

## Monthly Report to Unitholders of the

### Optimal Japan Trust

12th May, 2004

Date	NAV	Monthly % Return*
30 April 2004	A\$13.31	0.23

\* 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)

\* Returns are based on the redemption price

### Success – Longs & Shorts

	Feb04	Mar04	Apr04
Topix %	3.34	8.94	0.60
OJF longs %	2.60	21.35	-6.34
OJF shorts %	-3.04	-15.34	5.80

*Important: The Optimal Japan Fund and Optimal Japan Trust are both soft-closed. The administrator (BTFE) will request any applicant for investment to contact the manager and require Directors' consent before acceptance.*

### A Stretcher or a Palanquin?

Writing about April performance at this point in May feels like reviewing the semi-finals half way through the final. A cursory glance at the numbers would have you believe that April was a non-event. It did not feel like it however, as although the Topix index rose just 0.6%, the gap between best and worst performing sectors was 22%. The banks index (which, by the way, is up 120% since March 2003) ended the month up 5% but at its best at mid-month was up 12%. Shipping, real estate and steel – which had all been in the top performers during Japan's recovery – were all significantly down during April and we were quite relieved to reach April 30<sup>th</sup> knowing we had the first three days of May's Golden Week holiday to regain our breath.

By end of business on Monday May 10<sup>th</sup>, we would have loved to have had a bit more of April and a lot less of May. In Yen terms, the Topix index had fallen 8.5% in the first three trading days of May. Measured in US dollars, the decline was 11%. Banks (in JPY) fell 13% whilst the least bad sector was electrical & gas utilities down 1%. It was a bloodbath, and after twenty years in the business, I wish I were better able to predict these sorts of moves. Instead, we began buying – adding to some

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# Optimal FUND MANAGEMENT

long positions and covering some of our shorts. Time will tell whether this will result in us needing a stretcher or a palanquin, but as far as we see it, the reasons for the market's decline are not of a long-term nature and underlying conditions are very favourable.

The US - as with most other English speaking countries - has too much debt and too much leverage in the asset markets (equities, housing & other property). The same is true in important pockets in other developed markets. As interest rates mark a bottom and look to be on a rising path, this is clearly bad news for highly leveraged investors. Japan (the government fiscal balance aside) is unleveraged and would welcome rising prices. Net gearing of Japanese companies (with capital in excess of ¥1bn) is at its lowest level since the early 70s MoF surveys began and – unsurprisingly – the interest coverage ratio (at 6x) is also at a high and more than three times the average level during that period. A more important measure of balance sheet strength is the interest bearing debt/cash flow ratio, which is down below 6 times. Corporate Japan is not vulnerable in a world where prices or interest rates rise. On the contrary, it would thrive.

We would also like to inform investors that we are currently in the launch phase of a new fund that will be investing in Japan with a long-only focus. The fund (called the *Optimal Japan Absolute Long Fund*) will usually be fully invested but the manager may raise cash as they see fit, and may also occasionally reduce market exposure via index futures. The Fund's holdings will be drawn from the holdings of the long side of the hedge fund and will offer a more concentrated sample of our best ideas. Futures will not be used to gain market exposure, nor will there be short-selling of stocks. The Fund, domiciled in the Cayman Islands, will offer weekly dealing and be denominated in US\$. If anyone has an interest in finding out more about this fund, please email us at [optimal@optimaljapan.com](mailto:optimal@optimaljapan.com)

Positive contributors (long) Godo Steel, Star Micronics, Hu-Management Japan, KDDI  
(short) Nippon Yusen, Mitsubishi Material, Shimizu

Negative contributors (long) Haseko, Mitsubishi Co, Toyota Industries, Kawasaki Kisen  
(short) Trend Micro, Nippon Oil, Fujitsu

## Major Positions

Toyota Motor, Mitsubishi Co, Marubeni Co, Mitsui Trust Holdings, Mitsubishi Tokyo Financial

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# Optimal FUND MANAGEMENT

Return Snapshot	
Period	%(AUD)
Year to Date Return	8.21
Return since inception Inception 20 Dec, 1999	65.23

Portfolio Composition at Month End			
% of NAV	Feb 04	Mar 04	Apr 04
Long Stock Position	75.59	78.04	75.80
Short Stock Position	(34.95)	(34.28)	(38.06)
Index Futures			
Equity Derivatives	2.12	3.34	3.25
Net Exposure	42.76	47.1	40.99

## 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	2.55	3.97	1.91	5.90	3.81	3.58	-1.73	3.02	30.43
2004	-0.33	1.22	7.01	0.23									8.21

\* Trust inception 20 December, 1999

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