Optimal FUND MANAGEMENT

Monthly Report to Unitholders of the
Optimal Japan Trust

September 7th, 2001

DATE	NAV	Monthly % Return*
31/8/01	A$11.66	1.49

- 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)

Trailing 3 months NAV

6/01	7/01	8/01
A$12.75	A$11.49	A$11.66

I can only hope that those in the northern hemisphere enjoyed some summer holidays in August as there was little cheer from the stock markets. The Topix index fell 6.4% in AUD but in local currency was off 7.3% and brings the AUD return for 2001 to –12.8%. No doubt partly due to our Fund's focus, Japan seemed to occupy a disproportionate share of the corporate bad news but in market terms, the all-important US indices fared just as poorly. It really was a month for misanthropes and short-sellers.

When the Topix index fell below 1150 on March 15th but closed the day higher, I confidently stated that we had hit the bottom and could look forward to better times ahead under the vigorous leadership of new PM Koizumi. As I made the assertion in a reasonably public manner, I have no choice but to confess and try to justify what seems to have been my misplaced optimism. The Topix index has since opened its innings for September with an effortless 3% decline and sliced through the 1100 comfort level to sit more than 5% below by earlier "bottom". Looking inside the numbers however, we see a very different picture.

From the middle of March to the end of August, the Topix index returned –9.2% in AUD. Of the 33 industry groupings that comprise the Topix however, 21 saw returns higher than the index and only 12 were worse. It does not take complex maths to see that the heavier-weighted sectors must have dragged down the overall index return and this is indeed the case: the four weightiest sectors - communications, electricals, banks and autos - all fell by between 25 and 10%. Over the same period, the NAV of the Fund rose by 12.5% without ever taking net market exposure below 20%. The rebalancing by investors from heavily overweight positions in the large-cap favourites into less well-owned stocks meant that for stock pickers as opposed to benchmark huggers, the period was not quite as bleak as at first glance.

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The month of August was interesting in that despite a plethora of bad news and weak markets overseas, the market did not really fall away until the last few days of the month. Looking at the number of new 52 week lows set each day against that of new highs, the ratio ranged between 1 and 5 times for all of August until the 29th when it went to 6, then 23 and finished with 25 times as many lows as highs. The first week of September has seen that soar to 30. In these conditions, it is clearly very difficult for anyone to make a positive return without being net short. Although we do not rely overly on technical indicators, the fact that the average loss on margin buying (ie. borrowing to leverage the investment) has hit a record 22% should indicate that a peak in selling pressure is approaching. With banks net sellers in advance of their first half close at end-September and individuals being pressured to take their losses, a little positive news will have a very large effect.

We decided to visit four equity market strategists during a recent trip to Japan and were pleased that at least three of them felt prices had been pushed lower than justified by the spate of recent bad news on economic and corporate fronts. One strategist believes that Japan is undergoing a change akin to that of the UK in the early 1980s – with the regions to be the losers as public works spending concentrates in Tokyo and the manufacturing base hollows out (moves to China). The winner under his scenario will be Tokyo and we have certainly seen signs of this in the real estate market. Japan's first real estate investment trusts (J –REITs) will debut on the TSE on September 10th and with yields that start at 3-4 times those of government bonds, they look likely to attract both yield-starved institutions and individual investors. We remain very positive on parts of the real estate market and have high expectations for the J-REITs as well, but expect that ambitious promoters may be tempted to stuff some dross in their trusts amidst the jewels and will be looking for pairs trading opportunities in the sector.

I have reams of facts and figures released in the past month that I considered including in this report but decided that anyone keen enough to study these can get me to send the data in a bespoke "scary stories for disobedient children" Excel package. Don't hesitate to ask!

Performance

Positive contributors	(long) Tokyu Land; Mitsubishi Real Estate; Sankyo Frontier
	(short) Tokyo Seimitsu; Yozan; NTT Docomo; NTT Data; Trend Micro
Negative contributors	(long) Oki Electric; Kawasaki Shipping; Honda
	(short) Paris Miki; Yoshinoya D&C; Sanix; Shionogi

Major Positions

Long
Kawasaki Shipping; Japan Energy; Honda; Oki Electric; Nippon Television

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Short

Advantest; Sanix; Fuji Television; Trend Micro; Matsushita Communications

Returns Snapshot	
Period	**% (AUD)**
Year to Date Return:	10.92
Return since inception: ***Inception 20 Dec, 1999**	39.72

Portfolio Composition at Month End			
%of NAV in:	Jun 2001	Jul 2001	Aug 2001
Long Stock Position	73.11	71.88	72.05
Short Stock Position	(36.19)	(31.40)	(30.09)
Index Futures			
Equity Derivatives			2.67
Net Exposure	36.92	40.48	44.63

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	-2.14	3.96	-2.88	1.49					10.92

- Trust Inception 20 December, 1999