

Monthly Report to Shareholders of the Optimal Japan Absolute Long Fund 8th August, 2006

| | OJAL NAV* | Performance |
|--------------|-----------|-------------|
| 31 July 2006 | \$13.93 | -1.55 % |

**Please note that the Fund is now quoted with only an NAV price rather than with subscription and redemption prices so the return shown at the Fund level may not be the same as the return of a discrete investment that might be subject to performance fees through equalisation.*

Summer has hit Japan and the first of the year's typhoons has come and gone. These familiar seasonal visitors have now been joined by a newcomer that, whilst not a risk to life or property, is seen by right-thinking investors as a type of disaster – albeit a man-made one. We refer to the slew of companies reporting their results for the three months ending June 2006 – known in the Japanese financial calendar as Q1'06. Ironically, just as a growing number of important US companies announce their intention to cease issuing quarterly profit updates, Japan has adopted this abomination as another aspect of good corporate governance. Given how late Japan was in introducing quarterly reporting, it is unlikely that they will make a quick about-face and revert to the previous model of semi-annual reports. We will be stuck with “quarterlies” for some years I fear. We find quarterlies – like typhoons – an unwelcome intrusion into the summer calendar, but an intrusion that could, and should, be avoided.

As to the results themselves, we borrow from the late Zhou Enlai (Chinese premier under Chairman Mao) who, when asked by Henry Kissinger what he thought about the French Revolution, is reputed to have replied: “It is too early to tell”. Actually, sales and profits seem to be running ahead strongly, but we will need another two dreary weeks before a meaningful aggregation can be made. Another negative side-effect of the quarterlies is the amount of analysts' time taken up in reporting and commenting on these numbers. We do not like the current tendency for fund managers to disparage the output and value of sell-side research, but if investment banks are going to force their highly paid and (generally) intelligent researchers to spend long hours re-hashing company profit announcements, it is little wonder that most sell-side output is so dull. We sympathise with the company analysts who must dread the quarterly reporting more than us.

In another sign of change in the upper reaches of Japan Inc., Oji Paper has made a fully-fledged, red-blooded, unwelcome takeover offer to shareholders of smaller rival Hokuetsu Paper. The Japanese paper industry has long suffered from excess capacity and competition from other Asian makers. As such, we have found ourselves frequently looking for opportunities to short paper stocks, but things might just be changing. It seems that Hokuetsu Paper will be able to foil Oji's attempt by making a large third party placement to friendly suitor Mitsubishi Corp., while Oji's chief rival Nippon Paper has also signalled its intention to up its own stake in Hokuetsu to almost 10%. The remaining shareholders in Hokuetsu may decide to accept Oji's generous offer, but Oji will not gain the level of control it seeks. In light of the mega-merger of Arcelor and Mittal Steel, perhaps other areas of

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Optimal FUND MANAGEMENT

Japan's materials industries may also see more moves to consolidation. We still find the high-end steel producers attractive and own JFE and Nippon Steel at present.

To finish on an administrative matter, we wish to stress that any applications for redemptions or subscriptions in our funds that come in to HSBC Institutional Trust Services (Asia) after the dealing deadline will be rejected. Please visit our website www.optimalasia.com for related information and we encourage you to contact us through the web-site.

Month-end investments (as % NAV):

Equity Long: 99.39%

Net exposure: 99.39%

Fund size: US\$ 137 mil

Total number of positions: 33

Top 5 positions:

| | % of NAV |
|------------------------|---------------|
| Mizuho Financial Group | 5.27% |
| Tokyu Corp | 5.25 % |
| JFE Holdings | 5.12 % |
| Toyota Motor Corp | 5.02 % |
| Sumitomo Trust Bank | 4.67 % |
| Total | 25.33% |

Best Performers: Sumitomo Corp, Tokyu Corp, Suzuki Motor Corp

Worst Performers: Showa Denko, JFE Holdings Inc

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 | 6.76 | 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 | | | | | | 3.57 |

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