

**Monthly Report to Unitholders of the
Optimal Japan Trust**
Wednesday, 7 June, 2000

DATE	NAV	Monthly % Return*
31/5/00	A\$12.4302	2.45

* After all fees

The decline in telecom and internet stocks continued in May and gave rise to fresh concerns about the durability of the Japanese stock market's recovery. A slightly wobbly Wall Street played second fiddle to a very shaky Nasdaq index that was off almost 20% late in May before recovering strongly in the last week. Japan proved to be no refuge. The Topix index in AUD fell 5.4% and brought the decline since the end-March high to almost 10% and back to the level the index was at when we launched the Fund on December 20th last year. We kept the Fund's net exposure at around 60% of NAV and benefited from the contribution of the portfolio's short positions.

Our view on the market's weakness is that we have been victims of excessive bullishness created during the recovery in 1999 and fuelled by huge inflows from overseas into a relatively small number of sectors and stocks. The willingness of investors to chase growth potential at any price sowed the seeds of the current decline. The interest rate hikes in the USA and Europe have tightened liquidity at the margin and highlighted the over-optimistic expectations for higher profitability from these growth sectors. The Nikkei 225 index (price-weighted as it is) has exaggerated the recent decline as the index changes imposed in mid-April exchanged "value" for "growth" just as growth became unfashionable. Without the thirty stock changes, the Nikkei index would now be over 2000 points higher than its actual figure so Nikkei watchers (and most people still use it as familiar benchmark) are getting an overly negative impression.

Looking behind the headline number, the Topix return in May was clearly very

unrepresentative of the majority of stocks. Of the thirty three industry sectors that make up the Topix index, five declined by double-digit amounts while one other underperformed the Index. The remaining twenty seven sectors outperformed Topix and over half of the sectors actually produced a positive return. The mood of the market is captured by the contrast between the best performing sector (casualty insurance) and the worst (services). It is usually a feature of a market that lacks confidence and leadership when the dreary insurers lead the way whereas the services sector (of which Oracle Japan accounts for more than a quarter) was a market darling in 1999. Anyone optimistic for a durable recovery in Japan's economy and stock market would prefer it were the other way around but from time to time valuations bring the high fliers back to earth. We feel that valuations in the technology large cap stocks are now back to levels that do not demand that investors suspend their disbelief and as a result feel that we are near the bottom in index terms. In the short term, flows from overseas investors may push prices lower if the US market weakens further but we sense that domestic institutions are looking to add to their holdings rather than reduce. Our portfolio continues to have a mid-cap bias as we concentrate on buying shares that are good value and benefiting from a cyclical upturn in demand. Many large caps are also seeing strong demand for their goods but until recently have been too expensive as a rule. Corporate profit growth for the year to March 2000 was better than expected and demonstrates that cost-cutting is boosting profits even more than is growth at the top-line.

On the political front, Japan goes to the polls to elect a new government in late June. Given current PM Mori's spectacularly inept display of statesmanship in the short time since he stepped in to take over from the late Mr Obuchi, it would be surprising, not to mention, depressing, if he was not replaced as head of an LDP-led coalition government. Any of the leading challengers to the position would be more popular. We believe that regardless of the Prime Minister and make-up of the governing coalition, the legal and regulatory reform process is not going to be scuppered.

In spite of the recent rise in pessimism, we are confident that the Japanese recovery is intact but expect the Fund to continue to benefit from the short exposure as well as the long.

Performance

Positive contributors (long) Central Glass (again); Nippon Chemical; Seiyu
(short) Hikari Tsushin; Goodwill; Ito-En

Optimal FUND MANAGEMENT

Negative contributors (long) Nikko Securities; Daiwa Securities warrants; Sony; TBS
(short) Skylark

Major Positions

Long

Sakura Bank; Nippon Chemical; Mitsubishi Electric; Daito Electron; Ark

Short

Sumitomo Bank; Shizuoka Bank; Advantest; Don Quijote

Returns Snapshot	
Period	% (AUD)
Year to Date Return:	23.59
Return since inception: *Inception 20 Dec, 1999	24.31

Portfolio Composition at Month End			
%of NAV in:	March 2000	April 2000	May 2000
Long Stock Position	115.17	110.38	102.26
Short Stock Position	(12.50)	(27.98)	(22.11)
Index Futures	(21.08)	(25.31)	(23.35)
Equity Derivatives	5.99	5.68	5.14
Net Exposure	87.58	62.77	61.94

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								23.59

- Trust Inception 20 December, 1999