

Monthly Report to Unitholders of the

Optimal Japan Trust

May 6, 2003

Date	NAV	Monthly % Return*
30 April 2003	A\$9.81	-0.20

* After all fees

* NAV is ex-distribution of 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)

Success – Longs & Shorts

	Feb03	Mar03	Apr03
Topix %	-0.3	-3.8	1.09
OJF longs %	4.41	-3.14	0.80
OJF shorts %	-2.74	6.46	-1.90

A 3% rally on the final day of April led to the first positive month for the Topix index so far in 2003 and was one of those days you wished you had no short positions at all. It is a feeling I think I could grow accustomed to – certainly preferable to the conditions which we have lived with for most of the past three years (sorry I meant thirteen). Having a financial year-end in March, we have seen the first group of companies report their results during April and the sample to date has been pretty good. The message we want to give loud and clear is that Japanese companies are behaving as one would expect in a competitive capitalist system where capital has a (high) cost. They are improving inventory turnover, asset turnover, interest coverage, operating margins, cutting SG&A costs and using increased free cash flow to reduce debt. *Corporate Japan is recovering* – notwithstanding the rear-view mirror-gazing negativity of most of the financial press.

Another welcome change in the Japanese market has been the total erosion of any valuation premium Japan's blue chip companies typically carry. One can buy the biggest and best Japanese companies now at lower multiples of earnings, book value or cashflow than those of the mid cap or smaller cap companies. In some case, this de-rating has been justified. Sony released awful results and shaky forecasts and fell 27% (losing \$8bn of market cap) in the following two days. When one reviews Sony's results over a long period (20 years), one sees a consistent decline in profit margins and return on equity but the stock price held onto its premium rating – because, well, "It's a Sony". This year, Nippon Steel will make the same amount of operating profits as Sony on only a third as much revenue. Despite steel's dowdy image – especially compared with the hipster businesses that Sony plays in – Nippon Steel's business is three times as profitable. No prizes for guessing which one we own.

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Optimal FUND MANAGEMENT

There are many other companies with more legitimate claims to blue-chip status than Sony that have also been savaged in the selling of the past few months. This group – which includes companies such as Toyota, Honda, Canon, Takeda Chemical, Kao – can now be bought at prices that will seem cheap in the years to come. Investor confidence is understandably low at present, but bargains are there to be had and we have been gradually building our positions in some of these companies. We have a packed company visit schedule lined up once results are out of the way and are excited by the improvements we see in our (long) portfolio and the broader market.

Positive contributors (long) Central Glass, Daido Life Insurance, Mitsui OSK, Taiyo Mutual Life
(short) Mitsubishi Motor, Shionogi, Denki Kagaku Kogyo, Oriental Land

Negative contributors (long) Nippon Mining, Kao, Nippon Steel, Sumitomo Chemical
(short) Sapporo Breweries, Aiful, Sanyo Electric, Promise

Major Positions

Toyota Motor, Kawasaki Kisen, Takeda Chemical, Kao, Nippon Steel

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Optimal FUND MANAGEMENT

Return Snapshot	
Period	%(AUD)
Year to Date Return	4.03
Return since inception Inception 14 Oct, 1999	30.2

Portfolio Composition at Month End			
% of NAV	Feb 2003	Mar 2003	Apr 2003
Long Stock Position	61.82	58.05	58.10
Short Stock Position	(30.10)	(34.03)	(33.60)
Index Futures			
Equity Derivatives	2.44	2.50	2.08
Net Exposure	34.16	26.52	26.58

Historical Returns

Below we provide a table detailing the monthly returns of the Fund since its inception in mid-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	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									4.03

* Trust inception 20 December, 1999

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