

Monthly Report to Shareholders of the Optimal Japan Absolute Long Fund 10th January, 2006

	OJAL NAV*	Performance
30 December 2005	\$13.45	8.64 %

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

As we start 2006 the question is who is going to be a seller of Japanese equities? Japanese trust banks – managers of most of Japan’s corporate and government pensions money – have been consistent net sellers for the past year whilst foreigners, investment trusts (i.e. mutual funds) and, more recently, Japanese individuals have been happy to take the other side. Trust banks will probably leak a little more as they rebalance their portfolios and individuals are likely to keep nibbling. We have heard little, however, about the government bodies that bought stock from weak holders in the dark days of 2001-2002 but at some stage we must expect them to be sellers – now that stocks have recovered the level reached in late 1999. The Bank of Japan bought over Y2 trillion, the Bank Shareholding Purchase Corp bought Y1.6 trillion and the Deposit Insurance Corp bought shares from Shinsei and Aozora banks as part of the financial sector clean up in 2000. The first two are prohibited from selling until 2007 and October 2006 respectively, but the DIC has been permitted to sell since March 2005. We do not know whether they have done much selling yet, but surely their grip on the basket of stock they took off Shinsei and Aozora must be weakening post 2005’s 44% jump in equity prices. It is a theme that we are sure will attract more attention in the next few months – particularly if the market goes through a weaker period.

We wrote last month about our comfort with valuations with Topix at around 1700. It is 1690 as we write and on the estimates of Daiwa Securities and Nomura Securities this leaves the market selling on 20-21 times earnings for the year to March 2007. The issue is really how much can consumption recover and join capex as a driver of economic growth and corporate earnings. There are very bullish views amongst some Japanese equity strategists that we find appealing, but would note that these strategists were not so bullish in 2002 and 2003. In the interest of fairness, we also need to fess up that we were bullish in 1999, 2000 and each year thereafter (and also in 1995 from memory) so let us not cast the first stone. We will be visiting Japan in February and will spend our company visits looking at longer term issues and sensitivities to US, European and Asian demand. We expect 2006 to be a good year in Japan but one where stock picking will make even more of a difference. For the last few months it has been all about land prices and the companies that benefit from stronger real estate. In December, the real estate index rose 27%, warehousing rose 19% and the other leading sectors were all domestic. Tech is having a catch up phase now but we are doubtful of the potential of many Japanese electronics companies to make meaningful improvements in their profit margins in a much more competitive global environment. It strikes us that now is the time for investors to put real thought into longer term stock selection in Japan. The short term flows of money are too hard to predict.

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Optimal FUND MANAGEMENT

To finish on an administrative matter, we wish to stress that any applications for redemptions or subscriptions in our funds that come in to HSBC Institutional Trust Services (Asia) after the dealing deadline will be rejected. Please visit our website www.optimalasia.com for related information and we encourage you to contact us through the web-site.

Month-end investments (as % NAV):

Equity Long: 77.41%

Net exposure: 77.741

Fund size: US\$ 91.2 mil

Total number of positions: 26

Top 5 positions:

	% of NAV
Mitsui Fudosan	5.76%
Mitsui OSK	5.57%
Sumitomo Metal	4.92%
Mizuho Financial	4.71%
Sumitomo Trust Bank	4.70%
Total	25.66%

Best Performers: Mitsui Fudosan, Sumitomo Metal Mining, Sumitomo Trust Bank,

Worst Performers: Chintai Jutaku News, Diamond Lease,

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	-1.81	-0.58	1.17	6.76	9.32	-0.75	3.25	8.64	27.25

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Level 32, The Chifley Tower
2 Chifley Square
Sydney NSW 2000
Phone: 61 2 8239 3300
Fax: 61 2 8239 3333
optimal@optimalasia.com

6F Izumikan Kioicho
4-3 Kioicho, Chiyoda-ku
Tokyo 102-0094
Phone: 81 3 3238 1671
Fax 81 3 3238 1687