Monthly Report to Shareholders of the Optimal Japan Absolute Long Fund – *February 2008*

Optimal FUND MANAGEMENT

Monthly Performance % - *as at February 2008*

	NAV	February	YTD	Asset size
Offshore Feeder	$13.03	2.60%	-3.55%	$516M
US Feeder	$13.15	2.57%	-3.52%	$30M

From the end of 2007 to the 18 March close, the Topix index is down over 21% in Yen terms and almost 9% when measured in the sickly USD. With heightened risk aversion and frozen bank lending in the United States and Europe, whoever has been driving the "carry trade" has clearly lost their appetite and decided to unwind Yen shorts and sell USD/Euro/AUD long positions. Recent market norms tell us that this means weak equities, and so it has been. Seeing bad companies go up with good ones in buoyant markets is faintly disturbing, but it is a lot more palatable than watching great companies plummet because over-leveraged investors have to "de-lever" their portfolios. No one escapes Mr Market in times like these – especially if you are a Japanese company.

We appear to be watching the Federal Reserve Bank on speed. No measure is too much, or too drastic for Mr Bernanke and his governors as they attempt to unblock the credit pipes and clean up balance sheets. With many corporate balance sheets undergeared (especially in Asia), it seems that banks will be loathe to call in high quality corporate loans and that once the credit cycle is flowing again, the picture may not be as grim as many have been painting. We subscribe to the view that the world economy is significantly different now than it was in 1991 and any slowdown in global demand now will be shorter and shallower than it was then. Financial markets cannot stand apart from the mayhem unleashed in the US, but once the system's blockage has been cleared, the underlying global demand outlook will still be quite rosy. The task is to identify the beneficiaries and the right moment to raise the stakes. The former is easier than the latter and for now, we keep our powder dry.

Japan's economic data continues to paint a different picture from the one universally depicted in the financial press. The December quarter rate of GDP growth was 3.5% annualised and as such is the fastest rate of growth in the G8 countries. Japanese banks have not choked on MBS and other sub-prime debt investments like their US and certain European counterparts have. The investment community at large has so little faith in the capacity of Japanese financial institutions to remain uncrippled by these problems that bank share prices have fallen below the stated value of shareholders' equity. We are not fans of Japanese banks and think that rather as a certain British bank (with Asian antecedents) avoided the losses from the Latin American debt crisis of the early 90s, the reason Japanese banks have largely avoided the sub-prime mess is through being too late rather than too smart. As the saying goes, in investment it is better to be lucky than smart, so the background to the current state of affairs is largely irrelevant. It may turn out that we are proven wrong when the Japanese banks announce their annual results in May, but I think not. This time, they might just have been lucky.

In the recent past when the Japanese economy has slowed down, the cyclical industries have experienced significant year-on-year negative declines in output measures. Despite a move from positive to negative in the OECD leading indicators index, Japanese sectors such as machinery (surely a "pure" cyclical if ever there was one) have seen annual rates of growth slow to low single digit/flat levels but nothing worse – with the exception of semi-conductor manufacturing equipment orders (this is our pick as the TRUE CYCLICAL sector). The shares of such sectors have however been anything but solid, with prices down by 40 to 60% in the past year or so. With 60% of the companies listed on the Tokyo Stock Exchange's First Section trading below book value, we think that Japan has already discounted economic melt-down rather than a mere slow-down.

We have remained cautious in terms of the Fund's net exposure and achieved the positive return in February despite only having net exposure equivalent to 49% of the Fund's NAV. The strong Yen certainly was a big positive as the Fund's cash is held in Yen rather than USD. The big losers have been financials and other domestics while the winners were in the trading companies, machinery and auto sectors. Our next move is to increase the net exposure by covering some of the index futures shorts. Our fingers remain poised over the trigger.

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Recent 3 month Fund Exposure

% of NAV in	Dec 07	Jan 08	Feb 08
Long Stock Position	92.54	82.05	86.71
Index Futures		-34.91	-37.46
Net Exposure	92.54	47.14	49.25

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	24.78%	42.64%
Total no. positions	36	

Top Five Positions

- Toyota Motor
- Fanuc
- Mitsubishi UFJ Financial Group
- Showa Denko
- Sumitomo Corp

Winners

- Hitachi Construction Machinery
- Mitsubishi Corp
- Fanuc
- Suzuki Motor
- Showa Denko

Losers

- Tokyo Tatemono
- Yamada Denki
- Mitsubishi UFJ Financial Group
- Mitsui Fudosan
- Tokyu Corp

Sector Exposure as at 29 February, 2008

	Longs	Shorts
Materials	15.40%	
Industrials	30.58%	
Futures		-37.46%
Financials	18.39%	
Energy		

	Longs	Shorts
Consumer. Non Disc		
Consumer Disc	16.47%	
Utilities		
Telecom		
Technology	5.86%	

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											-3.55