

Monthly Report to Unitholders of the

Optimal Japan Trust

June 10, 2003

Date	NAV	Monthly % Return*
30 May 2003	A\$10.06	2.55

* 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

	Mar03	Apr03	May03
Topix %	-3.8	1.09	5.16
OJF longs %	-3.14	0.80	5.75
OJF shorts %	6.46	-1.90	-3.98

May continued on in the same manner as April had ended with the Topix index registering the largest monthly jump since April 2001. To put the intervening period into perspective, Topix ended May 39% below the level of April 2001 – so you could say the 5.2% rise last month was very welcome. The reasons for Japan's rebound seem to be due in no short measure to the strength of the recovery in US and European stocks (up 20% from March lows) and the fact that foreigners have been steady buyers of Japanese equities since late April. It is easy to ascribe the rise in Japan to nothing more than the knee-jerk reaction to the rally overseas but that strikes us as somewhat of an injustice to the investors behind the buying. Putting the conclusion first: Japanese corporate profits growth is impressive and valuations are now comparable to – or cheaper than – those in other markets.

In the fiscal year ended March, non-financial firms listed on the Tokyo Stock Exchange's first section achieved recurring profit (pre-tax) growth of 48%, on sales growth of 0.6%. We find the small increase in sales almost as impressive as the large increase in profits as deflation (measured by the CPI) has averaged over 1% during the year in question. Kathy Matsui – Goldman Sachs' Japan strategist – estimates an 8% profit hike this year (on sales up just 0.4%) and a further 21% rise in FY04 (on sales up 2.5%). Unlike her illustrious US equity strategist counterpart, Matsui is not known to be congenitally optimistic, but notwithstanding this, she values the Topix (non-financials) index at 17.0X PER in FY03 and 13.6X in 2004. One does not need to resort to using a 10 year JGB yield of 0.5%pa as a discount rate to find equities attractive under this scenario. We should also like to stress that there are profit estimates from respectable sources that exceed those of Goldman Sachs, but we are happy to exercise a little restraint.

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Optimal FUND MANAGEMENT

One of many blessings now that results season is behind us is that companies are happy to accept visits again. We have a full schedule of company visits arranged in the next fortnight and will take the opportunity to reassess our positive view on the real estate sector with five meetings set for next week. We have held back from increasing our weight in these stocks despite some very positive evidence and so look forward to validation (or not, as the case may be) of our bullish stance. The sector has been a poor performer so far this year so we believe that there is a great chance for a big catch-up ahead.

Mindful of the pattern of both 2001 and 2002 when the first half was strong – both for Optimal Japan and for the market – and the second half poor, we are looking for any warning signs that weakness is approaching. My belief is that the key is whether the improving trend in deflation can continue (CPI is now down “only” 0.5% versus a year ago) and whether the government can set a steady and sensible policy course. Their actions in assessing the financial problems at Resona Holdings (the bank) and the coordination by the Bank of Japan and the FSA/MoF in implementing the public funds injection have been a welcome change. Politics might become interesting in the months ahead as Tokyo governor Ishihara Shintaro manoeuvres towards an entrance into national politics and Mr Koizumi fights to retain his leadership in the vote for LDP chief – and thus likely PM – in September.

Positive contributors (long) Sumitomo Metal Mining, Toshiba, TDK, Tokyo Tatemono, Toyota Motor
(short) Sankyo, Isetan, Nippon Yusen, Yokogawa Electric

Negative contributors (long) Xebio, Ricoh, Fujitsu, JFE Holdings, Kawasaki Kisen
(short) Aeon Credit, Aiful, CSK, Olympus Optical

Major Positions

Toyota Motor, Kawasaki Kisen, Takeda Chemical, Toshiba, Nippon Steel

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Optimal FUND MANAGEMENT

Return Snapshot	
Period	%(AUD)
Year to Date Return	6.68
Return since inception Inception 20 Dec, 1999	32.7

Portfolio Composition at Month End			
% of NAV	Mar 2003	Apr 2003	May 2003
Long Stock Position	58.05	58.10	60.48
Short Stock Position	(34.03)	(33.60)	(29.10)
Index Futures			
Equity Derivatives	2.50	2.08	
Net Exposure	26.52	26.58	31.38

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	-0.20	2.55								6.68

* Trust inception 20 December, 1999

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