

Monthly Report to Unitholders of the Optimal Japan Trust

August 7th, 2001

DATE	NAV	Monthly % Return [*]
31/7/01	A\$11.49	-2.85

- After all fees
- NAV is ex-distribution of A\$ 0.8989 (for Yr to 6/01) and A\$1.4158 (for Yr to 6/00)

Trailing 3 months NAV

5/01	6/01	7/01
A\$12.27	A\$12.75	A\$11.49

We confess to being optimistic about change in Japan and thus will occasionally err by being believers that the worst of the bad news is already discounted in stock prices. What is clear, however, is that this view is in the minority. After a lacklustre couple of months leading up to the Upper House election on July 29th, the best the market could do on the day following the LDP coalition's success was to fall 1.4%. If we are accused of looking for good news, there are a lot of investors who seem incapable of seeing the slightest positives in anything at present. We had believed that a strong showing by Mr Koizumi's party in the polls would be further evidence of his mandate for change and that this would be unambiguously good news for the market. To our surprise, however, the analysis of their win (securing 139 seats out of a total 247) was that with the election out of the way, Koizumi would now be open to insidious attack from within his own party as the anti-reform forces would feel emboldened to challenge his strategy. Given that a mere three months earlier, the LDP's electoral prospects under then PM Mori were regarded as somewhere between crushing defeat and a rout, it is unnecessarily convoluted to interpret that the conservatives' hand had been strengthened by their party's success.

The first real acid test of Mr Koizumi's policies comes in early August as he announces details of his path to structural reform. Already the market has been titillated by reports of the government's intention to lop Y1-2 trillion (US\$8-16bn) off the annual budget to public corporations including bodies such as the Housing Loan Corporation(HLC). Although much loved by first home buyers, the HLC has taken a huge share of the residential mortgage market away from private sector lenders by making long-term fixed loans at subsidised rates and is difficult to justify in Koizumi's "smaller government" framework. Taxation and financial system reform are others areas where expectations are low but interest levels are high. We think people are wrong to be overly concerned with targeting dates by which reforms will be completed and that if new policies enable blockages to be cleared, then investors will be swayed to get off the fence.

Company visits we made in the past month have been useful in revisiting investment decisions and have confirmed the rumours of a dramatic collapse in demand in the semiconductor-dependent businesses. In some cases, we believe that stock prices have already bottomed as down-side valuation support is strong. When well-capitalised technology equipment and component companies are trading at historically low Price-Sales and Price-Book ratios, one is reluctant to go short notwithstanding a deteriorating order and profits outlook. Although we remain short of the technology sectors on balance, we have moved to a less aggressive approach (in some cases using a pairs trading approach) because of these supportive (defensive) value measures. By contrast, where tech stocks were justified by increasing expectations of ever-higher returns on equity (RoE) – and it seems that this was a main plank used in US tech sector valuations – but fail to find value support (e.g. PSR/PCFR) , the fast-disappearing profit renders RoE arguments null and void. In these areas we expect the downside to be considerable.

Performance

Positive contributors (long) Furukawa Electric; I.H.I.; Tokyu Land; Obayashi Corp
(short) NTT Docomo; Yozan; Nichimen; Matsushita

This material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our present opinions only. The material is based upon information, which we consider reliable, but we do not represent that it is accurate or complete, and should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities.

Communications

Negative contributors (long) KDDI; Mazda; WOWOW; UFJ Holdings
(short) Inax; Sammy Corp; Don Quijote; Daiwa House

Major Positions

Long

Kawasaki Shipping; Japan Energy; Tokyu Land; Nippon Television; Central Glass

Short

NTT Docomo; Yamada Denki; Kyorin Pharmaceutical; Inax; NTT Data

This material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our present opinions only. The material is based upon information, which we consider reliable, but we do not represent that it is accurate or complete, and should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities.

Returns Snapshot	
Period	% (AUD)
Year to Date Return:	8.60
Return since inception: *Inception 20 Dec, 1999	38.01

Portfolio Composition at Month End			
%of NAV in:	May 2001	Jun 2001	Jul 2001
Long Stock Position	86.30	73.11	71.88
Short Stock Position	(39.36)	(36.19)	(31.40)
Index Futures			
Equity Derivatives			
Net Exposure	46.94	36.92	40.48

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	3.13	1.36	8.46	-2.14	3.96	-2.85						8.60

- Trust Inception 20 December, 1999

This material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our present opinions only. The material is based upon information, which we consider reliable, but we do not represent that it is accurate or complete, and should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities.

