Monthly Performance % - *as at 29 August 2008*

	NAV	August	YTD	Asset size
Offshore Feeder	$11.12	-7.26%	-17.69%	$412M
US Feeder	$11.26	-7.10%	-17.39%	$26M

I don't know what the accepted definition of "bear market" is these days but I know what they feel like and this is one for sure. For an investor who can boast (if that's the word) twenty five years trying to return a profit in Japanese equities, the feeling is not entirely new, but it does not make poor performance feel any less painful.

Not only have we been long and wrong, but our stock selection has been dreadful since the middle of 2007. From June 2007 to August 2008, the major Japanese index (the Topix index) has fallen by 29.3% in Yen terms and, because of the stronger Yen over that period, by 20% in USD terms. Inevitably, one is amazed by the market's prescience and, at major turning points especially, equity markets have an eerie knack of foretelling what turns out to be tomorrow's economic news.

The economic news in Japan is not especially bad. In some ways, it is quite encouraging, but that might be because our expectations have been lowered to such a level that only truly shocking news registers. The same is certainly not true in other parts of the world. Domestic commentators on the US are habitually positive, and have plenty of reasons to be given the amazing success of the US economy to surprise on the upside when so many expect things to deteriorate. Despite the huge fall in housing in the past two years, the US economy has grown at a respectable rate and presumably is now closer to the end of the bad news on housing and sub-prime than the start. Europe had been a shining light of economic strength until recently, but now the familiar old "Euro-Sclerosis" arguments are becoming commonplace in the market, spiced up with some dire talk of property bubbles collapsing and budget deficits expanding. Generally, one cannot be too shocked by a negative outlook for western Europe as many of the old reasons for bearishness still seem to be applicable today.

Where people have been shaken - and markets have certainly been hammered - is in the sudden change in outlook for the developing countries that have powered much of the global growth of the past decade. Chinese growth is slowing, so rather than a GDP growing at 10%, China might be facing 8%. India, which superbulls felt had been powering to a new growth plateau of 9-10%pa (people were willing it to match that of China's) has hit some speed bumps and is now grappling with inflation, high interest rates, plummeting confidence and a GDP growth rate in temporary decline. Measured in USD, the Chinese index is down 57% and India's is off 39% so far in 2008.

As anyone who has dealt with us knows, we are not economic forecasters. Our investment style is dependent on aggregating information we can gather from company visits across the region, meetings with analysts and industry experts. This probably explains a large part of the reason why we held on to the shares of companies that had benefited from the strong global growth seen since 2002. Most of the companies continued to see – and continue to see – strong demand for their products with minimal pricing pressures. In Japan's case, these sectors and stocks had become heavily owned by foreign investors who were net buyers from 2003 through mid-2007. Domestic investors have been net buyers this year, but foreign selling has swamped it and pushed prices down. The high ownership of "cyclical" companies by foreigners has exacerbated the real slowing in global growth rates and has been the major factor in both the dreadful stock price performance from these sectors and the poor investment returns from our funds. We have been reducing our bias to these sectors and growth themes since early this year but admit we did not act swiftly or aggressively enough. In the past month, we have been active in cutting the risks here and feel happy with the portfolio now.

It would be remiss to finish this monthly without stressing that, despite all the gloom, we are not bearish on Japan. M&A is seeing a particularly strong pick-up and most of the deals announced seem to make sense for the acquirers. Such is the general state of despond that brokers now recommend we sell stocks because they are only trading at 1x book value and profits are going to be decline year-on-year. Analysts race to cut their price targets so that they don't stand out by looking foolishly optimistic. Real estate investment trusts now regularly carry dividend yields over 6% and the general dividend yield for the whole market is over 2%. As the Australian dollar has lost 20% of its value vis-à-vis the Yen in the past seven weeks, the Japanese retail investor might begin to doubt the wisdom of chasing high yielding assets offshore and begin to see the merits of some high-yielding assets at home. The market is getting us ready for a fantastic investment opportunity.

I could make a comment on the sudden departure of Mr Fukuda from the premiership of Japan, but fear it could not add much value and think we all have better things to do. We should have a new LDP leader later this month and a general election in November. Let's hope it is the female candidate and brings a sense of hope and change, as the fundamentals just aren't that bad.

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Recent 3 month Fund Exposure

% of NAV in	Jun 08	July 08	Aug 08
Long Stock Position	89.79	91.24	83.51
Index Futures	-16.80	-16.88	-17.91
Net Exposure	72.99	74.36	65.60

Optimal FUND MANAGEMENT

*Should you wish to make an investment or further enquiry about the Optimal Japan Absolute Long Fund, please see our website – **www.optimalasia.com** or contact us at – **optimal@optimalasia.com***

Position Concentration

	Top 5	Top 10
Longs	22.85%	41.42%
Total no. positions	33	

Top Five Positions

- Yamada Denki Co Ltd
- Mitsubishi UFJ Financial Group Inc
- Fanuc Ltd
- Mitsui Fudosan Ltd
- Nomura Holdings

Winners

- Nikkei 225 Index Future
- Yamada Denki Co Ltd
- Mitsumi Electric Co Ltd
- Ushio
- Bridgestone Corp

Losers

- Sumitomo Mitsui Financial Group Inc
- Mitsubishi UFJ Lease & Finance Company Limited
- Mitsubishi UFJ Financial Group Inc
- JFE Holdings Inc
- Sumitomo Corp

Sector Exposure as at 29 August 2008

	Longs	Shorts
Materials	7.35%	
Industrials	27.82%	
Futures		-17.91%
Financials	24.01%	
Energy		

	Longs	Shorts
Consumer. Non Disc		
Consumer Disc	17.32%	
Utilities		
Telecom		
Technology	7.00%	

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 Monthly Returns in USD (before Performance Fees) %

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	-1.81	-0.58	1.17	6.66	9.32	-0.75	3.25	8.64	27.25
2006	3.57	1.22	3.55	2.74	-4.40	-1.32	-1.55	-0.29	-1.51	3.73	1.48	1.94	9.14
2007	1.50	3.69	-1.88	0.33	1.71	1.49	1.27	-4.97	2.18	-1.04	-5.37	-6.57	-7.97
2008	-6.00	2.60	0.15	4.21	1.40	-9.57	-3.85	-7.26					-17.69