

## Monthly Report to Unitholders of the Optimal Japan Trust

January 14th, 2003

DATE	NAV	Monthly % Return <sup>*</sup>
31 December 2002	A\$9.43	-0.42

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

	October	November	December
<b>Topix %</b>	-6.90	3.48	-5.54
<b>OJF longs %</b>	-9.72	1.83	-0.95
<b>OJF shorts %</b>	6.79	-11.33	3.02

### Trailing 3 months NAV

October	November	December
A\$9.83	A\$9.47	A\$9.43

2002 has ended and a new year begins. We hope that investing in Japan will have a better outcome in the year ahead. It is difficult to imagine it being as bad. Japan – as measured by the Topix index – has fallen by 51% in the three years since 1999 with annual returns of -26%, -20% and -18% in 2000, 2001 & 2002 respectively. It is almost inconceivable that one could produce any fresh negative argument given the media and investment community's focus on Japan's problems but there is no denying that big problems persist. In the November report we listed some major positives and negatives and concluded that a big change in the political arena needs to occur before a lasting recovery can take place. There is no reason to think

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differently now and so I will conclude this report for 2002 with a list - albeit far from complete - of some important events (non-events) and changes that took place over the past year.

### ***Merger activity***

- 7 Feb. - Finance industry - GE Edison Life and Saison Life announce plans to merge
- 15 Feb. - Construction - Fujita Construction to merge with Mitsui and Sumitomo
- 27 Feb - Steel - Nippon Steel and Sumitomo Metal Industries announce tie-up
- 14 Nov - Steel - Kobe Steel joins the Nippon/Sumitomo alliance
- 5 Mar - Construction - Tobishima announces a tie-up with Taisei Construction
- 14 Mar - Retail - Walmart announces equity participation in Seiyu
- 12 Dec - Retail - Walmart agrees to buy 34% of Seiyu's equity
- 9 May - Steel - NKK and Kawasaki Steel announce merger plans
- 2 Dec - Advertsing - Hakuodo announces merger with 2 smaller ad. agencies
- 11 Dec - Trading Cos. - Nichimen and Nissho Iwai announce plans for a holding company

This trend to consolidation seems to be helping improve pricing as evidenced by increases in the WPIs for a number of basis materials industries. M&A transactions made a fifth successive yearly record and 2003 has begun with Merck bidding to buy-out minority shareholders in Banyu Pharmaceutical. More of this is inevitable.

### ***Markets and policy***

- 30 Jan - Nikkei index falls below 10,000 for first time since end 1998
- 15 Apr - S&P downgrade Japan's long-term debt by one notch to AA-
- 16 Aug - Nasdaq and Osaka Stock Exchange announce an end to their joint venture in Nasdaq Japan
- 16 Dec - Osaka Stock exchange launches "Nippon New Market-Hercules" in place of Nasdaq Japan (sad but true)
- 18 Sep - Bank of Japan state they will buy shares directly from the banks in a bid to hasten the banks' bad debt disposal

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- 30 Sep - PM Koizumi appoints Mr Takenaka as head of the FSA in place of Mr Yanagisawa (bank shares begin plunging)
- 7 Oct - Government delays Y10mn limit on deposit insurance for two years
- 30 Oct - Government “unveils” anti-deflation measures (market unmoved)
- 14 Nov - Nikkei falls to 8,303 (lowest level since Q1 1983)

Policy has been ineffectual to say the least.

### ***Other***

- \* Listed companies became net buyers of equities (mainly their own) for first time since 1990
- \* McDonald’s Japan lowered the price of a Big Mac to 59 Yen (50c) in a bid to boost sales (failed!)
- \* Retailer Daiei remains in business after Y520bn in financial aid from its major creditors

Rather than make predictions for the market in the year ahead, we will finish by suggesting that the best returns for the next quarter will come from the lower priced and cheaper stocks in keeping with a pattern that has been established over the past five or six years. We have the Fund positioned to benefit if this occurs again.

<u>Positive contributors</u>	(long)	Mitsui OSK; Daito Construction; Xebio; Kawasaki Kisen
	(short)	Anritsu; Nintendo; Isetan; Paris Miki; Tokyo Seimitsu
<u>Negative contributors</u>	(long)	Mitsui Fudosan; Kyocera; Shin-Etsu Chemical; Asics
	(short)	Shiseido; Cosmo Oil; Promise; Saizeriya

### **Major Positions**

Nippon Mining; Toyota; Mitsui Fudosan; Kawasaki Kisen; Central Glass

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# Optimal FUND MANAGEMENT

Returns Snapshot	
Period	% (AUD)
Year to Date Return:	-0.59
Return since inception: *Inception 14 Oct, 1999	26.46

Portfolio Composition at Month End			
% of NAV in:	Oct 2002	Nov 2002	Dec 2002
Long Stock Position	72.20	62.47	67.61
Short Stock Position	(37.17)	(37.91)	(43.81)
Index Futures	(23.26)		
Equity Derivatives	2.07	1.04	1.04
Net Exposure	13.84	25.60	24.84

## 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	2.04	-4.47	-3.65	-0.42	-0.59

- Trust Inception 20 December, 1999

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