

Monthly Report to Unitholders of the Optimal Japan Trust

December 9th, 2001

DATE	NAV	Monthly % Return
30/11/01	A\$10.99	-3.89

- After all fees
- NAV is ex-distribution of A\$ 0.8989 (for Yr to 6/01) and A\$1.4158 (for Yr to 6/00)

Trailing 3 months NAV

9/01	10/01	11/01
A\$11.24	A\$11.44	A\$10.99

The market was slightly lower in November in both local currency and AUD terms (-5.3%) and obviously lagged the US and European markets but the real story was the contrasting performance of exporters versus domestics. Aided partly by a weaker Yen, electricals and autos saw big gains but the fuel on the fire came from the extended rally in tech sectors overseas. The relative success of the campaign against the Taliban and very easy monetary conditions has underpinned the more confident tone coming from the technology industry spokesmen.

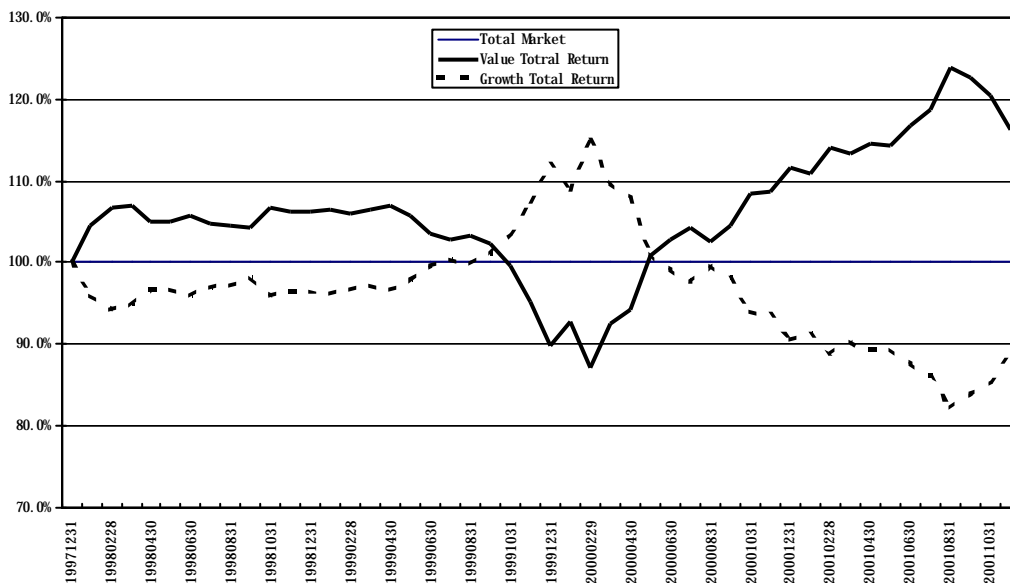
The contrast with the gloomy news on the domestic front in Japan could not be greater. Taisei Marine & Fire, Niigata Engineering and now Aoki Corp have all gone bust with liabilities in the \$billions and credit spreads on Japanese domestic debt have expanded as fears grow of accelerating bankruptcies. The aggregate value of short selling on margin has exceeded that of buying on margin for the first time in 30 years and by early December, eighteen of the Nikkei 225 index stocks were selling at less than Y100/share. This is seen as a critical confidence level and implies impending doom.

The poor return of the Fund was due to losses on both our long and short positions. The shorts were particularly painful and accounted for two-thirds of the total loss despite being only half the size of the longs in aggregate. On the long side, the market has concentrated on exporters and strong balance sheets (see Advantest and Ito-Yokado up +75% & 50% respectively over past two months) and has shied away from recovery situations. We are often attracted to companies in this recovery group as they are usually in industries that have seen capacity cut-backs and have improving free cash flow and better pricing power. At market turning points however, the good get lumped in with the bad and a lot of money is managed based on "snapshot" quantitative screenings that throw up a list of names that ostensibly share the same qualities (or lack thereof). Many of our best managed companies have suffered as a result of such broad-brush methods and are certainly looking very attractive to us now (Japan Energy, Mitsui OSK are examples).

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In the short area, our continued mistrust of the forecasts for a significant recovery in demand and profits in areas such as semiconductor production and telecom equipment has been painful to say the least. While we happily accept that some of these are amongst Japan's better-managed companies (Tokyo Electron, Murata for example), we don't believe they can conjure profits without top-line growth and this is where our biggest doubts lie. We can't expect the market to always act the way we believe it should however and have made a number of changes in the make up of both our shorts and longs to redress the imbalance that had existed until recently.

The market over the past months has an eerie similarity to conditions we experienced in late 1999 when our fund was launched. Although there are conspicuous differences – the old favourite Hikari Tsushin has not taken off (yet!) - the themes are pretty similar. Rather than describe best and worst performers, this is shown most clearly in the chart below which is produced by Nomura Securities and splits their Japanese stock universe into growth and value. The outperformance of Value from early 2000 went into an abrupt reverse at the end of August this year and, much as would hope otherwise, looks like it may continue for a while yet. We are confident that we can cope with this change in market mood although it is obviously not our preferred environment.



- Positive contributors (long) Canon; Ricoh; Miura; Orix; Jafco
(short) Fuji Television; Aiful; NTT Data; Ito En
- Negative contributors (long) Tokyu Land; Japan Energy; Mitsui OSK; Benesse
(short) Trend Micro; Tokyo Electron; Advantest; Tokyo Seimitsu

Major Positions

Long

Kawasaki Shipping; Canon; Orix; Secom; Japan Energy

Short

Advantest; Nidec; Hoya; Takefuji

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Returns Snapshot	
Period	% (AUD)
Year to Date Return:	5.06
Return since inception: *Inception 20 Dec, 1999	33.09

Portfolio Composition at Month End			
%of NAV in:	Sept 2001	Oct 2001	Nov 2001
Long Stock Position	61.69	56.24	66.42
Short Stock Position	(39.34)	(36.48)	(34.96)
Index Futures			
Equity Derivatives	4.37	4.35	2.64
Net Exposure	26.72	24.11	34.10

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	3.96	-2.88	1.49	-3.58	1.77	-3.89		5.06

- Trust Inception 20 December, 1999

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