

## Monthly Report to Unitholders of the

### Optimal Japan Trust

August 7, 2003

Date	NAV	Monthly % Return*
31 July 2003	A\$10.67	1.91

\* 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

	May03	June03	Jul03
Topix %	5.16	7.85	3.98
OJF longs %	5.75	11.20	4.20
OJF shorts %	-3.98	-9.10	-2.08

The Japanese market rose a further 4% in July but was well off the high set on July 9<sup>th</sup> – at which stage the Topix index had risen 27% from the low reached on March 11<sup>th</sup>. After four strong months it is natural for sellers to reappear and one hopes that the trust bank selling over the past thirteen weeks has been the “Daiko Henjo” (pension put-backs) liquidation that grabbed so much attention in the first few months of 2003. A recent Nikkei newspaper article posits that between Y2.5-3tn worth of such selling has taken place already which, if true, would represent 50-75% of the total that has been signalled. If the pension plan sponsors have done this selling in the recent strength that would be nice. Even nicer is that once the pension accounts are transferred to the government agency that will take over management, the cash raised in the liquidation process will be put back into the equity market.

Investors in Japan have had to deal with the mixed blessing of quarterly reporting in recent weeks and our feeling is that the overall numbers are strong. Clear exceptions to this have been the once-mighty diversified electronics makers (Fujitsu, Toshiba, Hitachi et al) who have produced horrible losses yet again. We should no longer be surprised by this – it has been a part of the investment landscape for a long time now – and it is an interesting indication of their relative (and absolute) decline that the combined market capitalisation of Hitachi, Toshiba, Fujitsu, NEC, Mitsubishi Electric and Oki Electric is less than that of Samsung Electronics of Korea.

Stand-outs in the results announced to date have been the first quarter numbers from the shipping companies. In particular, Kawasaki Kisen – long a favourite of ours – produced spectacular Q1 numbers and revised their full year profit forecast by 31% at the pre-tax level and 82% at the net level.

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# Optimal FUND MANAGEMENT

On those numbers, EPS this year will reach Y51 (versus 17 last year) and puts the stock on 6 times earnings. Mitsui OSK also came out with great Q1 numbers but left their full year estimates unchanged. On these conservative numbers, the stock trades on 10 times earnings. We continue to like these stocks despite the strong gains this year.

On the political front, the two largest opposition parties have agreed to merge and will fight the next general election (expected late this year) as a united group. Their combined seats in the Diet still fall short of those of PM Koizumi's LDP but the gap between them is not large and they should be able to exert healthy pressure on the ruling coalition – even if unlikely to topple the government. Both at the political and corporate levels, evidence of change has been accelerating and we believe that the emergence from depression inertia is extremely encouraging. With corporate profits looking likely to exceed 10% this fiscal year and financial system stability spreading, we remain optimistic that we have past the worst in Japan and the upside is not to be sniffed at.

Positive contributors (long) Nippon Steel, Chiyoda Integre , Toshiba  
Sparx Asset Management, TOC

(short) Nippon Yusen, Ito-Yokado, Taiheiyo Cement

Negative contributors (long) Mitsukoshi, Seven-Eleven Japan, Nippon Mining

(short) Dentsu, Shima Seiki, Arisawa

## Major Positions

Toyota Motor, Kawasaki Kisen, Nippon Steel, Mitsubishi Corp, Kao

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Level 32, The Chifley Tower  
2 Chifley Square  
Sydney NSW 2000  
Phone: 61 2 9229 1863  
Fax: 61 2 9223 2920  
optimal@optimaljapan.com

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

# Optimal FUND MANAGEMENT

Return Snapshot	
Period	%(AUD)
Year to Date Return	13.15
Return since inception Inception 20 Dec, 1999	38.83

Portfolio Composition at Month End			
% of NAV	May 2003	June 2003	July 2003
Long Stock Position	60.48	68.36	70.75
Short Stock Position	(29.10)	(43.78)	(33.83)
Index Futures			
Equity Derivatives			
Net Exposure	31.38	24.58	36.92

## 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						13.15

\* Trust inception 20 December, 1999

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