

Monthly Report to Unitholders of the

Optimal Japan Trust

9th March 2004

Date	NAV	Monthly % Return*
27 February 2004	A\$12.41	1.22

* 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

	Dec03	Jan04	Feb04
Topix %	4.40	0.37	3.34
OJF longs %	10.33	0.92	2.60
OJF shorts %	-16.48	-3.84	-3.04

February was certainly a month to bet against consensus – particularly the consensus of an ever weakening Dollar. Although a late spurt on the last two days of February sent the Topix index up 3.3% for the month, the Yen's 4.5% decline against the AUD meant an unhedged AUD return of negative 1.1%. It is simplistic, lazy (and thus inherently attractive) but often profitable to bet against the market consensus, and given the merits and force of the argument put forth for a weaker dollar, this is an excellent example of when it profits one to take the "irrational" choice. I find the weak USD theory very attractive myself, but fear the consequences would be far-reaching and not necessarily happy. As far as specific currency hedging goes, we remain resolutely neutral – hedging all Yen exposure back into the base currency – and this certainly helped the Fund's return in February.

An area we do take a view on is shipping. We have held Kawasaki Shipping in the Fund since inception and added Mitsui OSK in 2001. These companies operate in a part of the world of commerce that was certainly unfashionable, and - at least during the laughable TMT era – often reviled. I can recall the spokesmen from Kawasaki Shipping lamenting to us in the summer of 1999 that domestic Japanese fund managers did not want to own shipping companies due to the fact that the USA did not have a strong shipping industry. He half jokingly suggested that these investment managers felt that one day Toyota would no longer need to send cars around the world by ship. They would do it via optical fibre instead. Five years on, we now find our view becoming uncomfortably popular, after a rise of around 200% in the value of our holdings since late 2002. We conclude however that, unlike the USD/Yen rate, this is not an area where one should bet against the consensus.

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The reason in this case is two-fold: first, the consensus is by no means strong. Many observers fret that China's strong growth will falter. They look at the rise of shipping indices like the Baltic Dry Index and see an accident waiting to happen. Having risen 250% since late 2002, this index might appear to be "riding for a fall" and a mechanical reversion-to-mean investment approach would have one selling. It does not take into account however, the long lines of ships waiting to get into ports in Australia, South Africa, Brazil and elsewhere to load their cargoes of iron ore or coal for China, India and new demand sources. Second, the bad times in shipping were so severe and protracted, that owners and entrepreneurs have failed to invest in ships to meet demand. The following quote (from Tim Bond, global head of interest rate strategy at Barclays Capital) is from an article in the FT of March 8th and sums it up nicely:

"I see the rise in shipping rates as a metaphor for the lack of investment in the old economy during the investment boom of the late 1990s. Nobody was interested in shipping as it was considered old and dirty, everybody was more interested in the flashy bits, technology and e-commerce."

In other words, the supply and demand outlook is better now than at any stage of the past two decades, and we believe one should not get shaken out by the latest rumour that China's growth rate is dropping.

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.

Positive contributors (long) Takefuji Co, TOC Co, Haseko Co, Toyota Motor Co,
(short) Yamato Transport, Ito-Yokado, Trend Micro

Negative contributors (long) Sumitomo Metal Mining, Mitsui Trust Holdings, Mitsubishi Corp,
Sumitomo Trust Banking
(short) Nikon, Advantest, Nippon Unipac Holding

Major Positions

Toyota Motor, Haseko Co, Takefuji Co, Mitsubishi Co, Kawasaki Kisen

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Optimal FUND MANAGEMENT

Return Snapshot	
Period	%(AUD)
Year to Date Return	1.22
Return since inception Inception 20 Dec, 1999	56.23

Portfolio Composition at Month End			
% of NAV	Dec 03	Jan 04	Feb 04
Long Stock Position	73.16	64.74	75.59
Short Stock Position	(28.68)	(34.48)	(34.95)
Index Futures	(16.04)	(10.99)	
Equity Derivatives	1.45	1.66	2.12
Net Exposure	29.89	20.93	42.76

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											0.89

* Trust inception 20 December, 1999

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