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

Optimal FUND MANAGEMENT

Monthly Performance % - *as at 31 January 2008*

	NAV	January	YTD	Asset size
Offshore Feeder	$12.70	-6.00%	-6.00%	$543M
US Feeder	$12.82	-5.94%	-5.94%	$29M

Along with other stock markets, Japan started 2008 in wretched fashion with the Topix index down by almost 9% in January. Among the thirty three sectors that comprise the Topix index, the best return (air transport) was 2.1% whilst the worst (oil & coal) was down 18.7%. In the scheme of volatile stock markets, a 21% range between best and worst might not sound too bad, but our Fund held more in the bottom half of the table and continued its recent poor performance. Frustrated by the weak market, we decided discretion to be the better part of valour and in mid-January, we cut the Fund's net exposure to below 50% using index futures and selling some key positions. It is painful to sell favoured stocks after what seem to us unjustified falls, but it is clear that there are many determined sellers for the time being and it is even more painful to watch the Fund's returns continue to suffer.

We spent the first week of February in Japan and met companies, economists and strategists. A common theme from the meetings is that imported prices are rising significantly in quite a few areas, and that producers are at a point where they seem determined to pass on their higher costs in higher selling prices. Until now, the companies paying the higher prices for their inputs have not passed on (enough of) these costs to their customers and have suffered lower profit margins. They tell us that they have suffered enough, and now the higher costs must be reflected in higher selling prices. The standard view of many commentators is that Japan's consumers are too fragile to pay higher prices and attempts to raise prices will lead to declining demand. We are not so sure, and suspect that the current deflationary mindset perpetuates this pessimistic view.

Japanese companies in the domestic sectors pride themselves on providing high quality goods and services at stable (or even lower) prices, but as shareholders we are not sympathetic to this approach. If they won't (can't) pass on their costs, investors are right to either sell their shares, or agitate for change.

2008 could well be a crucial turning point in Japan's long flirtation with deflation, and we believe the shock for the year will be a rising CPI. The BoJ would love that and jump at the chance to raise rates. Given the failure of low (read zero) interest rates to spur demand, perhaps higher rates might not be any worse for the asset markets and Japanese domestic consumption. Visitors to Tokyo nowadays are pleasantly surprised at how cheap it is compared with expectations and prices in their own home markets. We believe that the attractions of buying low and selling high will eventually redress the imbalance and prices in Japan will rise. The same argument goes for equities.

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Recent 3 month Fund Exposure

% of NAV in	Nov 07	Dec 07	Jan 08
Long Stock Position	97.16	92.54	82.05
Index Futures			-34.91
Net Exposure	97.16	92.54	47.14

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	23.85%	41.02%
Total no. positions	35	

Top Five Positions

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

Winners

- Nikkei 225 Index Future Mar 08 (Short)
- Mitsubishi UFJ Lease & Finance

Losers

- Komatsu
- Hitachi Construction Machinery
- Star Micronics
- Suzuki Motor
- Isuzu Motors

Sector Exposure as at 31 January, 2008

	Longs	Shorts
Materials	14.4%	
Industrials	28.0%	
Futures		-34.91%
Financials	18.3%	
Energy		
Consumer. Non Disc		
Consumer Disc	15.6%	
Utilities		
Telecom		
Technology	5.7%	

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												-6.00

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