Monthly Performance % - *as at 26 February 2010*

	NAV	February	YTD	Asset size
Offshore Feeder	$10.74	0.19%	2.78%	$210M
Topix - *Topix Return is in USD unhedged using WM London 4pm close*		1.22%	3.20%	

The tentative start to 2010 has continued in February with another small decline in Japanese equities. Other equity markets fared better in February after the weakness of January but there is still a feeling – albeit a faint one – that Japan is doing better. There is a widespread perception that the investment return from Japanese equities has been incredibly poor for a long time. The perception is largely correct, but people tend to underestimate just how badly an equity investor in most other developed markets has fared over the past ten or more years. At the end of 1998, the S&P 500, the FTSE100 and the Euro Stoxx 50 indices were all higher than they were at the end of 2009. In common currency terms, the Japanese market has more or less matched global equities since the late '90s and only in the period from mid 2007 through 2009 did it really underperform.

Where the comparison truly is unflattering for Japan is in the relative return of the other markets of the Asian region. This might be no more than a case of Developed vs Developing, or perhaps Budget Deficit vs Budget Surplus, but certainly Asia has done a lot better than the G7 markets since late 1998.

We mention this not because we have any particular prediction about relative returns from here, but merely to address a dogged bias in the world's investment commentariat that singles out Japan for particular scorn. As a UK investor would know well, it has been a horrible twelve years or so to have been in equities – particularly with the added weakness of the Pound.

A similar tendency to accentuate the negative is evident when looking at the performance of Japan's economy as measured by the real GDP. In this case, the Japanese government and its ministers tend to be in the forefront of the gloomy horde, taking every opportunity to bemoan the precarious state of the economy and the problems ahead. In the most recent example of this, the current Chief Cabinet Secretary (Mr H Hirano) used the occasion of the revised Q4 2009 GDP figures to lament that the "economic conditions remain severe". In fact, the annualised growth figure had indeed been revised down from 4.5% to 3.8% - equal to a QoQ growth rate of 0.9%. This is hardly disastrous however, especially when compared with the larger economies of Europe where growth in the same quarter was zero (in the case of Germany) or 0.3% (UK). The picture we have of the Japanese economy over the past few years is one of higher mountains and deeper valleys than those of the developed countries. In some areas (machinery orders) it closely resembles Germany, but the decline in industrial production (for example) in 2008-09 was vastly greater in Japan than in any of the G7 nations and the rebound tends to be stronger. The greater amplitude is likely due to the smaller role that private consumption and public spending play with a correspondingly large dependence on capital expenditure and net exports. These were crushed from late 2008 through to late 2009 and so too, therefore, was Japan's GDP.

Although the Topix index fell 0.7% in both January and February, the composition of the sector returns was somewhat reversed. In January, Banks rose 4% and fell 2% in February. Rubber fell 10% then rose 8%, while Steel fell 9% and then gained 2%. Autos were consistently poor in both months with a decline of 6% in January followed by another 4% fall last month. This was mainly due to the Toyota shock which has dragged Toyota's price down by 14% by end-February (though it is up 4.5% MTD) and caused much angst in Japan and a fair amount of schadenfreude in the US and Europe. Our stock-picking success in January did not continue in February with real estate hurting us especially badly (-64bps of performance). Toyota is one of our larger holdings it was our fourth biggest negative contributor (-29bps) while Kirin Brewery fell 11% after they called off their merger with Suntory and cost the fund 43bps. There were 19 stocks with negative contribution of 3bps or more and only 11 with positive returns of the same amount but the worst performers have generally had good rebounds in March – thus far.

Month-to-month ups and downs are part and parcel of an equities portfolio and we are pleased that March has started well. We remain positive on the outlook for Japanese equities and look forward to reporting on the company visits we have scheduled for the end of March.

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Recent 3 month Fund Exposure

% of NAV in	Dec 09	Jan 10	Feb 10
Long Stock Position	84.49	93.51	92.63
Index Futures	-	-	-
Net Exposure	84.49	93.51	92.63

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	31.74%	49.43%
Total no. positions	31	

Top Five Positions

Mitsui & Co Ltd
Nippon Telegraph & Telephone Corp
Mitui Trust Holdings Inc
Toyota Motor Corp
Mitsubishi Estate Co Ltd

Winners

Mitsui & Co Ltd
Daicel Chemical Industries Ltd

SHO-BOND Holdings Co Ltd
Bridgestone Corp
Nippon Telegraph & Telephone Corp

Losers

Tokyo Tatemono Co Ltd
Kirin Holdings Co Ltd

Panasonic Corp
Toyota Motor Corp
Fuji Media Holdings Inc

Sector Exposure as at 26 February 2010

	Longs	Shorts
Materials	9.42%	
Industrials	19.93%	
Technology	6.80%	
Financials	19.29%	
Energy	-	

	Longs	Shorts
Consumer. Non Disc	2.99%	
Consumer Disc	27.02%	
Telecom	7.17%	
Utilities	-	

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	Topix [1] YTD
2004									-1.6	-1.32	6.18	2.52	5.70	8.03
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	25.08
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	0.69
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	-6.37
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	-28.24
2009	-5.28	-11.56	3.78	4.75	9.49	2.12	3.11	4.76	-3.58	-2.26	-2.78	-0.38	0.38	2.85
2010	2.58	0.19											2.78	3.20

[1] *Topix Return is in USD unhedged using WM London 4pm close*