

## Monthly Report to Unitholders of the Optimal Japan Trust

9 October, 2000

DATE	NAV	Monthly % Return*
29/9/00	A\$11.6897	-0.37

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

September was a poor month in equity markets worldwide. In the United States, the outlook for economic growth dimmed and company earnings disappointments increased but neither had any material impact on the strength of the US dollar. The shift in investors' outlook from optimism on growth prospects in technology sectors to a more sober appraisal was apparent in the weakness in the Nasdaq index which fell 18% against the broader S&P's 5% decline. Nasdaq's decline has continued into October with the index now back within a few percent of the low reached in May but put in into a slightly broader context, it is still 50% above the level it started 1999. By coincidence, the Japanese Topix index is also 50% up from the start of 1999, but there the similarity with Nasdaq ends. Topix is still half its peak level at the end of 1989 whilst Nasdaq is eight times higher over the same period. More importantly, Japan's company profits have begun to surprise investors for their strength and the potential for gains from restructuring and more rapid economic growth are enormous. The pace of recovery has been disappointing to some investors but we find it very encouraging that at last, Japanese company profit growth rates are accelerating and valuations relative to growth are cheap.

In the stock market, September was a struggle. The Topix index in AUD rose 1.94% although the entire gain came from the weakness of the Australian dollar against the Yen (and everything else!) . In local currency, the return was -2.69%. As we keep the Fund

hedged to a currency neutral position, we did not get the gain from the weaker Australian dollar.  
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dollar. Sectors outperforming the index outnumbered the losers by two to one which continues a pattern that has been evident since early this year as large cap stocks that did very well in 1999 give back some of their gains. Given the bad news coming from Nasdaq it is no surprise that the sectors performing worst had a technology flavour: precision equipment, electrical machinery and non-ferrous metals (including the optical fibre makers). The better performers were shipping, real estate and drug stocks. The Fund is heavily overweight both real estate and shipping and gains from these helped to offset losses in some of our electricals and related areas. Having no exposure to communications has been a positive this year and especially so in the case of NTT. During the month shares in NTT fell more than 20% and looked like cracking below the 1,000,000 Yen level . Considering that the government is selling a further one million shares in the

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sixth tranche in October the brokers to the deal must have have mixed emotions as they watched the price fall. For salesmen dusting off their sales pitch from the fifth tranche last October, there would be relief that valuations would now be easier to handle. For the investment bankers budgeting on large fees for placing the stock, it must have been very frustrating. For our part, we wonder why - if the stock is now such good value - would NTT be issuing a further 300,000 shares in addition to the million being sold by the MoF. Seems to run counter to the “buy-low; sell-high” dictum.

We have made a number of company visits in recent weeks and made follow-up calls on three of our holdings based in the Kansai region. The news was very positive and we have added to our holding in Daito Electron as a result. It is hard to see the market rising strongly in the face of poor news from the US but we are optimistic that from a rate of change perspective, the outlook is brighter for Japan.

## Performance

<u>Positive contributors</u>	(long) I.H.I.; Kawasaki Shipping; Mitsubishi Real Estate
	(short) Furukawa Electric; H.I.S.; Lawson
<u>Negative contributors</u>	(long) Toshiba; Taiyo Yuden; Central Glass
	(short) Anritsu; Tokyo Electric Power; Sharp

## Major Positions

### Long

Kawasaki Shipping; Mitsubishi Estate; M.E.I.; Oki Electric; Nintendo

### Short

Tokyo Electric Power; Fujitsu; NGK Spark Plug

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# Optimal FUND MANAGEMENT

<b>Returns Snapshot</b>	
<b>Period</b>	<b>% (AUD)</b>
<b>Year to Date Return:</b>	30.30
<b>Return since inception: *Inception 20 Dec, 1999</b>	31.11

<b>Portfolio Composition at Month End</b>			
<b>%of NAV in:</b>	July 2000	August 2000	Sept. 2000
<b>Long Stock Position</b>	108.19	73.89	82.74
<b>Short Stock Position</b>	(27.93)	(11.89)	(23.38)
<b>Index Futures</b>	(31.07)	(27.13)	(16.61)
<b>Equity Derivatives</b>	4.53	3.1	4.17
<b>Net Exposure</b>	53.72	37.97	46.92

## **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				30.30

- Trust Inception 20 December, 1999

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