Monthly Report to Shareholders of the Optimal Japan Absolute Long Fund – *February 2009*

Optimal FUND MANAGEMENT

Monthly Performance % - *as at 27 February 2009*

	NAV	February	YTD	Asset size
Offshore Feeder	$8.72	-11.56%	-16.23%	$195M
US Feeder	$9.09	-9.37%	-13.43%	$9M

February 2009 was a month when currency hedging – or the lack of it – was a major determinant of investment returns of funds investing in Japan. In local currency terms, the Topix index return (down almost 5%) is bad enough, but with a weaker Yen, the USD return from Topix was a grisly minus 12.5%. I am not aware of many who loudly predicted such a decline in the Yen, but the warning signs were there. The strength of the Yen (vis-à-vis the US dollar at least) has had a very close correlation with Japan's trade balance and where the trade balance goes, the Yen tends to follow – albeit with a significant lag. With global demand evaporating, Japan's trade balance has gone to zero after at least twenty years of sizeable surpluses, and history would indicate that as the trade surplus falls, then so too will the Yen. Another indicator has been the balance of outstanding borrowings by foreign banks in the Japanese call money market and these have likewise gone to zero. At the height of the "Carry trade" and global equities boom in mid-2007, this balance was almost JPY 10 trillion (USD 100bn) so that now that the borrowings have all been paid back, perhaps this too would indicate that the Yen's period of strength is largely past. No government seems to want to see their currency strengthen in these trade-poor times, but when so much of the debt issued by the US government and its agencies is held by foreign central banks, it might make for happier G20 meetings if the US dollar retains its value versus these other creditor currencies. We avoid currency predictions like the plague, but will say that a weaker Yen seems highly likely in the year ahead.

Another subject that we feel poorly qualified to talk on is Japanese politics. We won't let that stop us today however. With the exception of Mr Koizumi's tenure as PM, Japanese politics has been a topic with few uplifting qualities. It is only in observing the performance of Japan's political leaders that one can get a grudging appreciation of the merits – limited though they seem – of one's own country's politicians, but the situation in Japan is set to change. The opposition Democratic Party of Japan (DPJ) has agreed to vote to pass the Budget bills for FY2009, and with that impasse out of the picture, the path lies open for a dissolution of parliament and a lower house election for the Diet. The election must be held by September 11th, but with an approval rating of 16%, it would be sensible for PM Aso to hand over the leadership of the ruling Liberal Democratic Party (LDP) to another candidate and then let the LDP go to the polls with a new, less unpopular leader. Sensible perhaps, but apparently Mr Aso is determined to fight it out in what he thinks of as true Samurai Spirit. Perhaps it is all the comics he reads, who knows.

The DPJ's leader is currently being smeared in a scandal centred on allegedly accepting illegal donations so they too have their image problems, but come September 12th, Japan should have a new Prime Minister and probably a new party forming government. What their policy differences are is not crystal clear, but they cannot be worse in the stewardship of the country than the LDP has, so we believe that this event has the potential to surprise investors to the upside.

Japanese equities are usually a geared play on global economic growth and have acted their part only too well in the slowdown accompanying the Great Recession we are apparently in. At the very least, they will be a buy when the flow of bad news becomes a trickle and the first tentative signs of positive change emerge. One day, investors will be amazed as Japan unfurls a positive quarter of strong private consumption and Hitachi announces it is divesting half of the 800-odd companies that it owns major (controlling) stakes in. As anyone who has dealt in options knows, time decay is the most common way of losing money, and so we are unwilling to invest all our money – let alone our investors' – in sectors and strategies that depend on either of these events occurring soon. We do not think it totally far-fetched however, and do not ascribe to the cataclysmic view of Japan depicted with apparent glee in the financial media. For now, Japan is a great way to play the end of the cyclical downturn, and we are carefully and fearfully looking at getting the funds positioned accordingly.

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Recent 3 month Fund Exposure

% of NAV in	Dec 08	Jan 09	Feb 09
Long Stock Position	59.29	60.30	60.50
Index Futures	-	-	-
Net Exposure	59.29	60.30	60.50

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	25.14%	41.00%
Total no. positions	26	

Top Five Positions

Fanuc Ltd
NTT Co
Suzuki Motor Corp
Nintendo
Takeda Pharmaceutical

Winners

Fanuc Ltd
Suzuki Motor Corp
Bridgestone Corp
Star Micronics Co Ltd
Hitachi Metals Ltd

Losers

Yamada Denki Co Ltd
Daiwa Securities Group Inc
Kirin Brewery Co Ltd
Mitsubishi UFJ Lease & Finance Company Limited
NTT Co

Sector Exposure as at 27 February 2009

	Longs	Shorts
Materials	3.11%	
Industrials	12.12%	
Technology	10.17%	
Financials	12.21%	
Energy	-	

	Longs	Shorts
Consumer. Non Disc	1.93%	
Consumer Disc	11.16%	
Health Care	3.66%	
Telecom	5.70%	

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	0.15	4.21	1.40	-9.57	-3.85	-7.26	-5.49	-5.14	-4.01	8.78	-22.95
2009	-5.28	-11.56											-16.23