

Monthly Report to Unitholders of the

Optimal Japan Trust

April 4, 2003

| Date | NAV | Monthly % Return* |
|---------------|---------|-------------------|
| 31 March 2003 | A\$9.83 | 0.41% |

* 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)

Success – Longs & Shorts

| | Dec02 | Jan03 | Feb03 |
|--------------|-------|-------|-------|
| Topix % | -2.62 | -0.3 | -3.6 |
| OJF longs % | 1.14 | 4.41 | -3.14 |
| OJF shorts % | 4.30 | -2.74 | 6.46 |

We enter a new month, quarter and (in Japan's case) fiscal year as March turns to April so it is a good time for us to look beyond the last month's events. Before doing so, we would say that the March quarter was another difficult one for all markets and Japan's Topix index fell by 6.5%. March's index decline of 3.75% all came on the last day of the month although the intra-month bounce of 8% from 11 March trough to 24 March peak was a brief and welcome reminder that markets can go up as well as down. It was a tough month and we were pleased to have kept NAV in positive territory.

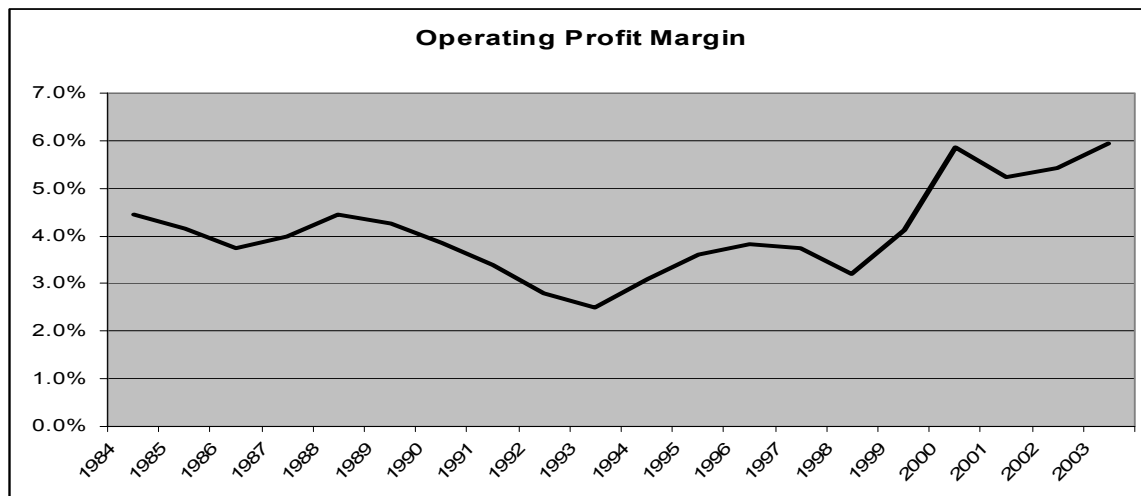
Looking at investor activity over the past year, the Tokyo Stock Exchange numbers tell an interesting story. On the net selling side, banks were the largest (Y1,120 bn) followed by fellow travellers the insurers (Y 757bn) and individuals (Y504bn). The last group were particularly aggressive sellers in the last quarter of 2002 in advance of tax changes that came into effect from 1 January 2003. The buyers were led buy business and "other companies" (whatever they might be) with Y 1,308bn, followed by the trust banks - as pension fund managers - (Y 1,272bn), then foreigners (Y301bn). As we have mentioned before, a major change in the demand-supply mix in 2002 was the emergence of companies as net buyers of equity for the first time since 1989. This is not M&A activity, but stock buy-backs which reached Y2.7tn for FY 2002. The pace of these buy backs is not going to slow and will continue to grow in importance both at the macro level and also for individual companies.

