Optimal FUND MANAGEMENT

Monthly Report to Unitholders of the

Optimal Japan Trust

6 December, 2000

DATE	NAV	Monthly % Return*
30/11/00	A$11.7738	-0.18

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

The drip torture of Japanese politics has been unrelenting and has completely dominated an environment where company news has been largely bullish. Despite the insignificant economic influence of the rural sector, and more importantly, their declining demographics, country voters still punch well above their weight in Japan and keep the LDP government in office. We have mentioned this gerontocracy in a previous monthly and have felt for some time that the caution in policy areas is holding back economic recovery but we probably underestimated the extent to which this inertia was affecting the equity market.

The defeat of the no-confidence motion against PM Mori in late November was a set-back, as Koichi Kato's initial intention to vote against his own party leader looked like a major crack in the LDP façade. It would make great reading to have transcripts of the eleventh hour "persuasion sessions" which eventually convinced him to toe the line, but I can only assume (too optimistically perhaps) that he salvaged some concessions from the LDP hard liners that will bring more progress in policy reform. Observers of Japan tend to exaggerate the extent to which government policy can provide a quick solution to Japan's economic problems and in many areas the framework is now in place for a more transparent and fluid capital market. The heart of the problem as we see it however, is the failure of the elected government to respond to the wishes of the population – especially to those that need to work to provide not only for themselves, but to pay the taxes to provide for the demands of an aging society. This political arrogance is hurting investor confidence at a time when some responsiveness would provide a major boost to sentiment.

Back in the world of facts and figures, the news flow has been very positive. The interim financial statements have now been released and show that pre-tax profits grew by 50% year-on-year with revenue growth of only 3% or so. Bears who have been arguing that company restructuring is insufficient and faltering would have a hard time making their case in the face of such numbers but we accept that this is now history and the market is looking out into 2001 and beyond for reasons to be optimistic. With most economists cutting their GDP forecasts for FY 2001 in a backdrop of slowing world growth and sluggish private consumption, it is hard to see earnings growth maintain the recent pace. It looks like an environment where differentiation on a stock-by-stock basis is likely to remain the key to making money in Japanese equities.

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The investment environment in Japan has changed dramatically from that of early this year and a recent article we saw in the Nikkei Financial Daily of December 1st highlights this well. In the regular stock column ("Scramble") that day, the writer concentrated on the attitude of individual investors towards the institutional investors managing the major investment trust funds (mutual funds). A year or so ago, the impending launch of a new fund by one of the major fund managers would lead dealers and individuals to buy the manager's favourite stocks in advance of the fund's launch date. At the time, these stocks were invariably the large TMT names which led the liquidity-driven market and a glance at the largest holdings of these high profile funds shows the fashions of the time: NTT Docomo, Tokyo Seimitsu, Kyocera, Toyota etc. These stocks have apparently acquired "untouchable" status – meaning that no self-respecting speculator would go near them while they still show up as the top picks of these funds which have performed poorly and are seeing redemptions. Instead, the savvy individuals are looking at the names held in the few strong funds and following the example of those managers. Although we still have plenty of reservations about buying the winners of 1999, it does indicate to us that the low-risk bet of being out of (or short) those stocks is unlikely to be so profitable into 2001.

We have raised the net exposure of the Fund somewhat since the end of December as we believe that the downside risk in the market is lower. In the process, we have covered the Topix index futures short and replaced it to some degree with a couple of new short stock ideas. The Fund fell 0.18% in November whilst the Topix index (AUD) declined by 4.4%. In the past three months the Fund has risen 0.3% whilst Topix is down 4.8% and year-to-date the Fund is up 31.1% against the Topix down 9.1%.

Performance

Positive contributors	(long)	Nippon Chemical; Japan Energy; I.H.I
	(short)	Rakuten; Toyoda Gosei; Suruga Bank
Negative contributors	(long)	M.E.I. ; Nintendo: Fujitec
	(short)	JGC; Tokyo Electric Power; Welfide

Major Positions

Long

Kawasaki Shipping ; M.E.I.; Nintendo

Short

NTT Docomo; Welfide; Ito-Yokado; Shohkoh Fund

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Returns Snapshot	
Period	**% (AUD)**
Year to Date Return:	31.14
Return since inception: ***Inception 20 Dec, 1999**	31.9

Portfolio Composition at Month End			
%of NAV in:	Sept. 2000	Oct. 2000	Nov. 2000
Long Stock Position	82.74	84.65	72.2
Short Stock Position	(23.38)	(26.76)	(27.86)
Index Futures	(16.61)	(13.47)	(12.88)
Equity Derivatives	4.17	2.10	2.34
Net Exposure	46.92	46.52	33.8

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		31.14

- Trust Inception 20 December, 1999