

Monthly Report to Unitholders of the Optimal Japan Trust

October 7th, 2002

DATE	NAV	Monthly % Return
30 September 2002	A\$10.29	2.04

- 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

	July	August	September
Topix %	-5.84	-2.42	-2.19
OJF longs %	-5.46	-1.73	-3.26
OJF shorts %	6.59	2.19	7.77

Trailing 3 months NAV

July	August	September
A\$10.23(ex-div)	A\$10.08	A\$10.29

Financial markets were uniformly grim in September with the USA and Europe increasingly indistinguishable from emerging markets with wild price fluctuations daily. Those who experienced the recession and bear market of the mid-70s say that the current global market mood and outlook is as bad as they can remember while Japan has continued to set records for all the wrong reasons. The September quarter was very nasty as the Topix index fell over 10% but incorrigible optimists (masochists) are quick to point out Japan's massive relative outperformance against the US and Europe for the year to date. The US markets fell almost 20% in the quarter while Europe's largest markets were bad enough to send the most hardened gamblers rushing to their nearest bank in order to lock in a couple of percent in annual interest. As is always the way, there is no shortage of bad news out there when stock prices fall like this. Some of it is genuinely worrying but a lot is post-fact rationalisation with just a smattering of fact and logic. Anyone investing in Japan over the past decade has been bombarded with this and in my view, most investors in Japan are now incapable of responding to events in anything but a negative fashion.

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Most recent case in point is the rise in Prime Minister Koizumi's approval rating and changes in his Cabinet. Whilst one would normally assume a leader might be emboldened by rising approval rates and push on with his political agenda, in the arcane world of Japanese politics we are warned that higher approval means less chance of reform. Not logical to me, but not totally without its Machiavellian appeal.

Even less logical is the renewed weakness in the market following the removal last week of Mr Yanagisawa from his position as Financial Affairs Minister (in charge of the supervision and inspection of the banking system). Yanagisawa had resolutely insisted that the banks were sound and in no need of further capital or more stringent provisioning for bad loans. Most investors, many of his Cabinet colleagues and the Bank of Japan all disagreed with him so when he was replaced with the pragmatic and articulate Heizo Takenaka we felt that Koizumi had signalled a determination to resolve the long-running problems of the banking system. Takenaka acted quickly and made some hawkish appointments to his council of economic advisers and lo and behold, the market sold off on fears that a more robust approach to the banks would create possible economic weakness and further unemployment. Having spent the past few years bemoaning the lack of action and failure to restore credibility in the banking system it seems unfair (at best) to now raise concerns over the consequences of action. Japan cannot recover from its problems while deflation persists and while banks continue to support inefficient companies. Now it seems likely that we are about to enter the end game, it has raised our hopes that positive change is imminent – despite the unhappy consequences for some. The next important date is October 17th when the detailed policies of the anti-deflationary task force are to be concluded. These are expected to include tax system changes (real estate/ securities/gift taxes), RCC (Japanese RTC equivalent) improvements, monetary policy easing and enhanced “safety nets” for the unemployed. We think there are strong grounds to view these changes as opportunities rather than threats. When looking at the dearth of options available in other markets to alleviate the gloom, I see potential for investments in Japan - in both a relative and absolute sense.

Positive contributors	(long)	Sumitomo Trust Banking, TOC, Nippon Mining;
	(short)	Aiful, Mazda, Funai Electric;
<u>Negative contributors</u>	(long)	Nippon TV, JAFCO, JGC;
	(short)	Isetan, Alps Electric, Advantest;

Major Positions

Nippon Mining, Toyota, MitsuiFudosan, Central Glass

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Optimal FUND MANAGEMENT

Returns Snapshot	
Period	% (AUD)
Year to Date Return:	7.65
Return since inception: *Inception 14 Oct, 1999	35.03

Portfolio Composition at Month End			
% of NAV in:	July 2002	Aug 2002	Sept 2002
Long Stock Position	61.71	63.27	70.62
Short Stock Position	(29.04)	(33.11)	(30.94)
Index Futures			
Equity Derivatives	1.69	2.07	2.01
Net Exposure	34.36	32.23	41.69

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				7.65

- Trust Inception 20 December, 1999

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