

Monthly Report to Unitholders of the Optimal Japan Trust

April 12th, 2002

DATE	NAV	Monthly % Return
28/03/02	A\$10.88	2.07

- 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

	Feb 02	Mar 02
Topix %	4.33	6.77
OJF longs %	5.20	7.45
OJF shorts %	-8.06	-9.30

Trailing 3 months NAV

Jan 02	Feb 02	Mar 02
A\$10.51	A\$10.66	A\$10.88

In an environment where major equity markets have struggled, Japan's performance in March and for the first quarter was relatively good. The Topix index was up 4.6% for the month and 2.7% for the quarter and must have frustrated the many investors who had been underweight (or short) Japan during the period. Nevertheless, it is worth reminding ourselves just how unimportant Japan has become for a global equity manager tracking their portfolio against the MSCI World (free float) index. In the dizzy years of the late 1980s, Japan's country weight was around one-third of the world index whereas now it is down to a mere 7.7%. The UK's weight is in excess of 10% while the mighty USA has climbed to 56% of the same index. It makes one wonder how so many investors became so strident in their proclaimed bearishness on Japan when they should have been spending eight times more of their attention on the pros and cons of the US and its equity market. Maybe they were – and will.

March began with a bang with foreign investors spending almost Y800bn in net buying in the first week – the highest figure in three years. Despite talk of government intervention to prop up prices, their usual channel (trust banks as managers of the public pension accounts) was a net seller in March and it appears that their efforts were limited to changes in the short-selling rule and various comments indicating their general displeasure that anyone would be so treasonous as to short-sell at all. Individuals were rare buyers but that was probably covering some of their margin short positions that had reached record proportions. Whereas margin buys exceeded margin shorts by a factor of ten to

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one during the bull market, this ration has fallen steadily over the past dozen years until finally breaking below one late in 2001 for the first time since records were kept. With foreigners and individuals so bearish, it was almost inevitable that any sign of recovery would spark a rally. Whilst Japanese economic data has been equivocal, global growth prospects have improved and expectations of a cyclical rise in demand for Japanese corporations has been enough to scare off some of the bears.

My recent visits to Japan leave me amazed and encouraged at how cheap it has become. Cheap enough in fact for companies to begin making returns on investment in excess of the costs. With land prices and rents now at/below levels found in the US & European major centres, the remaining major impediments to a dramatic increase in corporate profits are 1) lack of final demand and 2) the excessive labour costs. Changes in tax that are being considered by the government's committee on tax reform sound positive – particularly as a spur to more transactions in real estate – but remain for now just proposals. Labour reform is taking place slowly and in my opinion is unlikely to result in a US-style flexible labour market in Japan. Nevertheless labour costs as a share of profits are beginning to decline and acceptance of the inevitability of labour cutting is becoming more widespread. This is a long-term trend that will greatly enhance Japanese corporate profits and if associated with rising demand and revenue, one can expect an impressive boost in corporate RoEs and share prices.

We made company visits to a number of real estate companies and REITs and came away excited by the prospects in this area. While Japan's land prices have continued to fall, the position in the three main business areas in Tokyo has been improving now for a couple of years. Developers and owners with access to cheap funding can generate rental returns well above the cost of funds and boost RoE significantly. It seems to be a case where industry consolidation is playing out well for the larger, better-capitalised companies who can take advantage of the opportunities to buy and/or redevelop on well-located sites. Although much is made of the large amount of new office space due to come onto the market in Tokyo next year, a stronger case can be made for the opportunities that still exist for developers. Rebuilding Tokyo's commercial and residential areas is a long-term project that will receive support and encouragement from both the local government and the Diet. In fact while regional Japan suffers declining population and economic activity, central Tokyo's population has been rising since 1996 - and is attracting more young workers. Younger workers taking advantage of lower costs are driving the increase in the population although the average age of a Tokyo resident is rising like the rest of the nation. This has risen from 38.3 in 1991 to 41.9 in 2001 (I am now officially above average!) but the increase of those in their 30s has been 17% in the past five years. Lots of statistics I agree, but revealing a trend that is positive for the renewed vitality in the capitol.

<u>Positive contributors</u>	(long)	NTT; Japan Foods; Daimaru; Mitsui OSK
	(short)	C&S; Wacoal; Takashimaya
<u>Negative contributors</u>	(long)	Sankyo Frontier; Wowow ; Miura Kogyo
	(short)	Acom

Major Positions

Tokyu Land; Canon; Central Glass; Toyota; Japan Energy

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Optimal FUND MANAGEMENT

Returns Snapshot	
Period	% (AUD)
Year to Date Return:	4.71
Return since inception: *Inception 14 Oct, 1999	31.98

Portfolio Composition at Month End			
% of NAV in:	Jan 2002	Feb 2002	Mar 2002
Long Stock Position	68.64	63.37	79.25
Short Stock Position	(34.85)	(27.83)	(33.59)
Index Futures			
Equity Derivatives	2.75	2.80	5.41
Net Exposure	36.54	38.34	51.07

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										4.71

- Trust Inception 20 December, 1999

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