

Monthly Report to Unitholders of the

Optimal Japan Trust

November 7th, 2003

Date	NAV	Monthly % Return*
31 October 2003	A\$12.15	3.58%

* 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)

* Returns are based on the redemption price

Success – Longs & Shorts

	Aug03	Sept03	Oct03
Topix %	6.66	1.68	3.58
OJF longs %	16.65	13.31	10.00
OJF shorts %	-13.10	-8.71	-8.23

Despite plenty of action and excitement since summer, the Japanese Topix index is exactly where it was two months ago. Turnover has been strong – meaning plenty of sellers have had their chance to exit – and the inter sector returns have been widespread. The top three performing sectors are “reflation” plays (insurance, banks and real estates) whilst the worst include communications and drugs. We are not alarmed by the lack of index strength and take heart from the fact that sentiment towards the bear market’s disastrous sectors is improving and that Japanese individual investors have rekindled their interest in equities. Although the figures vary from week to week, individuals have been appearing as net buyers more frequently and both investment trusts (Japanese mutual funds) and on-line brokers have seen a big pick up in interest. One of the largest specialist on-line brokers – Matsui Securities – has released its October numbers, which show that their trade value in October had increased by 62% over July. Interestingly, the number of trades they executed in the month was only 31% greater than the July number – showing that the retail investor had moved slightly up the price curve and away from what the sceptic might call the “Penny Dreadfuls”. We happily admit to having made good profits from our investments in a number of low-priced issues and would firmly reject the notion that low price necessarily reflects poor quality. “Quality” is a very rubbery concept when it comes to stock selection and can be a dangerous investment strategy in times like these.

Earnings and economic news have been improving. Equally important in the shorter-term at least is the fact that investor sentiment has also picked up. Stock prices double and the stock’s rating goes from “sell” to “buy”. We are as prone to this phenomenon as anyone (perhaps not anyone – but many) and I have often wondered why I find a stock attractive at 1000 yen when I would barely look

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at it at 400. In 2002, concentrating on improving fundamentals did not help one's performance. In 2003, it is the opposite. So what is happening with the fundamentals?"

Company earnings are vastly better than the expectations of a year ago. The current Toyo Keizai (invariably more accurate than IBES analysts numbers) forecasts for the March 2004 EPS of our top 10 long positions is 69% higher than the numbers shown in their Autumn 2002 edition. In twelve months, earnings estimates are almost 70% higher whilst the Topix index is up by a little over 10% in the same time.

As for the economy, Morgan Stanley forecasts that the September quarter GDP(real) will be +2.7% YoY for the fifth consecutive quarterly increase. On a QoQ basis, this would mark the seventh straight increase. One year ago, they were forecasting FY2003 GDP at -0.70%, whereas now they expect 0.2% growth. They are not alone. NikkoCitigroup's economists were looking for -0.3% a year ago, but now expect growth of 1.0%. The improved outlook is interesting, but most heartening is that the bulk of the expected improvement is due to stronger consumption – an area of major concern in recent years.

We are obviously pleased that earnings and economic growth are improving, but are acutely aware that we have had these short recoveries before and thus need to watch for signs of deterioration in the leading indicators. One important indicator is the Shoko Chukin's Small Business Confidence Indicator. This has rallied from a recent trough of 38 in November 2001 to 49 in October 2003. That is the level where it last peaked (October 2000) and it has been a good leading indicator for the equity market. We will watch this – and other leading indicators – for any sign of decay, but for now believe that the probability is for continued recovery. The "Disaster" sectors – and particularly the real estate market – will be bell-wethers.

Positive contributors (long) Nippon Mining, Mitsubishi Corp, Sumitomo Metal and Mining

(short) Saizeriya, Suzuki Motor, Takefuji

Negative contributors (long) NTT Docomo, Haseko, TOC

(short) Softbank, Oracle Co, Hitachi Zosen

Major Positions

Nippon Steel, Mitsubishi Co, Toyota Motor, Kawasaki Kisen, Marubeni Co

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Optimal FUND MANAGEMENT

Return Snapshot	
Period	%(AUD)
Year to Date Return	28.84
Return since inception Inception 20 Dec, 1999	53.63

Portfolio Composition at Month End			
% of NAV	August 2003	Sept 2003	Oct 03
Long Stock Position	81.45	79.19	85.42
Short Stock Position	(39.24)	(43.99)	(33.12)
Index Futures	(24.92)	(15.77)	(28.27)
Equity Derivatives	1.66	4.63	3.53
Net Exposure	18.95	24.06	27.56

Historical Returns

Below we provide a table detailing the monthly returns of the Fund since its inception in mid-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	-3.65	-0.42	-0.59
2003	1.80	1.98	0.41	-0.20	2.55	3.97	1.91	5.90	3.81	3.58			28.84

* Trust inception 20 December, 1999

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