Performance % - *as at 30 June 2011*

	NAV	June	Qtr	YTD	Asset size
Offshore Feeder	US$11.91	1.02%	2.23%	-2.30%	US$87M
Topix *(Return is in USD unhedged using WM London 4pm close)*		1.88%	0.25%	-5.11%	

We reach the half way mark of the year with most equity markets little changed. At the end of June, developed markets (+4%) are outperforming the developing ones (-0.5%), whereas in 2010, the higher growth economies' equities return outstripped that of the sclerotic old world's with a gain of 17% compared to 9%. Japan, measured by the Topix index in USD, is down 4.1%, but this must be seen in the context of a good first few months up until the earthquake and tsunami in March and then the uncertainty that has followed in the disasters' aftermath. It has not been a great six months for equities in general, and a difficult period for Japan, but the world's - and Japan's – economic , financial and political problems are pretty obvious and to a large extent, must be factored into prices in our view. We expect the second half of 2011 to be better times for equity investors, and see better times ahead for Japan.

Digging into the market return data, we can see that there was a big dispersion of returns amongst the thirty three sectors of the Topix index. There was also a marked difference in the returns between large caps and small caps, and also between value and growth. The superior return of small caps in Japan is particularly noteworthy as this is usually associated with a better domestic economy and rising confidence. One would not think that possible from a daily check of the financial and political media commentary on Japan, but we have long given up any expectations of reading anything remotely positive from the media. Journalists are not, however, noted for their investment prowess (would they stay in their day jobs if they could predict stock price movements?) and the aggregate wisdom of the market is often a better guide to real economic developments than newspaper columns. In the first six months, the MSCI Japan Small Cap index rose 0.4% while the large cap index fell 4.8%. The Tokyo Stock Exchange Second Section (smaller companies) index rose 7.2%, despite the shockwaves that went through the country after the March 11th Tohoku earthquake and the fears of an ensuing economic slowdown. What might this small cap performance portend?

The April and May CPI numbers showed gains of 0.6% yr-on-yr and Tokyo's office vacancy rates have fallen for three consecutive months. There are changes in the base year used for the national CPI calculations which will take effect over the next month so predicting how this flows through into data revisions is difficult, but the feeling that prices are stabilising is evident and the Topix retail sector has strongly out-performed since the earthquake. Partly this is due to genuinely low share valuations (though this is not uncommon in Japan these days) but also due to better same store sales and reported profits from a wide variety of retail businesses. Similarly, real estate has been a poor performer in the first six months, but has outperformed the market strongly since late March. Even banks – that most frustrating and elusive of investment concepts – have begun to reverse their underperformance, as real estate and banks usually perform broadly in-line. Banks and real estate are the classical sectors to avoid in deflation and own in inflationary (or non-deflationary) times. We currently have 6% in banks and 10% in real estate stocks, and do not expect these weightings to fall, even if we are the first to admit that Japanese banks exist primarily to drive us mad.

Investors are familiar with the concept of a discount rate used to gauge whether the return from an investment has created value or not. It represents a cost of capital (debt & equity) and the opportunity cost of inferior returns on capital. The table and chart below depict the discount rates for a variety of markets at present and also the change in the implied discount rate for Japan since 1987. Initially, it seems counter-intuitive that the period when the discount rate is lowest – at around 1% - coincides with the "super peak" that Japanese equities reached in 1989-90, while the current level of 6.5% is the highest point we have seen – barring the short spike at the height of the sell-off after the Lehman bankruptcy shock. In hindsight, we can see how ludicrously undemanding investors had become by late 1989, and that equities were indeed a screaming sell.

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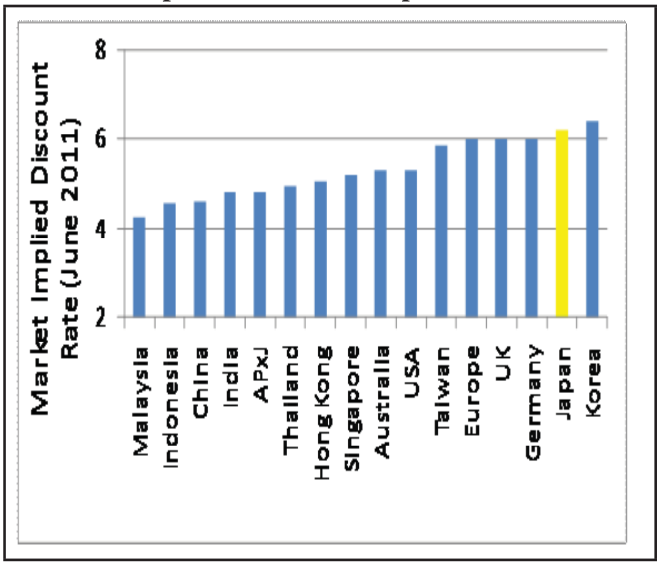
Implied Discount Rate per Market



Source: HOLT

Japan's Rising Discount Rate

Source: HOLT

At the current implied discount rate however, Japan sits just behind Korea as arguably the most harshly judged equity market in the world. The implied discount rate tends to fall as share prices rise and vice-versa. Given that we know the interest rate curve in Japan ranges from zero to 1.4%, a 6.5% implied discount rate tells us that the demanded return on equity is very high indeed. If Japanese corporate profits were about to collapse and returns decline, this high discount rate might be explained. Given the strong earnings recovery forecast over the next eighteen months however and the increasing RoE, the current implied discount rate should appeal to anyone who believes in reversion to mean and the benefits of contrarian investing. We find it very supportive of our bullish outlook for Japanese stocks.

Recent 3 month Fund Exposure

% of NAV in	Apr 11	May 11	June 11
Long Stock Position	92.50	90.29	92.51
Index Futures	-	-	-
Net Exposure	92.50	90.29	92.51

Performance Statistics

Last 12 Months	17.57%
3 Yr Annualised Return	-1.52%
5 Yr Annualised Return	-3.39%
Average Annual Return Since Inception	2.59%

Position Concentration

	Top 5	Top 10
Longs	25.56%	43.41%
Shorts	-	-
Total no. positions	36	

Top Five Positions

Hitachi Ltd
JS Group Corp
Canon Inc
Mitsubishi Estate Co Ltd
Itochu Corp

Winners

Hitachi Ltd
Yamada Denki Co Ltd
Dr. Ci:Labo Co Ltd
JGC Corp
Ryohin Keikaku Co Ltd

Losers

Nintendo Co Ltd
Matsui Securities Co Ltd
Mitsubishi Materials Corp
Softbank Corp
Nippon Electric Glass Co Ltd

Sector Exposure *as at 30 June, 2011*

	Longs
Consumer Disc	18.57%
Consumer Non-Disc	5.66%
Energy	2.06%
Financials	15.60%
Industrials	11.28%
Info Technology	17.11%
Materials	16.31%
Telecom	5.92%
Net Exposure	92.51%

June Qtr Sector Performance – P&L

	Longs
Consumer Disc	0.95%
Consumer Non-Disc	0.48%
Energy	-0.13%
Financials	-0.28%
Industrials	0.51%
Info Technology	-0.60%
Materials	-0.72%
Telecom	-0.19%
Fx and Other	2.21%
Total	2.23%

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	Topix [1] YTD
2004									-1.6	-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							-2.30	-5.11

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