Monthly Report to Shareholders of the Optimal Japan Absolute Long Fund – *August 2011*

Optimal FUND MANAGEMENT

Monthly Performance % - *as at 31 August 2011*

	NAV	August	YTD	AUM
Offshore Feeder	US$11.56	-6.40%	-5.17%	US$84M
Topix - *Topix Return is in USD unhedged using WM London 4pm close*		-7.55%	-9.07%	

We wrote the last monthly letter mid-way through August when the Japanese market had fallen about 11%. The other major developed markets were even worse – and with correlations between markets high, even the MSCI Asia-Pacific ex-Japan index was down 14% at that point. There was welcome relief in the final week of August with markets rallying between 4 & 8%, but all in all it was an awful month for global equities.

2011 has been a year of gloom and bleak news, and the worst performance has come from European equities (no surprise) and – more surprisingly - emerging markets. The US has been the best of a bad lot, while Japan and the UK have been among the most resilient. We speak with little detailed knowledge of the UK and US equities markets, but pinch ourselves daily when looking at the valuations on offer now in Japan. It seems to us that starting from where we are now, either equity returns over the next decade will be good, or it's a case of fortifying the battlements, stocking up on pitchforks and preparing the vats of boiling oil.

The FT carries a regular column called 'The entrepreneur" by Luke Johnson, and in the 14 September edition, he wrote about Italy and Japan and the common problems besetting them. It was an excellent and insightful piece and worth reproducing in part. To take his conclusion first: "Leaders in countries such as Japan and Italy – and to a degree in Britain and the US – must raise the spirit of twenty-somethings, and break down obstacles in areas such as housing and business start-ups. Such initiatives will boost morale, and might counter a national mood of slow-motion self-destruction; anything less would be a tragedy."

His list of the signs of stagnation is long and yet it is frustrating in the extreme that the leaders in these countries have neither the wit nor the will to address the roots of the problems. He concludes that vested interests have failed to take the tough decisions.

"Each suffers from disastrously low fertility rates, negligible economic expansion, huge public debts, incestuous ties between politicians and industry, and are (sic) dominated by cadres of elderly men, content to manage decline. Yet both Japan and Italy are manufacturing and export powerhouses, inventive places that have created many of the best-known brands in the world."

"Their traditional cultures have not caught up with modern lifestyles. The male bureaucrats, policymakers and bankers who run all the major institutions must be forced to take radical steps to unleash the energy and imagination of their young, because in both countries they are very pessimistic…..Traditional employees enjoy cast-iron protections, so companies are reluctant to create such positions. So, only temporary or part-time work is available for most newcomers to the workplace. Consequently, young Japanese and Italians pursue increasingly cautious lifestyles. Nearly 80 per cent of unmarried Japanese between the ages of 18 and 35 live with their parents. The ratio is nearly as high in Italy." No wonder the birth rate is so low!

He goes on to conclude that such unadventurous and uncertain living means that people do not grow up, and do not take risks – such as starting a business or having children. The older generation, meanwhile, live comfortably in retirement on substantial savings or generous pensions. Given the conditions described, one can understand the inertia to change, but elected governments are meant to force change for long term survival and the prosperity of future generations.

Well Japan now has a new Government – if not directly elected – under the leadership of Mr Noda. Being merely 54 years of age, Mr Noda is a young man by the standards of Japanese politics. Let's hope he is more in touch with the issues that prevent confidence from recovering amongst the younger Japanese. After all, for two-thirds of his adult life, Japan has been trying to work through the after effects of the 1980s Monster Bubble, and he has had plenty of time to think about the root causes of the problems and how to address them. Low confidence and complacency do not make for rising asset prices, so we look for policy action to provide support for the improved performance of corporate Japan.

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Recent 3 month Fund Exposure

% of NAV in	Jun 11	Jul 11	Aug 11
Long Stock Positions	92.51	92.50	92.67
Index Futures	-	-	-
Net Exposure	92.51	92.50	92.67

Optimal FUND MANAGEMENT

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

Position Concentration

	Top 5	Top 10
Longs	24.28%	42.65%
Total no. of positions	34	

Top Five Positions

JS Group Corp
Asahi Kasei Corp
Canon Inc
Itochu Corp
Mitsubishi Estate Co Ltd

Winners

Don Quijote Co Ltd
Nintendo Co Ltd
Daiichikosho Co Ltd
Mitsui OSK Lines Ltd
Seria Co Ltd

Losers

Mitsubishi Materials Corp
Sumitomo Realty & Development
Softbank Corp
Hitachi Ltd
Mitsubishi UFJ Financial Group Ltd

Sector Exposure *as at 31 August 2011*

	Longs		Longs
Consumer Discretionary	24.55%	Industrials	18.34%
Consumer Non-Discretionary	3.25%	Information Technology	11.04%
Energy	2.83%	Materials	9.05%
Financials	17.95%	Telecommunications	5.66%

Historical Returns- *Optimal Japan Absolute Long Fund Monthly Returns in USD (before Performance Fees)%*

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

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	Topix* YTD
2004									-1.60	-1.32	6.18	2.52	5.70	8.16
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	24.59
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	0.94
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	-6.37
2008	-6.00	2.60	0.15	4.21	1.40	-9.57	-3.85	-7.26	-5.49	-5.14	-4.01	8.78	-22.95	-28.24
2009	-5.28	-11.56	3.78	4.75	9.49	2.12	3.11	4.76	-3.58	-2.26	-2.78	-0.38	0.38	2.85
2010	2.58	0.19	4.19	1.88	-8.25	-3.15	3.36	-2.39	5.77	3.79	0.36	8.26	16.65	13.67
2011	1.31	3.89	-9.20	1.72	-0.51	1.02	3.69	-6.40					-5.17	-9.07

** Topix Return is in USD unhedged using WM London 4pm close*