

Monthly Report to Unitholders of the

Optimal Japan Trust

February 9, 2004

Date	NAV	Monthly % Return*
30 January 2004	A\$12.26	-0.33

* 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

	Nov03	Dec03	Jan04
Topix %	-4.18	4.40	0.37
OJF longs %	-5.62	10.33	0.92
OJF shorts %	6.51	-16.48	-3.84

Despite the continuation of improving corporate and economic news in January, the Japanese market barely moved. It felt very much as though the number of participants was half that of December's level – which is hardly surprising given most people are still stunned from a year where Japanese stocks actually rose (let alone by almost 30%). All but the most self-absorbed global investor would have to wonder at their good fortune in 2003 and taking some time (i.e. January) to rest and reflect on things is no bad thing.

In Japan's case, they have had a variety of things to reflect on. The December unemployment rate falling to 4.9% from 5.2% with 410,000 new jobs created was certainly welcome – if traditionally a lagging indicator. The success of US value fund Steel Partners in flushing out a better bid for Sotoh (code 3571) from NIF Ventures (a fund affiliated with Daiwa Securities) was definitely worth a cheer for value investors as the bid price represented a 60% increase from Sotoh's market price of early December. Another Steel Partners target – Yushiro Chemical – countered Steel's advances with a decision to raise their dividend from Y14 to Y200 and in the process saw their shares rise almost 100% in a similar period. This is the sort of event that quickens the pulse of those who practice the dreary art of value investing and it has certainly attracted a great deal of interest.

We have made few changes to our holdings in the past month or so and have struggled in conditions quite the reverse of last year's. The worst performing sectors YTD include banks, steel and shipping

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– all of which are well represented in our longs and were a boost to the Fund's 2003 return. Steel and Shipping stocks are prone to bouts of depression as sentiment towards Chinese economic growth wanes from time to time. Banks have been sold off to some degree as a result of the imminent listing of the Shinsei Bank (the Ripplewood-led reincarnation of the Long Term Credit Bank of Japan). Comparisons between Shinsei's capital adequacy and balance sheet and those of its listed peers in the banking sector certainly favour Shinsei, and their investor relations are (unsurprisingly) impressive. The IPO appears certain to be highly sought after and in preparation for the addition of Shinsei to their portfolio, some managers may have reduced holdings in their other banks to make room. Others may just have sold short due to Shinsei's relative value. Another entirely different reason for the weakness in the banks could be the acceleration of selling by corporate holders prior to the March fiscal year-end as one side of the unwinding of cross-holdings. We have used the recent weakness to add to our positions.

As for the steel sector, a visit next week to Shanghai should add some light on the outlook for steel demand from China. Chinese demand is very important to Nippon Steel, JFE, Kobe Steel and Co., but to put it into perspective, December exports to China accounted for 22% of the total volume exported. Even more notable was that exports of steel to the USA account for just shy of 3% (or 92,000 tonnes). Not a trade issue needing tariff protection any more – in our view at least.

Important: The Optimal Japan Fund and Optimal Japan Trust are both soft-closed. The administrator (BTFF) will request any applicant for investment to contact the manager and require Directors' consent before acceptance.

Positive contributors (long) Haseko Co, Mitsui Fudosan, Tokyo Tatemono, Sumitomo Forestry
(short) Asatsu-DK Inc, Nippon Yusen

Negative contributors (long) Sumitomo Metal Mining, Mitsui Trust Holdings, Mitsubishi Corp, Sumitomo Trust Banking
(short) Ito-Yokado Co, Furukawa Electric, Toppan Printing

Major Positions

Mitsubishi Co, Haseko Co, Nippon Steel, Kawasaki Kisen, Toyota

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Optimal FUND MANAGEMENT

Return Snapshot	
Period	%(AUD)
Year to Date Return	-0.33
Return since inception Inception 20 Dec, 1999	54.73

Portfolio Composition at Month End			
% of NAV	Nov 03	Dec 03	Jan 04
Long Stock Position	62.79	73.16	64.74
Short Stock Position	(19.23)	(28.68)	(34.48)
Index Futures	(16.23)	(16.04)	(10.99)
Equity Derivatives	1.49	1.45	1.66
Net Exposure	28.82	29.89	20.93

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												-0.33

* Trust inception 20 December, 1999

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