Optimal FUND MANAGEMENT

Monthly Report to Shareholders of the
Optimal Japan Absolute Long Fund
8th August, 2005

	OJAL NAV*	**Performance**
29 July 2005	$10.36	1.17%

* Price is NAV after performance fee at the Fund level but is subject to equalisation at the investor level.

In recent years, the month of July has not been a good month for equities in Japan. Last month's gain was only the second positive July this millennium and it is fortunate that we were not seduced into raising cash in advance of a seasonally sickly month. Perhaps next year we will be tempted to increase exposure coming into July as by then, we will be able to say that there have been gains in 66.6% of the past three periods in our data set (2003 was also a positive July return) – but that is a long way away.

As is often the case, the greatest caution and concern about the outlook for Japan coincided with the market's lows in April-May. We had been heartened by evidence of greater appetite for equities from Japanese investors as the Topix index fell towards 1100 in May. Investment Trust management companies (Japanese mutual funds) launched a large number of funds in the period – many of which focused on higher dividend yields. The average dividend yield on Japanese stocks is at or above the current JGB 10yr bond yield and although nominally low, is beginning to feature more frequently in the calculation of total return expected from equities. We expect dividends to rise steadily as company management and boards spend more time thinking about their share price and the vulnerability of their companies to control by "outsiders".

This is no doubt part of the reason behind the announcement that the management of clothes-maker World were bidding shareholders to buy out the company at Y4700 a share – a premium to the closing price on July 25th of just 7%. It has often struck us that there are many Japanese companies that would be better off going private rather than remaining listed. In the case of World – whose basic business we see as unexciting but stable – it is likely that management saw upside in the business if incentivised for profits, and also realised that borrowing might never get cheaper. The company is well capitalised with shareholders equity equal to 65% of total assets, is expecting operating profits of Y19bn this year and at the offering price, the management has a maximum requirement of Y218bn (just under US$2bn). Even assuming that was all debt funded, the interest payable of Y6-9bn is easily covered by cash flows. We are sure that Japanese banks would be delighted to lend to management familiar with all aspects of a reasonably well run business like this, but believe that the MBO will have to be raised to get sufficient acceptances. The announcement is in our view far more significant to investors then the Livedoor-Fuji TV battle as the business rationale is clearer. It also signals a willingness to act which hitherto has been depressingly rare in corporate Japan. We can expect a higher price from World's management – and a great deal more corporate action in the coming years.

Since month end we have put more of the Fund's cash into the market and now have almost 90% invested. Our expectation is for better earnings and greater domestic confidence to support higher stock prices over the rest of the year.

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Month-end investments (as % NAV): 63.20 %

Fund size: US$ 23.2 mil

Total number of positions: 27

Top 5 positions:

	% of NAV
Toyota Motor	4.33%
Mizuho Financial	3.70%
Mitsui Fudosan	3.57%
Tokyo Tatemono	2.99%
World	2.97%
Total	**17.56%**

Best Performers: Toyota Motor, Star Micronics, Nachi-Fujikoshi, Ushio
Worst Performers: Ajinomoto, Tokyo Tatemono, Hirose Electric

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 Net Monthly Returns in USD													
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						-1.99

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