

Monthly Report to Unitholders of the

Optimal Japan Trust

September 5, 2003

Date	NAV	Monthly % Return*
29 August 2003	A\$11.30	5.90%

* 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

	June03	Jul03	Aug03
Topix %	7.85	3.98	6.66
OJF longs %	11.20	4.20	16.65
OJF shorts %	-9.10	-2.08	-13.10

Equity investors have had another good month in Japan as the Topix index rose for the fifth consecutive month and at the August close is fully 27% above the March-end low of 788. Well and good. The question, however, is whether Japanese stocks could have done anything like this without the lead from US equities. Five straight up-months is nice, but in the US, the S&P 500 index has been up for six straight while the mercurial Nasdaq index has risen in each of the past seven months. Even nicer.

Many people remain unconvinced that Japan's rally will prove any more durable than any of the others of the past decade or so. Their scepticism is understandable, but in our opinion, will prove costly. If one does a check-list of all the negatives that have bedevilled Japan since the Bubble era, it is hard not to be encouraged:

Profit growth is on track for a second consecutive year of double-digit gains.

Valuations are as good or better than those in the USA and Europe.

Deflation is easing (Tokyo's CPI ex fresh food was -0.3% yr/yr having been as bad as -1.5% in 4/01).

Corporate governance is improving – see scale of share buy-backs and rising RoA/RoE

The *labour market* is strengthening as new jobs created overtake jobs lost.

Bank loan write-offs this fiscal year will be less than operating income for first time since early 90s.

Real estate prices have been stable to firming in more areas of Tokyo.

Corporate top-line growth is now complementing the cost-cutting measures in boosting profits.

Intra-Asian trade is developing at a pace that is astounding and largely positive for Japanese companies.

This Material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our opinions only. The material is based upon information, which we consider reliable, but we do not represent that it is accurate or should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities

Optimal FUND MANAGEMENT

As an example of the dynamism of Asian trade we would highlight that in 2002, Chinese exports to Japan exceeded those from the USA for the first time since 1945 and yet China still ran a trade deficit to Japan. Japan is exporting steel, machinery, some chemicals and sophisticated manufactured goods while China sells Japan everything they used to sell to everyone else. All of the north Asian economies are exporting more to Russia whilst China (in particular) is buying more and more of Russia's oil and gas. The comparative strengths and weaknesses of all are very plain but trade is growing rapidly between them. This will be a trade relationship that will throw up many opportunities for investors - both long and short.

While many developed economies in the west struggle with the unequal contribution to growth from the public, private capex, consumption and housing sectors, Japan has the reverse problem of trying to encourage more private consumption and less savings. We have often written of our interest in the real estate area and have held positions in TOC, Mitsui Fudosan and Tokyo Tatemono for a long time. There have been whole forests sacrificed by real estate analysts in the broking community as they fret over rising - or stubbornly high - vacancy rates in Japanese commercial real estate. This has often struck us as an unwarranted focus on just one aspect of how companies gain or lose in the real estate market. At other times, it has seemed simply bloody-minded. To illustrate the point, here is an updated list of vacancy rates in major cities in the developed economies.

Singapore:	18%
Los Angeles:	14.8
London (City):	11.5
Frankfurt:	11.0
New York(Manhattan midtown)	10.0
Hong Kong	10.7
Tokyo:	8.5
Sydney (CBD)	8.4
Washington DC	8.3

It is in our interest that the Tokyo vacancy rate falls but it sometimes helps to peer over the back fence for comparisons.

Positive contributors (long) Kawasaki Kisen, Mitsui Trust Holding, Mitsui Fudosan, Haseko Co
Nippon Steel, Mitsubishi Co

(short) Mitsubishi Pharma Co, Nippon Oil, Uniden

Negative contributors (long) Foster Electric, Hu-Management Japan, Mitsukoshi, Sakai Chemical

(short) Nippon Yusen, I.H.I., Nitto Denko

Major Positions

Nippon Steel, Toyota Motor, Mitsubishi Co, Mitsui Fudosan

This Material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our opinions only. The material is based upon information, which we consider reliable, but we do not represent that it is accurate or should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities

Level 32, The Chifley Tower
2 Chifley Square
Sydney NSW 2000
Phone: 61 2 9229 1863
Fax: 61 2 9223 2920
optimal@optimaljapan.com

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

Optimal FUND MANAGEMENT

Return Snapshot	
Period	%(AUD)
Year to Date Return	19.83
Return since inception Inception 20 Dec, 1999	45.13

Portfolio Composition at Month End			
% of NAV	June 2003	July 2003	August 2003
Long Stock Position	68.36	70.75	81.45
Short Stock Position	(43.78)	(33.83)	(39.24)
Index Futures			(24.92)
Equity Derivatives			1.66
Net Exposure	24.58	36.92	18.95

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					19.83

* Trust inception 20 December, 1999

This Material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our opinions only. The material is based upon information, which we consider reliable, but we do not represent that it is accurate or should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities

Level 32, The Chifley Tower
2 Chifley Square
Sydney NSW 2000
Phone: 61 2 9229 1863
Fax: 61 2 9223 2920
optimal@optimaljapan.com

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