

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

July 6th, 2001

DATE	NAV	Monthly % Return*
29/6/01	A\$12.75	3.96

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

Trailing 3 months NAV

4/01	5/01	6/01
A\$12.53	A\$12.27	A\$12.75

The downward trend that began (again) in early May continued during June. The market was down less than 1% in local currency terms but fell over 6% in AUD as the Yen drifted down against a weaker economic environment. The good news is that PM Koizumi commands popular support as great as his predecessor's unpopularity rating (both are records) and appears to be galvanising the nation for his "rebuild Japan" reforms. Until we have the upper house election behind us at the end of July however, the market will be prey to economic and corporate news at home and abroad – and that does not look very promising.

Looking at the performance of different sectors during the past month, only seven of the thirty three Topix sectors made gains whilst the other twenty-six were down. Given the tech wreck which steams ahead in north America and Europe it is no surprise that those sectors were amongst the worse in Japan as well. Globalisation of financial markets has many positives but the high correlation between the technology sectors in different markets is not necessarily one of them – at least not when they are falling.

We mentioned last month that we had seen a number of instances where investors had moved from fearing balance sheet weakness to re-rating companies for their earning recovery and cheapness. Our experience has clearly been part of a broader change in market conditions evidenced in a chart we saw that plots the relative performance of a basket of companies with geared balance sheets against that of the Topix index (all stocks on the Tokyo Stock Exchange). The “geared” basket outperformed the general market by a large margin in the first half of this year and we suspect that the outperformance has a long way to run yet.

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The weakness of the Japanese banks has forced stretched companies to take drastic action – or perish – so regardless of the outlook for world growth and global PC/Handset demand, we think that searching for companies with a strong zeal for restructuring/reorganisation is where we'll find a lot of good investments and add value in the years ahead. If they choose to do nothing, that too offers us an opportunity to benefit from their inaction.

Performance

<u>Positive contributors</u>	(long) Japan Foods; I.H.I.; Tokyu Land; Mitsui OSK (short) Daito Trust; SMC; THK; Matsushita Communications
<u>Negative contributors</u>	(long) Minebea; Toshiba; Japan Energy; Yokogawa Electric (short) Daiwa House; Sammy Corp; Yamada Denki; Doutor Coffee

Major Positions

Long

Kawasaki Shipping; Japan Energy; Mitsui OSK; KDDI; Central Glass

Short

NTT Docomo; Yamada Denki; Matsushita Communications; Venture Link; Yamada Denki; NTT Data

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Returns Snapshot	
Period	% (AUD)
Year to Date Return:	12.65
Return since inception: *Inception 20 Dec, 1999	41.68

Portfolio Composition at Month End			
% of NAV in:	Apr 2001	May 2001	Jun 2001
Long Stock Position	76.05	86.30	73.11
Short Stock Position	(31.70)	(39.36)	(36.19)
Index Futures			
Equity Derivatives			
Net Exposure	44.35	46.94	36.92

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							12.65

- Trust Inception 20 December, 1999

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