

## Monthly Report to Unitholders of the Optimal Japan Trust

July 5th, 2002

DATE	NAV	Monthly % Return
28/06/02	A\$11.29	-2.9

- 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)

### Monthly return composition

	Apr (from Mar 29 <sup>th</sup> )	May	June
<b>Topix %</b>	-0.03	3.51	-8.50
<b>OJF longs %</b>	2.43	12.43	-4.87
<b>OJF shorts %</b>	-3.80	-2.68	7.84

### Trailing 3 months NAV

Apr 02	May 02	June 02
A\$10.85	A\$11.63	A\$11.29

In a singularly gloomy month for global equities, Japan disappointed its long-suffering apologists yet again by declining 8.5% and erased all gains (in Yen) for the year to date. June's was the largest monthly decline since July 2000 and came as a surprise to those (myself included) who had felt that if any market was to decouple from a bearish Wall Street, then Japan would be the top pick. It would have been remarkable if Japanese equities had risen in such an environment but nevertheless, the extent of the decline was a surprise.

What has changed in a month? The political situation is no worse than usual - despite obvious frustration amongst foreign observers that Mr Koizumi has not been able to fix all Japan's problems with a wave of his magic wand in his first year of office. We are slightly less pessimistic than we were as there have been recent signs that the Prime Minister has regained his appetite for reform with his appointments to the Public Highway privatisation committee. One of the frustrations trying to decipher policy setting in Japan is working through the myriad of committees that exist to debate and recommend action on any given subject. There are LDP committees, Government committees, Diet (parliamentary) committees and special administrative committees all debating elements of tax reform and all commenting from time to time with seeming authority. Some of these utterances have been very positive in recent weeks, especially those coming from the Council of Economic and Fiscal Policy (CEFP) who have taken the lead in the tax debate. Whereas the Ministry of Finance-led Government

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# Optimal FUND MANAGEMENT

Tax Commission has argued that any tax cuts must be offset with other tax hikes, the CEFPP has linked tax cuts to spending cuts as a way of rejuvenating private sector demand without damaging the fiscal balances further. We can only hope that Mr Koizumi and his party share the CEFPP's views.

Business conditions have improved rather than deteriorated, as evidenced by the May Tankan and by the business conditions diffusion index released today. This leading index shows business confidence at the highest level since February 2000 and does not square with a weakening stock market.

We believe that aside from the awful condition of markets outside Japan last month, the real cause of the decline was heavy selling by brokers on their own accounts. As Japanese banks, life insurers and assorted financials accelerate the liquidation of their riskier assets (read "equities") they have been far more aggressive in seeking bids from Japanese and foreign brokers who in turn look to off-load the shares as soon as they can. The stand-out figure from the Tokyo Stock Exchange data for trading activity in June is the net selling of Y744bn by "Member's Accounts" in a month when apart from the congenitally optimistic foreigner, even individuals were net buyers. We can't predict how things will pan out in the months ahead but it is safe to say that the market will face the headwinds of ongoing selling from financial institutions. We believe, however, that in the main, this selling will be into exchange traded funds established by the brokers and into the considerable corporate buying coming from share buy-backs.

We have managed the Fund's net exposure up to more than 50% in the past few months as we find positives far outweighing negatives. Try as we might, we are struggling to find new short ideas – and trust that others will be seeing things in a similar vein.

<u>Positive contributors</u>	(long)	Mitsui Trust Holdings; Suzuken; Central Glass
	(short)	Saizeriya; Sanix; Ebara; Promise; Seiyu
<u>Negative contributors</u>	(long)	Nikko Cordial; Japan Energy; MTFG; Japan Energy
	(short)	N/A

## Major Positions

Japan Retail Fund Investment; Central Glass; Toyota; Japan Energy

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# Optimal FUND MANAGEMENT

Returns Snapshot	
Period	% (AUD)
Year to Date Return:	8.62
Return since inception: *Inception 14 Oct, 1999	36.0

Portfolio Composition at Month End			
% of NAV in:	Apr 2002	May 2002	June 2002
Long Stock Position	76.23	73.32	61.64
Short Stock Position	(35.60)	(31.13)	(20.24)
Index Futures			
Equity Derivatives	4.14	0.90	0.83
Net Exposure	44.77	43.09	42.23

## 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							8.62

- Trust Inception 20 December, 1999

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