

## Monthly Report to Unitholders of the

### Optimal Japan Trust

October 9, 2003

Date	NAV	Monthly % Return*
30 September 2003	A\$11.73	3.81%

\* 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

	Jul03	Aug03	Sept03
Topix %	3.98	6.66	1.68
OJF longs %	4.20	16.65	13.31
OJF shorts %	-2.08	-13.10	-8.71

Notwithstanding the modest 1.7% rise in the index, September was an exciting month in the Japanese stock market. The divergence in sector returns was marked, with Banks leading the way (+17%) and Rubber (effectively = Bridgestone) at the bottom (-6%). This divergence amongst the Topix 33 sectors has been a characteristic of the market all year. Up until the end of September, the best Topix sector (Steel) was up 65% YTD while the worst (Drugs) was down 4%. This sort of range strikes me as fertile ground for stock pickers to add value, but as I don't want to appear totally Japanocentric, I compared the sector divergence in the S&P500 and the FTSE 350 indices and I was surprised to find that Japan has been a positively "pipe & slippers" sort of market. Of the S&P's industry sectors (admittedly there are 130 of these), the best one was up 115% and the worst down 41%, but the octane prize went to the FTSE where the best sector gain was 404% and the worst was -16%. All this for an index that had gained just over 7% for the year. So much for the buttoned-down image that the UK financial markets once had – an image, I am sure, that was never that close to reality.

If the Yen had been one of the Topix sectors in September, it would have ranked 12<sup>th</sup> out of the 33 sectors with a return of 4.6% against the weaker US dollar. As we have always managed the Fund with as close to neutral currency position as possible, the Yen strength did not help the Fund's return but given the appalling record of forex market participants to predict exchange rates, I am worried that a growing number of commentators are revising their forecasts and predicting a stronger Yen and weaker dollar in the months ahead. As recently as June, a majority of experts were predicting a weaker Yen whilst now they are turning decidedly weak-kneed on the US dollar. Back in June, the

This Material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our opinions only. The material is based upon information, which we consider reliable, but we do not represent that it is accurate or should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities

# Optimal FUND MANAGEMENT

cross-rate was Y120/\$ whereas it trades today at just above 109. Leaving to one side such depressing trend following behaviour, it is clear that the strength of the Yen has had an impact on the performance of individual stocks even if periods of Japanese market strength are usually accompanied by a stronger Yen. Since the G7 meeting, the worst performers of the major exporters have been Honda (-21%), Canon (-15%) and Fuji Photo (-13%). A bit more bearishness on the dollar coupled with a bit more weakness in the shares might make these a good buy soon.

## **Important**

I wish to take this occasion to advise all investors and others that Optimal Fund Management's assets under management in the Japanese equity long/short funds have reached the amount targeted as capacity. The administrator has been advised of this and no more subscriptions will be accepted unless there is a prior agreement in place with the manager. We will watch market liquidity closely and would hope that improving liquidity might allow us to accept subscriptions again.

Positive contributors (long) Haseko, Mitsui Trust, Tokyo Tatemono, Tomen, Kao  
(short) Taiyo Yuden, Furukawa Electric, Dainippon Ink & Chemical

Negative contributors (long) Komatsu, NEC System Technology, Fuji Photo Film  
(short) Hitachi Zosen, Yamato Transport, Ito-Yokado

## **Major Positions**

Toyota Motor, Haseko, Nippon Steel, Mitsubishi Co

This Material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our opinions only. The material is based upon information, which we consider reliable, but we do not represent that it is accurate or should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities

Level 32, The Chifley Tower  
2 Chifley Square  
Sydney NSW 2000  
Phone: 61 2 9229 1863  
Fax: 61 2 9223 2920  
optimal@optimaljapan.com

5F Izumikan Kioicho  
4-3 Kioicho, Chiyoda-ku  
Tokyo 102-0094  
Phone: 81 3 3238 1671  
Fax 81 3 3238 1687

# Optimal FUND MANAGEMENT

Return Snapshot	
Period	%(AUD)
Year to Date Return	24.39
Return since inception Inception 20 Dec, 1999	49.43

Portfolio Composition at Month End			
% of NAV	July 2003	August 2003	Sept 2003
Long Stock Position	70.75	81.45	79.19
Short Stock Position	(33.83)	(39.24)	(43.99)
Index Futures		(24.92)	(15.77)
Equity Derivatives		1.66	4.63
Net Exposure	36.92	18.95	24.06

## 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				24.39

\* Trust inception 20 December, 1999

This Material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our opinions only. The material is based upon information, which we consider reliable, but we do not represent that it is accurate or should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities

Level 32, The Chifley Tower  
2 Chifley Square  
Sydney NSW 2000  
Phone: 61 2 9229 1863  
Fax: 61 2 9223 2920  
optimal@optimaljapan.com

5F Izumikan Kioicho  
4-3 Kioicho, Chiyoda-ku  
Tokyo 102-0094  
Phone: 81 3 3238 1671  
Fax 81 3 3238 1687