

Monthly Report to Unitholders of the Optimal Japan Trust

August 2nd, 2002

DATE	NAV	Monthly % Return
31/7/2002	A\$10.23	-1.43

- 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

	May	June	July
Topix %	3.51	-8.50	-5.84
OJF longs %	12.43	-4.87	-5.46
OJF shorts %	-2.68	7.84	6.59

Trailing 3 months NAV

May 02	June 02	July
A\$11.63	A\$11.29	A\$10.23(ex-div)

The gloom in equity markets deepened in July and at month-end, the Topix index had fallen to within a whisker of the February low. Despite persistent expectations – honed over the past decade of economic under-achievement - that the Japanese economy is heading into slowdown, recent data has failed to support this. Most tantalising of all is that price deflation continues to abate with the core CPI now flat year-on-year after years of decline. Should prices begin to find some grip, one can be much more confident in the economic outlook as buyers would find less reason to postpone spending at the same time as their employers might start to see profit margins rise.

Having spent last week in Japan and visited a number of companies, I came away feeling happy with the large number of interesting opportunities we found. What is disconcerting with this is that I invariably feel more confident after each visit to Japan and yet the index has returned to record low levels and is almost 40% down from the level of October 1999 when we started the Fund. That is the problem with stock indices – they are hostage to the fortunes of the largest companies and do not necessarily reflect the mean or majority.

A quintessential example of an industry that reflects the manic late 80s in Japan and the subsequent depression is trust banking. The existence and success of these special banks was due to the Japanese bureaucracy's direction of capital allocation into areas that they felt would best assist post-war redevelopment. Trust banks were allowed to issue longer-term bonds and then lend those funds to

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.

vital industries but with the development of capital markets in the 1980s they had found less demand for their loans from manufacturers and more from real estate speculators. Raising funds at high guaranteed rates and lending to real estate speculators set them up for a spectacular fall when the asset bubble burst in the early 1990s. Both Sumitomo Trust and Mitsui Trust (incidentally the only two remaining listed trust banks of the six that existed a decade ago) told me that they had written off 27% of their total loan book in the period since the Bubble burst – well ahead of the 17-19% figure at the large city banks. They needed to – having even more tied up in real estate loans than the city banks – and may need to write more off yet. But what is impressive is the extent to which they had cut costs. Both had lowered their cost/income ratio to around 44% (whereas large European and US banks struggle to get near 50%) and are clearly “coiled springs” in the event that the real estate recovery broadens and asset deflation comes to an end. Unfortunately we cannot have great confidence that their bad loans have been adequately provisioned against but it is clear that the market has very low expectations for their future. It is an area we will watch very closely, as the risk/return balance seems to be heading in the buyer’s direction.

On the political front, the Diet has entered its summer recess and we look forward to the tax reform debate moving to the top of the agenda in the autumn session ahead. In Nagano prefecture, the gubernatorial battle is on with the reformist Yasuo Tanaka seeking re-election over the conservatives (read: construction industry mouthpieces) in the September 1 election. A win to Mr Tanaka should bolster the Prime Minister’s position. As one of my fellow directors (Tokyo based) remarked the other day however, “It is not so much a case of getting them to stand up and be counted. Just getting them to stand up is hard enough.” He was not merely referring to Japanese politicians.

<u>Positive contributors</u>	(long)	Chiyoda Integre; NOK; NTT Docomo;
	(short)	NEC; Nikon; Yamada Denki; NTN
<u>Negative contributors</u>	(long)	Nikko Cordial; Toyota ; Daiwa Securities; Central Glass
	(short)	Mazda; Aiful; Takefuji

Major Positions

Nikko Cordial; Central Glass; Toyota; Japan Energy

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.

Optimal FUND MANAGEMENT

Returns Snapshot	
Period	% (AUD)
Year to Date Return:	7.04
Return since inception: *Inception 14 Oct, 1999	34.39

Portfolio Composition at Month End			
% of NAV in:	May 2002	June 2002	July 2002
Long Stock Position	73.32	61.64	61.71
Short Stock Position	(31.13)	(20.24)	(29.04)
Index Futures			
Equity Derivatives	0.90	0.83	1.69
Net Exposure	43.09	42.23	34.36

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						7.04

- 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.

Level 32, The Chifley Tower
2 Chifley Square
Sydney NSW 2000
Tel: 61-2-9229-1863
Fax: 61-2-9223-2920

5F Izumikan Kioicho
4-3 Kioicho, Chiyoda-ku
Tokyo 102-0094
Tel: 81-3-3238-1671
Fax: 81-3-3238-1687