Monthly Report to Shareholders of the Optimal Japan Absolute Long Fund – *February 2011*

Optimal FUND MANAGEMENT

Monthly Performance % - *as at 28 February 2011*				
	NAV	February	YTD	Asset size
Offshore Feeder	$12.83	3.89%	5.25%	$94M
Topix - *Topix Return is in USD unhedged using WM London 4pm close*		4.53%	4.77%	

In last month's letter, we listed a number of reasons why now is the time to be bullish on Japanese equities, namely:

- Leverage to global growth
- Profits growth
- M&A on the increase
- Government policy (tax; inflation)
- Under-owned (by locals and foreigners)
- Valuations

We were in Japan last week and had an interesting time visiting companies and meeting analysts. Our visit coincided with CLSA's annual Japan conference and central Tokyo was relatively crowded – if not quite abuzz. We did not get to much of the conference but heard it was well attended and that the general feeling was positive. Attentive readers would know that that we have been bullish on Japanese equities for some time and we welcome the more upbeat tone in the market, but it would surprise no one that this reassessment of Japan comes after a few months when Japan's market performance has trounced that of non-Japan Asia. Past performance may not be a guide to future returns, but it certainly affects investor attitudes.

To our list above, we would now add two more reasons. Firstly, corporate Japan is paying out more of its profits to investors by way of dividends and share buy-backs. The sum of these now represents over 40% of total profits and is rising as profits rise, confidence grows and a shareholder-friendly approach by management becomes more widespread.

The second reason comes from our conviction that the long-term performance of Japan's leading companies is clearly improving when looking at their progress in teasing profits earned from assets. Just this week we have seen the sale of Hitachi's US-based hard disk drive business ("Hitachi Global Storage Technologies") to Western Digital for almost $4.5bn in cash and a 10% stake in WD. The unit was regarded as worthless as recently as two years ago, and Hitachi will book a substantial profit from the sale. Importantly, it is a signal that Hitachi will differentiate between the long-term business case for being in – and allocating capital to – certain businesses and in this case, has wisely decided that the HDD industry is inevitably heading towards a duopoly between Seagate and WD. They can use the cash to re-invest in their core areas of advantage and boost the return on assets. Hitachi – our biggest position – trades on 1.5x book value and on consensus estimates for 3/12 operating profits, they achieve a 5.5% return on assets. If we look back over the decade and compare that with the year to March 2001, they have lifted Operating Profits/Sales from 3% but only in the past year has the market shown its recognition for this. Canon, widely admired – and admittedly, widely held - by foreign investors has made similar improvements over the same period, seeing Operating Profits (12/11 estimates) increase by 95% while assets have increased 40% since December 2000.

We are in the middle of a project to analyse a broad universe of Japanese companies for changes in their efficiency improvements – or otherwise – achieved over the past difficult decade or so. A first glance at leading companies in industrial and consumer electronics seems to point to some patterns that are not wholly unexpected. Firstly, the consumer electronics companies have struggled to boost OP/Sales ratios and trade on discounts to book value, while the industrial electronics companies have all lifted this OP/sales ratio and trade at multiples of book above the market average.

The Japanese consumer electronics companies have had to deal with a strong currency and increasing competition from the Asian newcomers and a resurgent Apple. The industrial electronics companies have concentrated on their strengths where competition is less – and more regionalised. Companies that stay away from the consumer would be our preference for investment, and we expect this mantra to be borne out once our analysis is complete.

In general, and despite the fighting in Libya and associated fears, we remain bullish on Japanese equities and have the Fund positioned accordingly.

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Recent 3 month Fund Exposure

% of NAV in	Dec 10	Jan 11	Feb 11
Long Stock Position	80.36	45.96	95.04
Index Futures	-	-	-
Net Exposure	80.36	45.96	95.04

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	25.79%	43.73%
Shorts	-	-
Total no. positions	37	

Top Five Positions

Hitachi Ltd
JS Group Corp
Nippon Telegraph & Telephone Corp
Mitsubishi Estate Co Ltd
T&D Holdings Inc

Winners

Hitachi Ltd
JS Group Corp
T&D Holdings Inc
Mitsubishi Estate Co Ltd
Ryohin Keikaku Co Ltd

Losers

Itochu Corp
Nintendo Co Ltd
FUJIFILM Holdings Corp
Fanuc Ltd
Nissan Motor Co Ltd

Sector Exposure as at 28 February 2011

	Longs	Shorts
Materials	14.80%	-
Industrials	15.96%	-
Technology	14.42%	-
Financials	21.99%	-
Energy	-	-

	Longs	Shorts
Consumer Non Disc	7.67%	-
Consumer Disc	15.19%	-
Telecom	5.02%	-
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	8.16
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	24.59
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	0.94
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	4.19	1.88	-8.25	-3.15	3.36	-2.39	5.77	3.79	0.36	8.26	16.65	13.67
2011	1.31	3.89											5.25	4.77

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