

Monthly Report to Unitholders of the Optimal Japan Trust August 10th, 2004

Date	NAV	Monthly % Return*
31 August 2004	A\$13.41	4.03

* After all fees

* NAV is ex-distribution of A\$ 0.4713 (for Yr to 6/04) 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 of the initial series

Contribution – Longs & Shorts

	June04	Jul04	Aug04
Topix %	4.36	-4.23	-0.86
OJF longs %	7.95	-7.56	4.38
OJF shorts %	-2.78	3.72	0.76

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.

August was a busy month for Optimal Fund Management with research trips to Japan (twice), Korea, Hong Kong and Taiwan. The overall impression was mixed with market valuations attractive – but becoming more so – and private consumption looking better after weakness in recent years. Japan watchers have had the rare treat of watching companies cast off their usual priestly garb in favour of body armour as first Sumitomo Trust Bank took UFJ Holdings to court and then Sumitomo Mitsui Financial Group dared to question the wisdom of UFJ accepting the Mitsubishi Tokyo Financial merger offer and counter-offered with more generous terms. In the end, it seems that UFJ/Mitsubishi will prevail in both instances, but the surface serenity of Japanese banking has been severely upset. It certainly makes a welcome break from the usual colourless world of agreed deals and oligopoly industries.

In the stock market, Asian growth/reflation themes made a return to the top performer list while defensive sectors such as insurance, drugs and food were down the bottom. The index was held back by heavy-weight sectors such as electricals (-2.53%), retail (-2.94%) and drugs (+4.94%) whilst the winning sectors were relative light-weights such as shipping (+14.85%) and glass & ceramics (+3.46%). I suspect there will be sniffy comments about the market showing a “flight from quality” and “junk makes a comeback” in light of this disparity in returns, but as we had a good month, we would, naturally, beg to differ. We have pointed out the relative merits of Nippon Steel (nice) versus Sony (not nice) on previous occasions, so all I would say is one needs to be careful that the labels one use are not out-dated. If Japanese steel is junk, then I would say autos, shippers and resources are too – and that is not something that we can admit to.

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Optimal FUND MANAGEMENT

In the early part of the month we found ourselves questioning why we were holding some of our shorts and as we couldn't present ourselves with a convincing case, we decided to cover a number of these. The result of that was the funds' net exposure rose from 25% at the end of July to 39% at the end of August. As ever, I am depressingly uneasy about global equity valuations (especially those in the US) and do not expect fireworks in markets in the months ahead. (The most depressing part being that this is such a commonly held view). On a stock-by-stock basis, however, it appears that the party has plenty of life left in it.

On a different front, Hisako Tiedemann returned to the US with her family and will no longer be working for Optimal. We are sorry to lose Hisako as she had been a great colleague but shall soon be able to announce the arrival of a new employee to be based in Tokyo.

Positive contributors (long) Kawasaki Kisen, Mitsui OSK, Nippon Steel, JFE Holdings
(short) Leopalace21, Fanuc, Taisho Pharma, Daichi Pharama

Negative contributors (long) Ryowa Life Create, Towa Co, Toyota Motor, Pigeon
(short) Mitsui Chemical, Nippon Yusen, Saizeriya, Shimizu

Major Positions

Toyota Motor, Mitsui OSK, Kawasaki Kisen, Mitsubishi Co, Fuji Photo Film

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Optimal FUND MANAGEMENT

Return Snapshot	
Period	%(AUD)
Year to Date Return	12.86
Return since inception Inception 20 Dec, 1999	70.94

Portfolio Composition at Month End			
% of NAV	June 04	July 04	Aug 04
Long Stock Position	88.20	78.48	83.17
Short Stock Position	(40.42)	(36.73)	(25.36)
Index Futures	(15.65)	(21.14)	(20.43)
Equity Derivatives	4.09	3.55	2.91
Net Exposure	36.22	24.16	40.29

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	-1.20	3.67	-2.26	4.03					12.86

* Trust inception 20 December, 1999

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