

Monthly Performance % - as at 31 July 2009

	NAV	July	YTD	Asset size
Offshore Feeder	\$10.93	3.11%	5.00%	\$220M
US Feeder	\$11.14	2.48%	6.10%	\$4M

As optimism gathered pace and equity market participants straightened up and faced the sun, Japan once again managed to confound by first dipping sharply - being down over 8% in mid-July - and then joining other major markets in rallying to finish July 2.2% higher for the month. In the first fortnight of July one needed to be defensive as utilities, pharmaceuticals and railways led the market and then all turned around and we saw an 11.5% gain in the Topix index led by precision, auto, steel, brokers and electricals. Our Fund had a big recovery in the second half of July and given that we started with net exposure of 77%, the Fund's final return of 3.11% points to reasonably successful stock selection. The damage in our portfolios was largely confined to a very poor month for Tokyo Tatemono (real estate developer) and also for the financials Mitsubishi UFJ Lease and Chuo Mitsui Trust Holdings. As one would expect with the crap-shoot of measuring performance at month-end, both Tokyo Tatemono and Chuo Mitsui Trust are now up almost 10% in August. We had raised exposure to 86% by the end of July, but we have obviously been too cautious in 2009 with both net market exposure and stock selection.

Our experience tells us that these periods come and go. Implicit in the proposition that a good active manager - be they managing long-only or long-short portfolios - does add value by producing better returns than the index is a presumption that they will reduce the downside in tough markets. We are relieved that we can indeed make that claim but disappointed that in the past five months we have failed to take advantage of a severely oversold situation and profit from the improvement in sentiment. One cannot but worry that the gains since March might be the best we shall see for the immediate future, but all bear markets end with the slow ascent up and over the wall of worry, and we expect these concerns to be typically too pessimistic.

Looking at recent developments there are indeed reasons to think that things are changing. In the past month or so, there have been more corporate actions (with a generally positive outcome) involving Japanese companies than we can recall over the whole of the past twenty five years. First, we had drinks majors Kirin and Suntory announce that they were discussing a merger. Next, Hitachi (the oldest and most sphinx-like of all industrial groups) announced that they would buy out the minorities in five listed subsidiaries (even if they were for the most part colourless IT-related companies) and then the Nikkei newspaper (the "Pravda" of Japan) leaked that Mitsubishi Chemical was doing the same and mopping up minorities in its affiliate Mitsubishi Rayon. Rumours emerged, and prices rose. Even if one's portfolio did not hold the target company, it is hard not to be excited

by the sudden flurry of activity, and if one does have a stake (as we do with Kirin), there is every reason to cheer. These deals are the tip of the iceberg, and one can only wonder if there really is a change of heart in corporate Japan that will work to the benefit of the portfolio investor. It would not be before time.

By the time we write the next monthly two important events will have taken place. The first is of course the Japanese lower house election set for Sunday August 30th. The market seems to have decided that the incumbent LDP will lose power and that the Democratic Party of Japan (DPJ) will take office. Broadly speaking, the DPJ are being portrayed as "consumer friendly" while the LDP is portrayed (reasonably in our view) as having been friendly to big business. The DPJ has produced a manifesto outlining some of its policy goals and should be welcomed by investors eager for a change. For an interesting article on the DPJ's other goal - that of restoring the cabinet as the supreme executive body responsible for administering the law and directing the bureaucrats - we would recommend the July/August edition of the Far Eastern Economic Review. The same issue also carries a thought-provoking article entitled "Will Japan Grow Up?" which looks at the relationship between Japan, China and the USA and finishes by describing Japan as perhaps...the ultimate "parasite single". The interesting question is who will end up playing parent to Japan's willing infant. The USA or China? It is worth a read.

The second important event which will take place in late August is of course the fifth and final test cricket match between England and Australia that will determine which country controls The Ashes. The series is currently one-all and we would encourage our readers who are not based in either England or Australia to quickly subscribe to a good sports cable TV company, or erect a powerful satellite dish capable of picking up the TV broadcast. Be prepared to be patient however, as the match is scheduled to go for five days. Anyone familiar with the wonderful 2005 Ashes series will know that five days is just not long enough for high quality cricket. We will report on the result in the next monthly.

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Recent 3 month Fund Exposure

% of NAV in	May 09	Jun 09	July 09
Long Stock Position	67.44	77.01	86.96
Index Futures	-	-	-
Net Exposure	67.44	77.01	86.96

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	25.53%	46.72%
Total no. positions	30	

Top Five Positions

Mitsui Fudosan Co Ltd
Suzuki Motor CB
Nippon Telegraph & Telephone Corp
Bridgestone Corp
Mitsubishi UFJ Lease & Finance Co

Winners

Shin-Etsu Chemical Co Ltd
Honda Motor
Bridgestone Corp
JFE Holdings
Toyota Motor

Losers

Tokyo Tatemono
Mitsubishi Materials Co
Mitsubishi UFJ Lease & Finance Co
Mitsui Trust Holdings
Nintendo Co

Sector Exposure as at 31 July 2009

	Longs	Shorts		Longs	Shorts
Materials	13.62%		Consumer. Non Disc	2.33%	
Industrials	15.54%		Consumer Disc	18.51%	
Technology	10.52%		Telecom	4.92%	
Financials	21.52%		Utilities	-	
Energy	-				

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	3.78	4.75	9.49	2.12	3.11						5.00