

Monthly Report to Unitholders of the Optimal Japan Trust

April 10th, 2001

DATE	NAV	Monthly % Return [*]
30/3/01	A\$11.557	1.36

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

Trailing 3 months NAV

1/01	2/01	3/01
A\$11.06	A\$11.40	A\$11.56

With world equity markets increasingly depressed during March, investors in Japan experienced considerable volatility before the index recovered somewhat to finish up 3.6% (in AUD) at month-end. At the low point on March 14th, the market had declined 10% and was off 43% from the recent peak at the end of 1999. Little wonder then that it is hard to find positive news in the press or from commentators on Japan and as a portfolio manager I can only count my blessings that I am no longer trapped in running long-only funds in this market. In the policy area, the government has released a broad outline of guidelines to accelerate the banks' bad debt disposal and has confirmed the establishment of a fund to acquire equities from the banks. The first is definitely a positive move whilst the second runs into criticism that this is "inappropriate" intervention in the workings of the capital markets. One can sympathise with the purists' objections but given that Japan's capital markets are prevented from working in no small part by the existence of these equity cross-holdings, we believe that the proposal is broadly positive. In the resolution to Japan's debt problems, public funds are going to be used in one form or other and this proposal seems no more heinous than the alternatives.

The Bank of Japan's volte face on monetary policy was unequivocally positive as it is their first explicit recognition of the problems of deflation in Japan. Targeting a zero or positive CPI as opposed to merely maintaining interest rates at low (nominal) levels should ensure liquidity is plentiful and answers the most strident criticism of monetary policy to date. The ball is now back in the government's court with the onus on Japan's political leaders to tackle the bigger issue of economic policy. We wrote on this in last month's report and don't want to go back over old ground other than to say that we cannot see a sufficient policy shift coming out of an LDP government dominated by men whose formative years were spent in a centrally planned economic model. The demise of PM Mori does not solve these problems and we expect much more frustration at the political level before policies are changed for the better.

Politics aside, the news flow has been increasingly positive. In mid-March, the government released the official land prices and showed a tenth consecutive annual decline in nationwide real estate. That figure obscured a marked improvement in central Tokyo property and our real estate holdings reacted very well to the news. The stocks we own (*Mitsubishi Estate*, *TOC*, *Tokyu Land* etc) are based in central Tokyo and directly benefit from the higher demand for prime real estate that we are witnessing. Industry consolidation continues to impress with the most recent move being the announcement of *Tostem's* agreed takeover of *Inax*. Both shares rose after the announcement as investors welcome moves to reduce supply and costs in the building materials sector.

Another interesting development was the announcement by consumer finance company *Sanyo Shimpan* that it would take control of credit card specialist *Mycal Card* by tendering for 51% of the shares outstanding at a significant premium to the price at the time. *Mycal Card* is a subsidiary of the highly indebted retailer *Mycal* who are clearly hoping to sell their holding but the offer by *Sanyo Shimpan* is to all shareholders and creates an interesting arbitrage opportunity for investors who can be long and short.

As fans of the shipping companies, we were pleased to see a small article describing how *Kawasaki Shipping* had sold a number of its ships into a special purpose company, which then securitised the assets for on-sale to various financial institutions. The ships would then

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Optimal FUND MANAGEMENT

be chartered by *Kawasaki Shipping* who consequently boost their return on assets and should be rewarded with a higher rating from investors.

Performance

Positive contributors (long) Japan Energy; Canon; Tokyu Land
(short) Itochu Techno-Science; Askul.; Net One Systems

Negative contributors (long) I.H.I ;Toys'R Us Japan; Chiyoda Integre;
(short) Otsuka Kagu; Shohkoh Fund; Doutor Coffee

Major Positions

Long

Mycal Card; Kawasaki Shipping; Japan Energy; M.E.I.; Mitsui OSK

Short

Tokyo Seimitsu; Shin-etsu Chemical; Venture Link; Toto

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Returns Snapshot	
Period	% (AUD)
Year to Date Return:	2.09
Return since inception: *Inception 20 Dec, 1999	29.72

Portfolio Composition at Month End			
%of NAV in:	Jan 2001	Feb. 2001	Mar. 2001
Long Stock Position	88.80	71.86	77.76
Short Stock Position	(26.08)	(26.36)	(36.31)
Index Futures	(14.32)	(13.76)	
Equity Derivatives	3.60	1.65	1.51
Net Exposure	52.0	33.39	42.96

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										2.09

- Trust Inception 20 December, 1999

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