Monthly Report to Shareholders of the Optimal Japan Absolute Long Fund – *February 2012*

Optimal FUND MANAGEMENT

Monthly Performance % - *as at 29 February 2012*

	NAV	February	YTD	AUM
Offshore Feeder	US$11.50	2.31%	5.22%	US$15M
Topix - *Topix Return is in USD unhedged using WM London 4pm close*		4.27%	9.06%	

"We are inclined to the view that the most important distinction in the styles of asset managers is that between those whose primary focus is on the activities of the company – its business, its strategy, and its likely future earnings and cash flow – and those whose primary focus is on the market for the shares of the company – the flow of buy and sell orders, the momentum in the share price, the short term correlations between the prices of different stocks."

Source: "The Kay Review of UK equity markets and long-term decision making " Interim report, February 2012

Deng Xiaoping apparently said it does not matter whether a cat is black or white as long as it catches mice. Investors might well say, similarly, that is doesn't matter what the asset manager's style is as long as it delivers good returns. We believe the distinction referred to above from the Kay Review (recommended reading even to those of us not involved in UK equities) is a very clear one and most fund managers would easily identify themselves as a follower of one approach or the other. We also believe good investment managers can make a difference and that investment style does matter. Both styles can work – but usually at different times.

Our approach is definitely one which looks at the activities of companies rather than more technical aspects of the shares of companies, but for much of the past four of five years, this has been tough going as macro economic news and views has dominated stock markets and asset prices in general. In the course of standard economic cycles, the fundamental style focusing on company activities enables a capable manager to deliver returns better than a passive investment would. In the increasingly tense economic environment of the past decade or so, neither a passive stance, nor a fundamental active stance has been very rewarding – and that is before we get to natural and man-assisted calamities of the type that befell Japan exactly one year ago. We certainly would welcome calmer waters ahead on all fronts.

So far 2012 has produced an investor's dream start with both developed and emerging market indices showing returns of 10% and more through early March.

Japan has participated in the market gains to the full and on a local currency basis leads the Asia-Pac region and most world equity markets to boot. Yen weakness has cut the unhedged USD return to 9% versus 16% in local currency, but Yen weakness due to better expectations for the US economy and interest rate differentials should not be negative for Japanese equities.

Particularly positive for Japanese manufacturers is the recent weakness in the Yen against the Korean Won. Since October last year, the Korean Won has risen from 15.5 per Yen to its current level of 13.7. To put that into perspective however, one needs to go back to mid 2007, when the Yen bought only 7.5 Won. The rate has averaged 9.8 Won/Yen over the past twenty years.

Leaving aside whether Hyundai Motors or Samsung Electronics have managed their businesses well (we believe they have), they – and their Korean peers – have had the most gigantic tailwind helping them in markets where they compete against Japanese makers. The most recent US auto sales figures have shown Japanese makers' share recovering relative to that of Hyundai & Kia Motors and we would expect that to continue if the Korean currency does not weaken again against the Yen.

For a Japanese market in full flight, our portfolio was lacking in the heavy weight sectors that went up the most, namely, autos, banks and electrical appliances. Small & mid-cap stocks also lagged as foreign investors bought exposure in portfolios that were significantly under-represented in Japan.

A large drag on the return was the Fund's cash holdings which ranged between 10-17%. We had trimmed a few of our larger positions after the market's rise in January and into February and did not get the pullback we'd wanted to make our re-investments. It is of little comfort to investors and myself, but we are fairly confident that many other investment managers have made the same tactical error this year.

Other than cash, and a few too many defensives (any defensives were too many as it happens), there has been only one genuinely negative stock position in the portfolio in 2012 and that is our investment in Skymark Airlines. After reaching a high at the end of August 2011 at Y1400, the stock has been falling through mid-February for reasons that we do not believe will cause damage to their long-term strategy or business value. We felt lucky to be buying in at what seemed a bargain in early January around Y930, but watched the stock slump to Y670 in mid February and it has remained at around Y700 since. After a number of analyst meetings and further research into the start-up low cost carriers (Peach, Jetstar & AirAsia Japan), we believe that the negatives are vastly overstated and Skymark offers a very good investment opportunity here and we expect to add to the position.

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Recent 3 month Fund Exposure

% of NAV in	Dec 11	Jan 12	Feb 12
Long Stock Positions	91.79	91.36	85.30
Index Futures	-	-	-
Net Exposure	91.79	91.36	85.30

Optimal FUND MANAGEMENT

Should you wish to make an enquiry about the Optimal Japan Absolute Long Fund, please see our website www.optimalasia.com or contact us by email at optimal@optimalasia.com.

Position Concentration

	Top 5	Top 10
Longs	22.67%	41.04%
Total no. of positions	32	

Top Five Positions

Aeon Co Ltd
Mitsubishi UFJ Financial Group Inc
Mitsubishi Estate Co Ltd
Inpex Corporation
Canon Inc

Winners

Sumitomo Realty & Development Co Ltd
Mitsubishi UFJ Financial Group Inc
Mitsubishi Estate Co Ltd
Sumitomo Mitsui Trust Holdings Inc
Nissan Motor Co Ltd

Losers

Skymark Airlines Inc
Don Quijote Co Ltd
Aeon Delight Co Ltd
Eagle Industry Co Ltd
Nippon Telegraph & Telephone Corp

Sector Exposure *as at 29 February 2012*

	Longs		Longs
Consumer Discretionary	21.29%	Industrials	7.35%
Consumer Non-Discretionary	4.85%	Information Technology	11.14%
Energy	8.36%	Materials	8.62%
Financials	18.45%	Telecommunications	5.24%

Historical Returns- *Optimal Japan Absolute Long Fund Monthly Returns in USD (before Performance Fees)%*

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

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	Topix* YTD
2004									-1.60	-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	-9.20	1.72	-0.51	1.02	3.69	-6.40	-3.98	2.70	-4.91	0.83	-10.34	-14.55
2012	2.84	2.31											5.22	9.06

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