

Monthly Report to Shareholders of the Optimal Japan Absolute Long Fund January 11th, 2005

	OJAL NAV*	Performance
31 December 2004	\$10.57	2.52%

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

With the four month losing streak broken in November, Japan was able to put together another strong month in December. While still down from the highs of April, the Topix gained 10.15% for 2004, more than holding its own against its developed, and most other Asian market peers. The market breadth remains encouraging with around 60% of the Topix sectors outperforming the index return. Happily near the top of this list were some of Optimal's favourites including: real estate, financials, trading companies and marine transport.

Optimal's funds had a good year with an average return of almost 13%. Value was again the dominant investment style as the MSCI Value Japan index produced a gain of 14.6% while its growth counterpart managed only 4.6%. To look briefly in the rear view mirror, had you invested \$100 in each of the value and growth indices at the start of 1999 – by the end of 2004 you would have \$123 had you selected value and \$79 if your preference was for growth. While we risk being accused of data mining if we point out that value has outperformed growth in four of the past six years, when we make investment decisions our focus is more on fundamentals than style. Many of the companies classified as growth have seen their industry go through a period of overinvestment, some of which has been in other countries where the cost base is lower and the intellectual property gap was at times closed quicker than expected. They now are caught in an environment where margins and returns remain under pressure and to us it is difficult to justify their higher valuations. Whether they are shorts at this stage is a tougher decision.

Uninspiring macro economic numbers dominated the headlines in Japan leading into the end of 2004. Although there is confusion over the new calculation methodology of the GDP numbers and what one should do with historic data, we believe valuations look undemanding when using earnings estimates for the New Year beginning April 2005. Although fund manager surveys are not as bullish as they were a year ago, it seems that our view is more optimistic than that of the consensus.

While there were few changes to the portfolio in December, we did increase the net exposure from 83% to 86%. The rally in the banks was a strong contributor to last month's performance. One of our largest positions, Mizuho Financial Group, was up almost 15%, spurred in part by an upgrade of their credit rating from an international agency. Toyota Motor was another strong contributor. As they announced strong sales numbers, both at home and abroad, the market's concern with the strengthening Yen took the back seat as the share price gained 8%.

The Optimal team are busy filling their diaries with company visits for the year and would like to wish you the very best for 2005.

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Optimal FUND MANAGEMENT

Major Positions

Toyota Motor, Mitsubishi Co, Tokyo Tatemono, Fuji Photo , Mizuho Financial

Month-end investments (as % NAV): 86.21%

Fund size: US\$ 12.8 mil

Total number of positions: 23

Top 5 positions:

	% of NAV
Toyota Motor	6.66%
Mitsubishi Co	5.67%
Mizuho Financial	5.65%
Fuji Photo	5.38%
Tokyo Tatemono	5.33%
Total	28.69%

Best Performers: Mizuho Financial Group, Toyota Motor, Sumitomo Trust & Banking,

Worst Performers: Nippon Mining, Sumitomo Metal Mining, Haseko Co

Historical Returns

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

Optimal Japan 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

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