

## Monthly Report to Unitholders of the Optimal Japan Trust

March 13th, 2003

DATE	NAV	Monthly % Return
28 February 2003	A\$9.79	1.98%

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

	December 02	January 03	February 03
<b>Topix %</b>	-5.54	-2.62	-0.3
<b>OJF longs %</b>	-0.95	1.14	4.41
<b>OJF shorts %</b>	3.02	4.30	-2.74

### Trailing 3 months NAV

December 02	January 03	February 03
A\$9.43	A\$9.60	A\$9.79

Japan edged closer to the end of the financial year with little movement in either the Topix or Nikkei index. The Topix index fell just 0.3% but the focus of market attention was on recapitalisation of the major banks. The bank index, which once represented over 30% of the capitalisation-weighted Topix index, fell more than 6% in February (and is down a further 4% in March to date) as first Sumitomo Mitsui, then Mitsubishi Tokyo Financial and finally Mizuho announced the amount and details of their offerings. For managers running funds benchmarked against the Topix index, it was once crucial to have some banking sector

exposure whereas now, with the sector representing merely 7% of the index, the issue is no longer one of life and death. As one astute market commentator put it, it is a good thing for the banks to boost their capital base and even better if it is funded by someone else. The first two issues have been completed - though at a cost (in terms of share price decline) of almost 50% in Sumitomo Mitsui's case and 30% in that of Mitsubishi Tokyo - and Mizuho appears to have persuaded its largest corporate customers to cough up for its convertible prefs despite failing to raise any money from overseas institutions. The last bank left is UFJ and it is presumed to be only a matter of time before they come to the market with their issue.

The other focus point this year has been the Chinese economy and the effect it has on Japan. Despite the rather pathetic complaints from some Japanese commentators that China is undercutting Japanese manufacturing industries and that this is somehow unfair or unique, the facts seem to show that for every Japanese loser, there are just as many winners. Shipping companies - long a favourite sector of ours - have been enjoying brisk trade to and from Chinese ports and was the market's best performing sector in February. They were followed by steels that have also benefited from consolidation in Japan and cooperation with their Korean and Chinese counterparts. A visit to JFE (formed through the merger of NKK and Kawasaki Steel) was revealing and gives us confidence that in some industries at least, Japanese companies can succeed and compete with the rest of Asia. Once their two blast furnaces in west Japan are combined (soon), it will be the largest steel plant in the world and have productivity levels in excess of Posco's. The feeling we had from our meeting was that rather than fear Posco as a competitor, they are willing, and indeed happy, to cooperate with them to try and keep demand and supply in better balance.

As for the market outlook, Japan continues to suffer from a chronic lack of confidence. Contrary to what one would assume from the media, the economy has surprised on the upside of late and equity valuations are very attractive. The average dividend yield on the TSE first section is now well above the yield on the 10 year government bond and almost equal to that on the 20 year JGB. One of the largest life insurers (Dai-Ichi Life) has recently announced they wish to reduce their allocation to bonds and the most recent 20 year bond issue aimed at individuals only attracted one tenth of the bids received on the previous tender. If I were

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# Optimal FUND MANAGEMENT

Japanese (and under 80 years of age!), I know that I would be adding to equities and selling bonds and I expect this will start to occur in the next year or so. For now, we are dependent on the threats and actions of the US, UN, Iraq and Nth Korea – and worst still – the Japanese government. The market feels like a buy to us.

Positive contributors (long) Nippon Mining, Kawasaki Kisen, Mitsui OSK, ASICS  
(short) C&S, Shimamura, Kanebo, Aichi Steel

Negative contributors (long) Sparx Asset Management, Wowow, Sumitomo Chemical  
(short) Yahoo Japan, Toto, Kinki Nippon Railway, Autobacs7

## Major Positions

Nippon Mining, Toyota, Nippon Steel, Mitsui Fudosan, Central Glass

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# Optimal FUND MANAGEMENT

Returns Snapshot	
Period	% (AUD)
Year to Date Return:	3.82
Return since inception: *Inception 14 Oct, 1999	30.03

Portfolio Composition at Month End			
% of NAV in:	Dec 2002	Jan 2003	Feb 2003
Long Stock Position	67.61	71.10	61.82
Short Stock Position	(43.81)	(35.95)	(30.10)
Index Futures			
Equity Derivatives	1.04	1.98	2.44
Net Exposure	24.84	37.13	34.16

## 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
2003	1.80	1.98											3.82

- Trust Inception 20 December, 1999

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