Lost in the deluge of negative press comment on Japan is a very powerful and bullish recovery in listed company profitability. As the charts below show, operating profits as a share of sales bottomed in 1993 and have been on a recovery path in the intervening years. Using the NRI 400 (a representative sample of 400 companies followed by Nomura Research Institute) as proxy for the market, operating margins are set to reach 6% for FY 2002 from a low of 2.5% in 1993-94. Digging

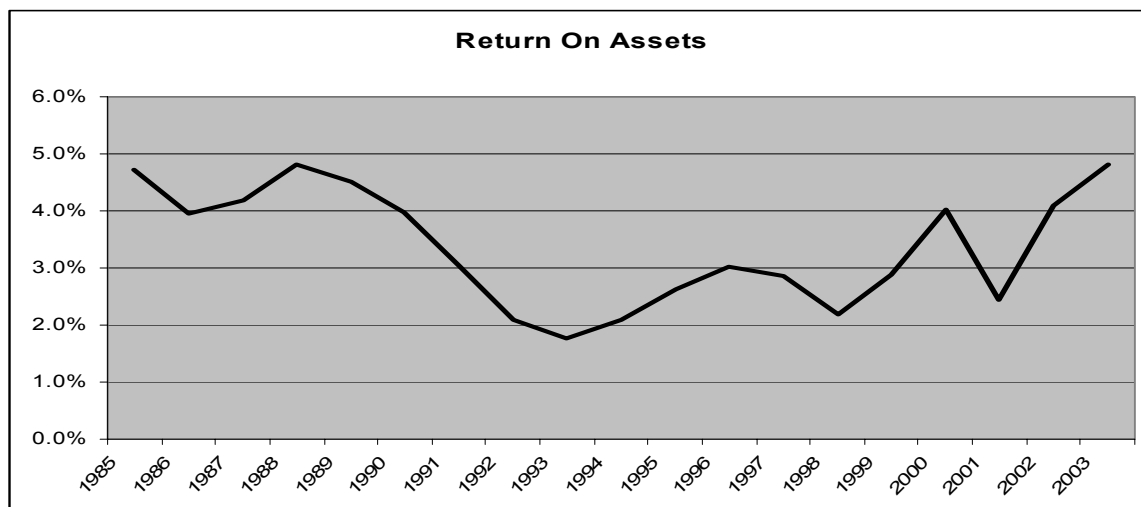
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down into the different sectors and companies, it is noteworthy that many of the supposedly glamorous growth companies (e.g. Sony) are not able to match the aggregate profit margin, whilst steel and chemicals are achieving returns above the average. We believe that opportunities still exist (in spades) for investors to profit from these misperceptions.



A similarly bullish story is evident from the return on assets chart. This illustrates both the improvement in profits and the more rational approach to balance sheet management over the past few years. From our contact with many Japanese companies, we expect a lot more improvement to come.



As corporate Japan gets its act together, the Japanese equity market slides to 20 year lows. The de-rating of Japanese shares over the past few years has been dramatic – and inexorable. How far it goes depends not only on the supply-demand issues we've referred to before, but also on the perception that Japan is mismanaged and riddled with inertia. We expect that continued improvement from the corporate sector will eventually encourage investors to buy – and expect that these investors will include foreign and domestic corporate acquirers as well as portfolio investors – and even individuals.

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Positive contributors (long) Nippon Mining Holdings, Asics; JGC Corp; Xebio
(short) Shiseido; CSK; Promise; Sanix

Negative contributors (long) Nippon Steel; Mitsui Fudosan; TOC; Central Glass
(short) All Nippon Airways; Denki Kagaku; Heiwa Corp; Honda

Major Positions

Toyota; Kawasaki Kisen; Nippon Steel; Mitsui Fudosan; Central Glass

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Optimal FUND MANAGEMENT

| Return Snapshot | |
|--|--------|
| Period | %(AUD) |
| Year to Date Return | 4.24 |
| Return since inception Inception 14 Oct, 1999 | 30.43 |

| Portfolio Composition at Month End | | | |
|------------------------------------|----------|----------|----------|
| % of NAV | Jan 2003 | Feb 2003 | Mar 2003 |
| Long Stock Position | 71.10 | 61.82 | 58.05 |
| Short Stock Position | (35.95) | (30.10) | (34.03) |
| Index Futures | | | |
| Equity Derivatives | 1.98 | 2.44 | 2.50 |
| Net Exposure | 37.13 | 34.16 | 26.52 |

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 | | | | | | | | | | 4.24 |

* Trust inception 20 December, 1999

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