

# Optimal FUND MANAGEMENT

## Monthly Report to Shareholders of the Optimal Japan Absolute Long Fund January 12<sup>th</sup>, 2007

	OJAL NAV*	Performance
29 December 2006	\$14.68	+1.94 %

*\*The NAV shown above is after expenses and management fees but before any performance fees. The Fund return may thus not be the same as the return of a discrete investment that might be subject to performance fees through equalisation.*

**At the end of December 2006, we reorganised the Optimal Japan Absolute Long Fund into a Master-Feeder structure and as a result, the existing Fund becomes the Offshore Feeder. A new Feeder Fund for US tax paying investors has been created and will produce K-1 forms for US tax purposes. As a result, there will be no more PFIC reports produced. Anyone interested in investing should contact [optimal@optimalasia.com](mailto:optimal@optimalasia.com) to make sure they get the relevant documents and application forms.**

One year the markets will plummet in December, but it seems that the arrival of the year's end and the hopes that a new year bring are usually enough to tempt the stales of bulls out of the closet and back into the buyers ring. After a very insipid performance for eleven months, the Japanese market celebrated December in style with a gain of 4.9% for the month. In doing so, the bulls managed to push the Topix index return for 2006 into the black with a small positive return of 1.9% for the year. As is always the case, however, this index figure fails to tell the more interesting parts of the story. More than 10 of the 33 sectors that make up the Topix index produced negative returns in excess of 10% for the year, whereas 9 sectors celebrated the year with double digit positive returns. There were some strange bedfellows. In the positive return camp, Steel was number one with a 31% gain, but in second place was Electric Power & Gas, with 26%. No doubt there is a macro factor model that will prove that these two sectors often dance to the same music, but I can't recall seeing it before. The 25% gain from Foods is also interesting, especially when compared with the dismal showing from other domestic sectors such as Retail (-21%) and Construction (-15%).

Our Fund's return in 2006 was helped by our holdings in steel majors JFE Holdings and Nippon Steel – the latter rising 31% in December alone – and by the positive 13% in Real Estate, where we held Mitsui Fudosan and Tokyo Tatemono. The Japanese car makers flourished again in 2006, and their Transport Equipment sector gained 24% for the year. Our holdings in Suzuki Motor and Toyota were the Fund's 4<sup>th</sup> and 3<sup>rd</sup> biggest contributors respectively. In the true Howler department, our shareholding in Arrk cost the Fund about 1% but we still hold it and will revisit again soon to check on how they are progressing with problem subsidiaries in South Korea and the USA.

2007 has begun with signs that sectors aligned with global growth expectations making a poor start to the year. The struggle to balance a slower US economy with strength in developing economies is a subject unlikely to be off the front pages of strategy pieces for some time to come, but we continue to take the view that it "is too early to tell" and keep the faith with our favourite companies that fall in those sectors.

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

**Equity Long: 72.95%**

**Net exposure: 72.95%**

**Fund size: US\$ 334 mil**

**Total number of positions: 34**

**Top 5 positions:**

	% of NAV
Toyota Motor Corp	4.41 %
Mitsui Fudosan	4.34 %
Tokyo Tatemono	4.16 %
Diamond Lease	3.86 %
Showa Denko	3.65 %
<b>Total</b>	<b>20.42%</b>

**Best Performers:** Nippon Steel, Toyota Motor, JFE Holdings

**Worst Performers:** Taikisha, Teijin, Diamond Lease

## *Historical Returns*

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

<b>Optimal Japan Absolute Long Fund Net Monthly Returns in USD</b>													
<b>Year</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>YTD</b>
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
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

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