

Monthly Report to Unitholders of the Optimal Japan Trust

May 8th, 2002

DATE	NAV	Monthly % Return
30/04/02	A\$10.85	-0.26

- After all fees
- NAV is ex-distribution of A\$ 0.8989 (for Yr to 6/01) and A\$1.4158 (for Yr to 6/00)

Monthly return composition

	Feb 02	Mar 02	Apr (from Mar 29 th)
Topix %	4.33	6.77	-0.03
OJF longs %	5.20	7.45	2.43
OJF shorts %	-8.06	-9.30	-3.80

Trailing 3 months NAV

Feb 02	Mar 02	Mar 02
A\$10.66	A\$10.88	A\$10.85

Results season is upon us and will continue through the end of May (and start of the World Cup). During this period, it is easy to be lulled into a condition of stasis by the daily monotony of pre-announcements, announcements and post-results commentary, but we look forward to doing a proper review of 2001 and outlook for 2002 in the coming weeks. It has been clear for some time that 2001 would be a very poor year for corporate profits but the surprise to us has been the extent of the recovery forecast by companies for the year ahead. Some of these look a bit hopeful – exemplified by the integrated industrial electronics companies (Toshiba, Fujitsu, NEC et. al.) – and although we'd love to be surprised, we remain sceptical that reorganisation and cost-cutting will justify the targets set.

The auto sector – whose past achievements afford better credentials for rosy forecasts – has been the pick of the large-caps with record profits and forecasts from Honda & Toyota. This success was crowned with Nissan's shares breaching Y 1,000 for only the second time in a decade. According to Bloomberg, all analysts from the twelve brokers to issue reports on Nissan since March have the stock rated better than "hold", so we would imagine that the company needs to come up with some even more impressive plans to bring the doubters on-side. Using Toyo Keizai's numbers for the year ending 3/03 and using a normalised tax rate, Nissan now trades on 23 times earnings whereas Honda trades on just 13 times. The same auto analysts are equally enthusiastic about Honda's shares but the market

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seems reluctant to follow their advice. Part of this may be explained by the fact that Honda is well known to be one of the city banks' major holdings and therefore the shares are prone to occasional periods of heavy selling. Possibly more important is the strong link between a weak Yen and Honda's profits and share performance. If history gives us any indication, a stronger Yen (or weaker dollar) will cause poor performance from Honda and the auto sector in general – despite their impressive achievements and rosy forecasts.

Optimists on the Japanese equity market – a motley group that we have belonged to for some time - have clutched at many straws during the long bear market and been disappointed many times. We think there are new factors at work that will change the Japanese investment landscape in a dramatic (positive) way. NSSB's strategist Alexander Kinmont points out in a recent investment piece that there is a strong correlation between the performance of the equity market and corporate buying. Japan's corporate sector has been a net seller of equities since 1990 (the market peak) whilst their US counterparts were net buyers until Q1 2000. Recent announcements of share buy-backs in Japan have been far larger than anything seen to date and larger than market expectations and it appears that the corporate sector will become a net buyer of equities in FY 2002. This, combined with signs that Japanese consumers are starting to feel more inclined to buy now than delay purchases (and save), is the most dramatic change in the investment cocktail for over a decade and makes us optimistic for the year ahead – again.

<u>Positive contributors</u>	(long)	Tokyu Land; Central Glass; Daito Electron; Chiyoda Integre
	(short)	Anritsu; Kyorin Pharmaceutical; Itochu Techno-Science
<u>Negative contributors</u>	(long)	Mitsui O.S.K.; Toyota; Japan Foods; Mitsubishi Gas Chemical
	(short)	Mazda; Nikon; Ajinomoto

Major Positions

Japan Retail Fund Investment; Nikko Cordial; Central Glass; Toyota; Japan Energy

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Returns Snapshot	
Period	% (AUD)
Year to Date Return:	4.44
Return since inception: *Inception 14 Oct, 1999	31.69

Portfolio Composition at Month End			
% of NAV in:	Feb 2002	Mar 2002	Apr 2002
Long Stock Position	63.37	79.25	76.23
Short Stock Position	(27.83)	(33.59)	(35.60)
Index Futures			
Equity Derivatives	2.80	5.41	4.14
Net Exposure	38.34	51.07	44.77

Historical Returns

Below we provide a table detailing the monthly returns of the Fund 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	-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									4.44

- Trust Inception 20 December, 1999

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