

Monthly Report to Unitholders of the Optimal Japan Trust

May 4th, 2001

DATE	NAV	Monthly % Return [*]
27/4/01	A\$12.53	8.46

- After all fees
- NAV is ex-distribution of A\$1.4158

Trailing 3 months NAV

2/01	3/01	4/01
A\$11.40	A\$11.56	A\$12.53

Investors in Japan had a much happier month in April with the Topix index making its biggest monthly gain since June 1999. Part of the improvement can be attributed to the strong rise on Wall Street but as the nexus between US and Japanese equities has not been consistently strong, Tokyo's gain is more directly traced to local matters. The election of Mr Koizumi to replace the hapless Mr Mori as leader of the LDP - and thus prime minister - has been greeted with surprisingly strong approval. His 80% approval rating compares with the single digit score achieved by Mori just before his end and is the highest in Japanese political history. It will be very hard to live up to these expectations. What was most encouraging was the way Koizumi swept the vote in the LDP regional branches in a very clear message to the Tokyo LDP diet members that the rank and file wanted a new broom. The pre-vote favourite and head of the LDP's biggest faction - Ryutaro Hashimoto - never got close in the two horse race and has now been seen off as a potential repeat prime minister.

Mr Koizumi has made some sensible appointments to key ministries in his new cabinet and

has asked the fiscal reformer Mr Yanagisawa to carry on (and accelerate) the work of clearing the banks' bad debts to allow the economy's circulation to self-start. We think that the market is right to have high hopes on the new administration and believe that this defeat of the faction bosses and their Whips will be seen as a major turning point in Japan's path to recovery. Many – perhaps most – of the foreign participants in Japan's equity market are steadfastly refusing to believe that anything has changed. Given that the vast majority of them have experienced only Japan's bear market it is natural that they are sceptical after “more false dawns than a vampire's nightmare” as one Japanese warrants market veteran put it. We are quietly confident that they are going to have their scepticism tested and broken down by the real changes that we see occurring both on the political level and in corporate Japan.

Turning to the portfolio and corporate news, we saw a far broader recovery across sectors that is consistent with greater investor confidence and improving fundamentals. Merger news continues to flow with the biggest being the proposal of NKK and Kawasaki Steel to merge into the world's second largest steel maker. Vodafone has increased its stake in Japan Telecom (owner/operator of Japan's second largest mobile phone business – “J-Phone”) and BOC is buying out minorities in its subsidiary Osaka Sanso. In the banking sector, UFJ Holdings has announced plans to accelerate the implementation of the merger of its three component banks and the shares are up 25% since their first day trading on April 2nd. It strikes us that the days of characterising the market as either “Tech led” or New Japan” as opposed to “Old Japan” may finally be behind us as investors take a more realistic look at what is happening at companies. Whilst our portfolio benefited handsomely from some admittedly unsexy sectors such as shipping, construction, chemicals and department stores during April, a number of our worst losses came from shorts we had in the electronics/semiconductor area. Twenty four of Topix's thirty three sectors beat the index return and telecommunications was one of them We would be delighted to have the market continue to reward companies on their merits and not because they fall into a convenient industrial nomenclature.

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The *Sanyo Shimpan* tender offer for *Mycal Card* took place and we had over 62% of our long position taken off our hands at Y4,100. The remaining stock was offset by a corresponding short position that made the arbitrage quite profitable. We expect this industry consolidation to accelerate and eventually even hostile takeovers to make an appearance. Value investors should be sharpening their knives!

Performance

Positive contributors (long) Mitsui OSK; Kawasaki Shipping; Central Glass; Obayashi
(short) Seikoh Giken; Askul.; Nippon Comsys; Mycal Card

Negative contributors (long) TDK; MEI; Mori Seiki; Santen Pharmaceutical
(short) Shin-Etsu Chemical; Otsuka Kagu; Advantest; Toto; Disco

Major Positions

Long

Kawasaki Shipping; Japan Energy; Mitsui OSK; Mitsukoshi; Nomura Securities

Short

Komatsu; Shin-Etsu Chemical; Hitachi Cable; Nippon Comsys; Jusco

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Returns Snapshot	
Period	% (AUD)
Year to Date Return:	10.73
Return since inception: *Inception 20 Dec, 1999	39.51

Portfolio Composition at Month End			
% of NAV in:	Feb 2001	Mar 2001	Apr 2001
Long Stock Position	71.86	77.76	76.05
Short Stock Position	(26.36)	(36.31)	(31.70)
Index Futures	(13.76)		
Equity Derivatives	1.65	1.51	
Net Exposure	33.39	42.96	44.35

Historical Returns

Below we provide a table detailing the monthly returns of the Trust since its inception in 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									10.73

- Trust Inception 20 December, 1999

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