

## Monthly Report to Unitholders of the Optimal Japan Trust

11 November, 2000

DATE	NAV	Monthly % Return <sup>*</sup>
31/10/00	A\$11.7951	0.90

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

Difficult market conditions continued in October. In Japan the Topix index fell almost 7% (in AUD it fell 2.5%) and is now back at mid-summer 1999 levels. Falling share prices always demand scrutiny of the issues that move the market in a way that is rarely the case in rising markets. If one tries to compare the conditions of late autumn 2000 with those of the middle of 1999 it is difficult to find any areas of real deterioration. Profits are growing more strongly, the economy is growing at a faster rate and progress has been made in improving the regulatory framework as well as on company restructuring. Bears will point to increased supply of equity but in my experience the problem is usually not the level of supply but the level of demand. In this area alone it is obvious that we are in a weaker environment than last year and forecasting the turning point is very tough indeed.

Our investment approach to Japan is still shaped by our belief that the economy, and particularly, the corporate sector is on an accelerating trend and that as long as this holds true, we can have confidence that good stock-picking on both the long and short side will make money for our investors. The Fund's level of net exposure to the market will reflect our sense of changes in investor sentiment and as this is currently at its low-to-date, it indicates that we are not expecting a strong surge in interest just now. We are loathe to reduce it much more however, as bottom-up assessment of stock valuations indicates that the easy money from going short many of the market darlings of last year has now been made.

# Optimal FUND MANAGEMENT

Looking at valuations, there are now many high profile, heavily foreign-owned companies whose shares have fallen to levels that no longer factor in outlandish assumptions about growth rates in future years. The crucial issue in most of these technology stocks is what part of the cycle are we at - we do not think the question of whether these sectors actually have a demand cycle at all bears much debating - and how bad can it get. We cannot out-forecast the industry experts and don't believe we should attempt it. We are pretty confident however, that the share prices reflect perceptions of the rate-of-change rather than the worst/best case scenario for profits, and at least in the time horizon that we invest over, we are into a phase where expectations are going lower and thus investor demand is not likely to be strong. From a portfolio construction angle, we would be happy to own lots of companies with bright futures and high returns on investment. In the medium term however, the change in the level of returns has more impact than the absolute level of returns and it feels too early to be aggressively adding these stocks to the Fund for now.

## Performance

Positive contributors (long) I.H.I.; MEI; Toyo Trust; Japan Energy; Kao  
(short) Seikoh Giken; Macnica; Fujitsu

Negative contributors (long) Kawasaki Shipping ; Taiyo Yuden; Orix; Murata  
(short) Anritsu; Tokyo Electric Power; Nissan

## Major Positions

### Long

Kawasaki Shipping;; M.E.I.; Arrk; Nintendo

### Short

NTT Docomo; Tokyo Electric Power; Ito-Yokado; Toyoda Gosei

This material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our present opinions only. The material is based upon information, which we consider reliable, but we do not represent that it is accurate or complete, and should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities.

<b>Returns Snapshot</b>	
<b>Period</b>	<b>% (AUD)</b>
<b>Year to Date Return:</b>	31.35
<b>Return since inception: *Inception 20 Dec, 1999</b>	32.11

<b>Portfolio Composition at Month End</b>			
<b>%of NAV in:</b>	<b>August 2000</b>	<b>Sept. 2000</b>	<b>Oct. 2000</b>
<b>Long Stock Position</b>	73.89	82.74	84.65
<b>Short Stock Position</b>	(11.89)	(23.38)	(26.76)
<b>Index Futures</b>	(27.13)	(16.61)	(13.47)
<b>Equity Derivatives</b>	3.1	4.17	2.10
<b>Net Exposure</b>	37.97	46.92	46.52

This material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our present opinions only. The material is based upon information, which we consider reliable, but we do not represent that it is accurate or complete, and should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities.

# Optimal FUND MANAGEMENT

## **Historical Returns**

Below we provide a table detailing the monthly returns of the Trust since its inception in December 1999.

<b>Optimal Japan Trust Net Monthly Returns in AUD</b>													
<b>Year</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>YTD</b>
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			31.35

- Trust Inception 20 December, 1999

This material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our present opinions only. The material is based upon information, which we consider reliable, but we do not represent that it is accurate or complete, and should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities.