and in the space of two days the price of both fell by approximately 30%. I'm sure we were not the only investors to be cursing index trackers during that week but although we might question the manner in which the changes

# Optimal FUND MANAGEMENT

were announced and implemented, there is no doubt that the companies going into the index are more relevant to the 21<sup>st</sup> century than most of those being deleted. The net effect of it all was to push prices in the affected stocks to extreme levels and in a few cases, we have acted to take advantage of this.

Another important event during April was the announcement of the details of the merger of Sumitomo Bank and Sakura Bank. The ratio (1 Sakura share for each 0.6 Sumitomo share) created an arbitrage opportunity between the existing market prices and the theoretical price and we have sold Sumitomo Bank and bought Sakura Bank to capture this expected move.

The internet bubble's collapse accelerated over the month with the laws of gravity working hard on Hikari Tsushin in particular. Having produced a disappointing profit at the interim announcement on 30 March, (some investors feeling "betrayed" by the company we gather) sellers swamped the counter and when the dust settled at the end of April, the shares were some 80% lower. Sadly we were not short this spectacular collapse, having decided earlier that there was no logic to the price move up and thus we would be best served by looking for investments we could fathom. Many of the companies in which Hikari Tsushin has an equity stake have also collapsed and it is unlikely they'll get back to the previous highs any time soon. We are hoping to find technology stocks at justifiable prices and believe the market will focus on companies generating free cash flow rather than capital hungry operations with dubious business models.

## Performance

Positive contributors (long) Central Glass; Daito Electron; TBS; Marui; Mitubishi Estate

(short) Goodwill; Hitachi Zosen

Negative contributors (long) Daiwa Securities warrants; Nikko Securities; Sony; Benesse

(short) Saizeriya; Venture Link; JR East

## Major Positions

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## Long

Daito Electron; Sakura Bank; Toyota; M.E.I.; Denso Corp

## Short

Sumitomo Bank; Advantest; Shizuoka Bank; Don Quijote; NTT Data

<b>Trust Returns Snapshot</b>	
<b>Period</b>	<b>% (AUD)</b>
<b>Year to Date Return:</b>	20.63
<b>Return since inception: *Inception 20 Dec, 1999</b>	21.32

# Optimal FUND MANAGEMENT

<b>Portfolio Composition at Month End</b>			
<b>% of NAV in:</b>	Feb 2000	March 2000	April 2000
<b>Long Equity Position</b>	103.35	115.17	110.38
<b>Short Equity Position</b>	(16.80)	(12.50)	(27.98)
<b>Index Futures</b>	(47.94)	(21.08)	(25.31)
<b>Equity Derivatives</b>	0.76	5.99	5.68
<b>Net Exposure</b>	39.37	87.58	62.77

## Historical Returns

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

<b>Optimal Japan Trust Net Monthly Returns in AUD</b>													
<b>Year</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>YTD</b>
1999												0.58	0.58
2000	-0.32	12.76	8.99	-1.53									20.63

- Trust Inception 20 December, 1999