

## Monthly Report to Unitholders of the Optimal Japan Trust

November 9th, 2001

DATE	NAV	Monthly % Return
31/10/01	A\$11.44	1.77

- 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

8/01	9/01	10/01
A\$11.66	A\$11.24	A\$11.44

It is often interesting to look at quantitative research to try and get an understanding of what the market has been doing when price action appears to be counter-intuitive. In this instance I am referring to the strong rise in the price of tech shares (not just in Japan) that we've witnessed since late September. We cannot buy into the argument that smaller year-on-year declines in orders/sales are a sufficient basis to warrant buying these stocks and with the outlook for end demand in 2002 uncertain have concluded that these shares are still unattractive. Data miners love to find correlations and I have no doubt that many strategists and analysts are able to produce charts showing the nexus between a company's reduced rate of decline in orders and a rising share price. Were valuations at bargain basement levels I could be persuaded that buying was not reckless, but given that many still trade at very generous levels we have decided to avoid – or sell them short. Lower interest rates help individuals cope with their home loans to be sure, but we do not see them necessarily leading to manufacturers boosting capex – or consumers signing on for a new mobile phone or PC.

As a result, the Fund's return in October was hampered by a number of short positions in the electronics area. Performance from the long side was positive almost without exception and the total return surpassed that of the Topix index (-1.41% in AUD) but stock selection in the shorts did not help. We still believe that the run up in tech stocks has little (no) fundamental support and has been a temporary bubble fuelled by momentum managers. What is quite clear is that this area is highly correlated to the US tech area and so where Nasdaq goes, the Japanese tech stocks will follow.

Amidst the torrent of downward earnings revisions and bank loan write-offs announced recently, we have had some welcome news. Chiyoda Integre – a small cap manufacturer – reported strong interim results led by a huge improvement in margins at their China operations and Toyo Rubber surprised with

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# Optimal FUND MANAGEMENT

a very strong profit result. Being largely uncovered by the larger brokers however, the share price reaction has been modest – so far. These are stocks that are delivering great results and are priced too cheap in a market which has become fixated with the fortunes of the electronics sector and other favourites of the larger managers (both foreign and domestic). We expect these imbalances will be rectified in our favour - unless of course Nasdaq is correctly discounting an economic recovery in the technology sectors.

## Performance

Positive contributors (long) Oki Electric; Mitsui OSK; Japan Energy; Sankyo Frontier  
(short) Fuji Television; Aiful

Negative contributors (long) N/A  
(short) Trend Micro; UMC Japan; Yozan; Advantest; Tokyo Seimitsu

## Major Positions

### Long

Kawasaki Shipping; Canon; Tokyu Land; Oki Electric; Japan Energy

### Short

Advantest; Trend Micro; Takeda Chemical; Takefuji; Oracle Japan

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Level 36, The Chifley Tower  
2 Chifley Square  
Sydney NSW 2000  
Tel: 61-2-9229-1863  
Fax: 61-2-9223-2920 Fax: 81-3-3238-1687

5F Izumikan Kioicho  
4-3 Kioicho, Chiyoda-ku  
Tokyo 102-0094  
Tel: 81-3-3238-1671

# Optimal FUND MANAGEMENT

Returns Snapshot	
Period	% (AUD)
Year to Date Return:	8.99
Return since inception: *Inception 20 Dec, 1999	37.54

Portfolio Composition at Month End			
%of NAV in:	Aug 2001	Sept 2001	Oct 2001
Long Stock Position	72.05	61.69	56.24
Short Stock Position	(30.09)	(39.34)	(36.48)
Index Futures			
Equity Derivatives	2.67	4.37	4.35
Net Exposure	44.63	26.72	24.11

## 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			8.99

- Trust Inception 20 December, 1999

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