

**Monthly Report to Unitholders of the
Optimal Japan Trust**

February 9th, 2001

DATE	NAV	Monthly % Return*
31/1/01	A\$11.0551	-2.34

- After all fees
- NAV is ex-distribution of A\$1.4158

Trailing 3 months NAV

11/00	12/00	1/01
A\$11.77	A\$11.32	A\$11.06

“Everything ‘New Economy’ seems to have gone bananas!” began the daily market commentary from one of our more exuberant brokers on January 25th. Cisco had announced on the 24th that they would take a small stake in Softbank and all the Softbank stable of companies had duly risen by their daily maximum when trading started in Japan. Looking at the index move that day shows a small decline but this masks the extreme disparity in performance amongst stocks. It was as though the speculators had discovered the script from late 1999 in their filing cabinet and decided to relive their glory days – cheered by Nasdaq’s 20+% gain in the month to date. Nasdaq has since given back 10% and some of Japan’s New Economy group has followed it down but the sudden surge in prices was not indicative of a generally worsening tone amongst investors. January 25th was one of the worst days we have experienced as value was spurned and concept was embraced. The index (AUD) rose 0.98% for the month but was up almost 9% from the 11th. The turnaround in the index after the January 11th low was powerful but led by sectors that are not favourites of ours. Sectors that led the way were Mining (oil & gas); Wholesale (Softbank) and Services (Oracle Japan, CTC and the software companies) while the value

sectors lagged.

We mentioned last month that Japan has reached another crucial point in its wobbly path to economic recovery. We have to admit that sentiment has become more bearish since then and the index has made a new low – and yet we still wait for signs of leadership from the Japanese authorities. This is a painful wait and quite probably there will be no leadership from a government with a 15% approval rating. But to borrow from Barton Biggs' 5 February piece entitled *A Grim Tale from Japan*: "The bottom of a bear market by definition is the point of maximum bearishness; the news doesn't have to turn good for stocks to rise, just less bad than what's already discounted". I am conscious of the repetitiveness of our comments but we do see more signs of improvement in important areas than deterioration and believe that bearish sentiment is at a peak. Household spending has been recording annual positives since late last year and we are very confident that real estate prices will be provide a big positive surprise

when the next official land prices are released in March . Good companies are getting better – the cyclical of demand notwithstanding – and some sleepy asset rich companies are waking up. It would be hugely exciting if we were to see more dynamic M&A activity - whether friendly or hostile – and we can't believe that the locked-up value sitting in many listed company balance sheets can survive much longer before someone makes some serious attempts to prize it out for shareholders.

We have accelerated our company visit schedule over the past few months and continue to find these useful. The most frustrating thing is that whilst we find plenty of common ground when speaking to many company managers the macro picture is completely foreign. The MoF chastises the BoJ, MoF bureaucrats correct the Minister's statements on the currency, and a Prime Minister reeling from scandals that have caused three of his ministers to resign spends his time on overseas trips. Let's hope he picked up some useful tips from the great and wise in Davos as his own advisers can't make him "connect" with the electorate.

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Performance

Positive contributors (long) Japan Energy; Daito Electron; Hokuriku Pharmaceutical
(short) Kyocera; Moritex;; Seiko Giken

Negative contributors (long) ToysRus; Japan Telecom; Mitsukoshi
(short) Hikari Tsushin; Shohko Fund; Net One Systems

Major Positions

Long

Kawasaki Shipping; M.E.I.; Sony; I.H.I.

Short

Ito Yokado; Tokyo Seimitsu; Askul Corp; Kyocera

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Returns Snapshot	
Period	% (AUD)
Year to Date Return:	-2.34
Return since inception: *Inception 20 Dec, 1999	24.71

Portfolio Composition at Month End			
% of NAV in:	Nov. 2000	Dec. 2000	Jan. 2001
Long Stock Position	72.2	71.58	88.80
Short Stock Position	(27.86)	(40.57)	(26.08)
Index Futures	(12.88)	(13.76)	(14.32)
Equity Derivatives	2.34	1.55	3.60
Net Exposure	33.8	18.8	52.0

Historical Returns

Below we provide a table detailing the monthly returns of the Trust 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												

- Trust Inception 20 December, 1999

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