Optimal FUND MANAGEMENT

Monthly Report to Unitholders of the
Optimal Japan Trust

November 11th, 2002

DATE	NAV	Monthly % Return*
31 October 2002	A$9.83	-4.47

- 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)

Monthly return composition

	August	September	October
Topix %	-2.42	-2.19	-6.39
OJF longs %	-1.73	-3.26	-9.72
OJF shorts %	2.19	7.77	6.79

Trailing 3 months NAV

August	September	October
A$10.08	A$10.29	A$9.83

Japan definitely marches to the beat of a different drum to the one that moves other markets. While the US (S&P 500) rose 9% and Europe almost 12% during October, Japan fell by almost 7% as investors waited, and waited for new policy initiatives from Prime Minister Koizumi's cabinet. So effective was the campaign of leaks in the media that when the much-anticipated day arrived (October 30th) there was very little that created a positive surprise. Stock prices have fallen further since month-end as investors have seemingly jettisoned valuations as a major determinant of a stock's appeal and await decisive policy-making to signal that Japan is willing to change.

One continuing theme that resurfaces frequently is that of the banking system's bad loans. In October, a number of our stocks (long) were hurt as the market formed a view that Judgement Day for the banks had finally arrived. Mr Takenaka's revitalised FSA would force the banks to increase provisions for bad loans (reducing shareholders equity) and reduce their loan book (assets) to stay within the BIS-mandated risk ratio. Our stock picking approach favours assessing a company's balance sheet by judging how much free cash flow exists to cover interest due on it's borrowings. In October (as we had seen in late 2001) the market decided that debt in and of itself was to be avoided wherever possible. The issue of interest cover was barely mentioned and companies with stronger balance sheets clearly outperformed those with weaker ones. The biggest offender for us was Nippon Mining Holdings (the merger of Japan Energy and Nippon Mining & Metals), which had listed only on September 26th and fell 37% in October. The company has a stronger balance sheet than the parent (Japan Energy) had, has cashflow of more than three times interest payable and has seen the bottom of its oil refining margins as demand for oil from power utilities grows in preference to nuclear power. We strongly believe that the sell-off was totally unjustified but continue to monitor the business for any evidence to the contrary.

Elsewhere, corporate results for the first half ending September have been positive with recurring profits up by 35% for the quarter of TSE1 listed companies that have reported to date. Most strategists believe that the economic cycle will decline in the second half (as USA/Europe slow) but as the increase in profits was on a sales rise of only 1%, the evidence of improved profitability is strong. Success in controlling labour costs has been notable and is an area that will offer much more room for improvement – witness Nissan's remarkable success in this area.

Another positive, which has largely gone unnoticed in the tidal wave of negative sentiment, has been the high implementation of share buy-backs that were announced at the end of FY02. Sceptics were of the view that companies would largely fail to deliver on this front but the value of buybacks completed in the first half exceeded Y1.1tn and is running at double the rate of the previous corresponding period. At this rate, FY02 should see total share buybacks of Y2.5tn which would give a implementation rate far higher than had been expected and well in excess of the surprisingly low rate of implementation we saw in the US market in the last years of the decade.

Notwithstanding the points above, we reduced the Fund's net exposure at the end of the month by selling index futures and now have our exposure cut to around 10%. We aim to replace the index futures short with stock shorts to capitalise on our stock picking success but finding new shorts has been hard. It is only getting harder as not only have valuations become attractive for many stocks, but liquidity to implement shorts has fallen dramatically. One is left shorting stocks because they are falling and are liquid – neither of which are convincing reasons to us.

Finally, we would like to notify investors of the addition of David Walsh to Optimal's investment team. David joins us in Sydney to work as an analyst and is also expected to spend considerable time in Japan. For the past four years he has been at Bankers Trust Funds Management in Sydney where he worked both as a Japanese equities analyst and on global sector analysis. He holds a Bachelor of Laws (Hons) and Bachelor of Commerce from the University of Queensland.

Positive contributors	(long)	Canon; Asics; EPS
	(short)	Aiful; Isetan; Takefuji, I.H.I.
Negative contributors	(long)	Nippon Mining Hldgs; K.H.I.; Mitsui Trust
	(short)	Olympus; Nippon Yusen; Kirin Brewery

Major Positions

Nippon Mining; Toyota; Mitsui Fudosan; Mitsui OSK

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Optimal FUND MANAGEMENT

Returns Snapshot	
Period	**% (AUD)**
Year to Date Return:	3.22
Return since inception: ***Inception 14 Oct, 1999**	30.43

Portfolio Composition at Month End			
% of NAV in:	Aug 2002	Sept 2002	Oct 2002
Long Stock Position	63.27	70.62	72.20
Short Stock Position	(33.11)	(30.94)	(37.17)
Index Futures			(23.26)
Equity Derivatives	2.07	2.01	2.07
Net Exposure	32.23	41.69	13.84

Historical Returns

Below we provide a table detailing the monthly returns of the Fund 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	-5.46	-0.25
2002	1.10	1.47	2.07	-0.26	7.2	-2.9	-1.43	-1.47	2.04	-4.47			3.22

- Trust Inception 20 December, 1999

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