

## Monthly Report to Unitholders of the Optimal Japan Trust

September 6th, 2002

DATE	NAV	Monthly % Return
30 August 2002	A\$10.09	-1.47

- 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)

### Monthly return composition

	June	July	August
<b>Topix %</b>	-8.50	-5.84	-2.42
<b>OJF longs %</b>	-4.87	-5.46	-1.73
<b>OJF shorts %</b>	7.84	6.59	2.19

### Trailing 3 months NAV

June 02	July	August
A\$11.29	A\$10.23(ex-div)	A\$10.08

There is little symmetry in the comments of market observers when sentiment is at extremes. With the weakness of recent months creating deep bearishness, a strong day is met with sceptical comments noting that "nothing has changed" to explain or justify the rise. Stocks often fall despite any deterioration in conditions yet one rarely sees an equivalent "surprise" at the decline. Perhaps this is to be expected after a decade of falling prices but frustrating to anyone with a more positive outlook at current levels (like us).

August is a holiday month in many places and Japan is no exception. There was little news of note with domestic politics quiet and few surprises on the economic front. Mr Tanaka easily won the Nagano prefectural governor's election and some see this as offering encouragement to Mr Koizumi to renew his attacks of the conservatives. Change is needed in the way Japan is governed and the mood has soured against the LDP as their ineptitude and decrepitude has become obvious to all. The LDP can hold off from general elections for another year or two but in the mean time, we can look forward to leadership candidates from outside the LDP machine.

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On the economic front, the April-June real GDP showed growth of 0.5% QoQ with the lion's share of growth due to exports. Private consumption was also positive but not enough to make a difference so economists continue to expect a flat period through to the end of this year. Exports to Asia have been especially strong and in some areas, a reliance on US demand has been replaced by that from China. As Japan's economic strength gradually shifts from manufactures to services-based the relationship with Asian countries becomes even stronger. For textile makers in Osaka this is disastrous but for shipping companies and steel producers, Asia is a bright spot. We are making a visit to Korea and Taiwan in the next month to meet some of the companies that compete or trade with Japan and look forward to making some comparisons.

I am sure I do not need to remind readers that Japan has hit a 19 year low earlier this week as the Topix index nudged below 900 but I do believe that this has been brought about by matters largely unconnected with the economic or profits outlook for Japan. Unlike early February this year when the Topix index fell to 920, the US and European markets have been weak in the past few months. Sentiment towards equities has deteriorated sharply and foreigners have been slight sellers of Japanese stocks as well. Interestingly, Japanese individuals have been buyers – an occurrence of such rarity that it beggars belief – but in a quiet market, they have not been big enough to soak up the selling from insurers and banks. Despite the weak market, Japanese banks will not be damaged by the stock price declines to the extent that they were in the past year or two as their equities holdings are lower, their operating profits higher and their credit costs below those of a year ago as the economy recovers. Credit spreads on Japanese corporate bonds have not widened markedly and there is far less panic than in either December 2001 or February this year. For a market trading on an average PER of 24X, where the median PER is 18X and 57% of the companies trade below 20X (and 58% trade below book value), now does not appear to be the right time to throw in the towel.

<u>Positive contributors</u>	(long)	Toyota; Fujitsu; Kyocera;
	(short)	Sazeriya; Mizuho Hldgs; Dentsu Kokusai
<u>Negative contributors</u>	(long)	Japan Energy; Tokyu Land ; EPS
	(short)	Advantest; Murata; Aiful

## Major Positions

Toyota; Central Glass; Mitsui OSK; Mitsubishi Tokyo Financial Group

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# Optimal FUND MANAGEMENT

Returns Snapshot	
Period	% (AUD)
Year to Date Return:	5.7
Return since inception: *Inception 14 Oct, 1999	32.97

Portfolio Composition at Month End			
% of NAV in:	June 2002	July 2002	August 2002
Long Stock Position	61.64	61.71	63.27
Short Stock Position	(20.24)	(29.04)	(33.11)
Index Futures			
Equity Derivatives	0.83	1.69	2.07
Net Exposure	42.23	34.36	32.23

## 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	7.2	-2.9	-1.43	-1.47					5.7

- Trust Inception 20 December, 1999

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Level 32, The Chifley Tower  
2 Chifley Square  
Sydney NSW 2000  
Tel: 61-2-9229-1863  
Fax: 61-2-9223-2920

5F Izumikan Kioicho  
4-3 Kioicho, Chiyoda-ku  
Tokyo 102-0094  
Tel: 81-3-3238-1671  
Fax: 81-3-3238-1687