

Monthly Report to Unitholders of the

Optimal Japan Trust

January 15, 2004

Date	NAV	Monthly % Return*
31 December 2003	A\$12.30	3.02

* 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

	Oct03	Nov03	Dec03
Topix %	2.41	-4.18	4.40
OJF longs %	10.00	-5.62	10.33
OJF shorts %	-8.23	6.51	-16.48

The year ended well in most equity markets and, happily for all, Japan joined in the fun. The annual rise in the Topix index of 23.8% for 2003 was the second best annual return since the 'Fin de Bubble' year of 1989 – the best year for the market having been 1999 when the index rose 58.4%. For those with a fondness for statistics, there have been 8 down years and 5 up years since 1989, and at the end of 2003, the Topix index remained 64% below its closing high way back then.

2003 was also a good year for the Optimal Japan Trust with a return of over 30% - achieved with an annual average net exposure of 30%. We would like to think this was all due to having a collective brain (or an instinct for a bargain) greater than that of the Market's. A quick comparison of the return from the MSCI Value Japan index against that of the MSCI Growth Japan index casts some doubt on our thesis. The Value index gained 29% whilst the Growth index rose only 14%. As any investor in our funds would know, we have a clear preference for value over growth (momentum) and thus conditions in 2003 were definitely in our favour. Checking the performance of these indices in 1999, the results were quite the reverse. The Growth index returned 62% whilst the Value index managed a "mere" 31%. We established the Trust in late 1999, and know that we would have had a tough year – at least relatively – had we managed investments through the whole of 1999.

The two years warrant some comparison as it is reasonable for observers to wonder whether 2003 was a flash in the pan and if the same fate awaits Japanese investors in the coming three years as befell them in the three years following 1999. (The market fell by 49%). For a start, the breadth of the

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market was far better in 2003 than in 1999. The staggering indicator in 1999 is that only seven of the thirty three Topix index groups beat the market return and sixteen on them actually fell. In 2003 by comparison, seventeen groups beat the market and only one group produced a negative return. The average price of the average stock traded in 2003 was also lower than in 1999. In 1999, the action was all in the *TMT* stocks (funny how odd it feels to use that expression again), many of which were high-priced to begin with and relatively illiquid. The best performing sectors last year were steel and shipping where share price levels are low and shares on issue plentiful.

Unsurprisingly, 2003 also saw the number of stocks gaining in price begin to far outnumber those falling. Whereas in the 1999 year, the Advance/Decline line managed to just temporarily stem the long decline of the 1990s, last year the line reversed course and rose from March through the end of the year.

Another positive we take from last year was that the recovery that began in the Spring was not prompted by any overt measures by the government to boost the market. We saw little/no evidence of Price-Keeping-Operations ('PKO') – the euphemism for public sector buying of equities – and no fiscal package to boost public works investment (read – save the construction industry). Many observers have criticised Mr Koizumi's government for the lack of real reform achieved so far but I believe that benign neglect is better than active involvement in economic issues and based on the profit recovery of the past two years, I suspect corporate Japan would largely agree. We expect that government policy will be focused more on foreign policy and constitutional issues this year as they continue to rely on the Bank of Japan keeping monetary policy loose while they gradually tighten spending in certain areas. The combination should provide reasonable conditions for Japanese companies and we start 2004 with confidence that we shall see another year of gains in Japanese equities.

Positive contributors (long) Kawasaki Kisen, Mitsui OSK, Haseko, Mitsubishi Co, Marubeni
(short) Murata, Lawson, Zeon Co, Sanken Electric

Negative contributors (long) Nakanishi, Toyo Electric, Tokyo Tatemono, Hu-Management
(short) Sanyo Electric, Comsys Holdings, Toppan Printing

Major Positions

Mitsubishi Co, Nippon Steel, Kawasaki Kisen, Mitsui OSK, Mitsubishi Tokyo Financial

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Optimal FUND MANAGEMENT

Return Snapshot	
Period	%(AUD)
Year to Date Return	30.43
Return since inception Inception 20 Dec, 1999	55.13

Portfolio Composition at Month End			
% of NAV	Oct 03	Nov 03	Dec 03
Long Stock Position	85.42	62.79	73.16
Short Stock Position	(33.12)	(19.23)	(28.68)
Index Futures	(28.27)	(16.23)	(16.04)
Equity Derivatives	3.53	1.49	1.45
Net Exposure	27.56	28.82	29.89

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

* Trust inception 20 December, 1999

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