

Monthly Report to Shareholders of the Optimal Japan Absolute Long Fund 6th May, 2005

	OJAL NAV*	Performance
29 April 2005	\$10.49	-0.47

* Price is NAV after performance fee at the Fund level but is subject to equalisation at the investor level.

One third of the way through 2005 and it has not been all beer and skittles for equity investors. Japan's Topix index has fallen 4.4% in USD – exactly the same decline as that of the S&P 500 index – and Europe has taken the gold medal with the smallest of gains. Asia also appears to have run into strong head winds after a huge rally from May 2003 to late 2004 lifted valuations to levels where even Asian bulls (like us) have become cautious and seek juicy dividends while waiting for capital gains to come through. Investing based on high yield (alone) rarely ends happily and perhaps the world's equity investors might benefit from higher interest rates. Higher rates will take out the investor who “needs” a higher return than savings deposits currently offer and has accepted the received wisdom that equities offer better returns than other assets. We believe there are times when it is better to eat into some of your savings rather than put your capital at excessive risk in a desperate attempt to live only from income and gains. The current environment is probably one of those times.

When managing an equities portfolio in a period like that we experienced in April, the value investor can't help having very mixed feelings. If one was net short, or course the feeling would be rather nice, but for funds that are net long – and the Optimal Japan Absolute Long Fund is almost 90% invested – it is not so. You look on aghast as your best ideas haemorrhage losses but feel undeniable pleasure watching stocks fall to levels where you just know they are great value. Regular readers of our monthlies will have noticed our major holdings have not changed much since the Fund's launch. In times of rapid price changes however, we do add or cut positions and so it was in April. The market (measured by Topix) fell 7.5% from the early April high to the low on April 18th and we were buyers in the days either side of that date. Unless we have misread the broader investment environment badly, I am confident that our investors will benefit from the increased exposure we built over the month.

One positive outcome in April was the resolution of the contested bid for Nippon Broadcasting Systems (NBS) by Livedoor. We mentioned in the February report that Livedoor had taken legal action to prevent NBS retaining control of Fuji TV by buying warrants to acquire new shares from Fuji. The courts upheld Livedoor's argument (that this was improper) and now NBS and Livedoor are working on a strategy that will “benefit all parties”. A win to Mr Horie of Livedoor. This has prompted supermarket giant Ito Yokado to announce a merger with its subsidiaries Seven-Eleven Japan and Denny's Japan in a pre-emptive effort to shore up itself from a similarly hostile move to get at their highly profitable subsidiary Seven-Eleven. We believe that higher dividends will form part of corporate Japan's overall moves to raise share prices to protect themselves from raiders. As the pay-out ratio languishes below 20% at present, we can't see how moves to raise this could be anything but helpful to investors.

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Optimal FUND MANAGEMENT

Major Positions

Toyota Motor, Mitsubishi Co, Tokyo Tatemono, Mizuho Financial

Month-end investments (as % NAV): 87.19%

Fund size: US\$ 15.5mil

Total number of positions: 27

Top 5 positions:

	% of NAV
Toyota Motor	6.98%
Mizuho Financial	6.21%
Mitsubishi Co	6.10%
Mitsui Fudosan	5.65%
Tokyo Tatemono	4.98%
Total	29.92%

Best Performers: Tokyo Tatemono, TOC, Sumitomo Metal Mining

Worst Performers: JFE Holdings, Toyota Motor, Nippon Mining

Historical Returns

Below we provide a table detailing the monthly returns of the Fund since its inception in September 2004.

Optimal Japan Absolute Long Fund Net Monthly Returns in USD													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2004									-1.6	-1.32	6.18	2.52	5.70
2005	1.61	2.05	-3.83	-0.47									-0.76

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