Optimal FUND MANAGEMENT

Monthly Report to Unitholders of the

Optimal Japan Trust

Jun 8th, 2001

DATE	NAV	Monthly % Return*
31/5/01	A$12.27	-2.1

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

Trailing 3 months NAV

3/01	4/01	5/01
A$11.56	A$12.53	A$12.27

The market remains skittish and desperate for a constant flow of good news to keep investors committed. Given the delicate state that now besets the major economies and markets, the external situation has not been overly supportive for equity investments in general and the Japanese corporate profits outlook in particular. Although whip-lashed daily by the latest economic data releases, the overall feeling of late is that demand is softening (whether for PCs or steel) and exports will not be a source of growth for Japanese GDP in 2001. Now almost two months into the new Koizumi administration and still waiting for a concrete set of economic policies, the bears have grown bolder in calling for another slump in equities. Japanese market returns for unhedged foreigners were boosted in May by the Yen's strength against all major currencies but the local Topix index was down by 4.1% as investors went cold turkey without their fix of good news.

We have made plenty of references to major problems that prevent a recovery in the

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Japanese economy and particularly their capital markets. The collectivist (feudal) mindset of a large proportion of the population is not conducive to the risk-taking and self-interest found in active and healthy capital markets. This is fertile ground for the sociologists and fascinating for economic historians but we will spare you another serve of opinion on these issues and look instead at some interesting developments at the company level. Unable to rely on credit from their banks any more, highly leveraged Japanese companies are facing some difficult choices these days. They can sit and hope that they'll wake to find all this deflation a bad dream and their world returned to a 1960s utopia or they can attempt to boost cash-flow, retire debt and organise their business along more manageable and productive lines. Many are taking the first option – and their share prices generally reflect the declining confidence the market has in their future prospects. What excites us however, is the growing number of companies that are demonstrating the will and ability to implement the second option. In our view, this trend is now seizing the attention of investors and is likely to remain the dominant source of good news for a long time to come. Every investor will have experienced that frustration of finding a stock that is really cheap – and

wonder what on earth had prevented them buying it three months earlier when it was half the price.

That always happens once a market has made a major bottom and is in the recovery phase but

although we are seeing examples of this now in Japan, most investors would not be willing to say we had entered that recovery stage yet. In recent weeks we have seen brokers issue strong buy notes on some of the shipping companies (*Mitsui OSK* for example which is up by 50% in the past three months but is now "cheap"), trading companies (*Nissho Iwai* which is on 9 times 3/02 earnings but has doubled since January) and oil refiners (*Japan Energy* – now on 13 times earnings and also up 100% since January).

What is common in most of these cases is that the market held grave concerns about the company's balance sheet and failed to believe the management would get it right. Making that judgement demands a first hand view on management and is generally not clear from reading brokerage reports or company statements. In broad terms, these are industries where excess supply – usually exacerbated by the existence of weak competitors who are on life-support from their banks – has crushed prices and returns on bloated asset bases have been poor. If the weaker suppliers start folding and the survivors become more concerned with boosting the return on assets/equity, the opportunities for investors can be very large. For the really large funds the situation is very uncomfortable as liquidity in these overlooked stocks is poor and only begins to pick up once the price has risen substantially. For investment banks who have generally organised their research teams into global sectors (with perceived growth potential and thus demand for capital) it is also awkward as many of these restructuring stories are in unfashionable industries that are not usually covered by their analysts. Notwithstanding the well-known and genuine problems that beset Japan, we are excited by the investment opportunities that are increasingly available to more modest-sized investors with an absolute return mandate.

Performance

Positive contributors	(long)	KDDI; Yokowo; Nissho Iwai; Japan Energy
	(short)	Disco; Mitsubishi Logistics; Union Tool; NTT Data
Negative contributors	(long)	UFJ Holdings; Toei; Tokyu Land; Nomura Securities
	(short)	Venture Link; Suruga Bank; Net One Systems; Doutor Coffee

Major Positions

Long

Kawasaki Shipping; Japan Energy; Mitsui OSK; KDDI; Central Glass

Short

Yamada Denki; Matsushita Communications; Venture Link; Nippon Comsys; Sharp

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Optimal FUND MANAGEMENT

Returns Snapshot	
Period	**% (AUD)**
Year to Date Return:	8.36
Return since inception: ***Inception 20 Dec, 1999**	36.82

Portfolio Composition at Month End			
%of NAV in:	Mar 2001	Apr 2001	May 2001
Long Stock Position	77.76	76.05	86.30
Short Stock Position	(36.31)	(31.70)	(39.36)
Index Futures			
Equity Derivatives	1.51		
Net Exposure	42.96	44.35	46.94

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	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								8.36

- Trust Inception 20 December, 1999

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