

Monthly Report to Shareholders of the Optimal Japan Absolute Long Fund July, 2005

	OJAL NAV*	Performance
30 June 2005	\$10.24	-0.58%

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

With 2005 already half over, it is hard to know what made the time pass so quickly. Limited market volatility has hardly been a cause for excitement – but maybe it was the usual market commentary volatility that kept us occupied. Thankfully reality is never as schizophrenic as the daily views of financial markets. Overall June was a good month for Japanese equities continuing on the momentum from the end of May. Sadly the performance of the Fund has been impacted by strengthening of the US\$ which has seen the Y/\$ currency exchange rate fall from 104/\$ at the beginning of the year to 110/\$ at 30 June. The Fund is run on a totally unhedged basis with all assets converted to JPY at the time of receipt. Performance of the Fund so far this year has been -3.12%, while the Topix in US\$ has fallen approx -4.9% which leaves us pleased with the success our stock picking.

Taking a look at the market on a broader level, for the first half of the year 25 out of the 33 Topix sectors have produced a return that is better than the overall market. For those of you who have followed the Fund for some time you would know that on the long side we favour positions in Steel, Mining, Marine Transportation and Real Estate. While at present there has not been much controversy on the Real Estate view, the other mentioned sectors have generated plenty of debate. While happily they have been among the top performing sectors year to date, many analysts have downgraded their view. Put simply, the downgrades have largely been based on expectations of a global growth slowdown, with increasing supply, which would lead to a deterioration of earnings and makes valuations actually more expensive than they may appear. While the desire for brevity prevents us from going into the debate in too much detail, a lot of the noise has been generated from movements in the spot markets which are both seasonal and prone to some manipulation by speculators. We have seen information, albeit limited, that would suggest that the contract based sales are not as grim. There is an undeniable macroeconomic element to be considered when investing in the likes of steel, mining and marine transport. Playing devil's advocate should that macro slowdown view turn out to be too pessimistic, we believe that investors would return to these sectors with enthusiasm. Recent price weakness suggests that these stocks are not as well held as they were in the first quarter and we still believe that the risks lie on the upside from here.

Finally, coming back to the topic of currency exchange rates, while we see ourselves in the camp of those who can't predict the currency exchange rates, as opposed to those who don't know they can't. Interestingly, should the Y/\$ stay around the current levels then a lot of companies that receive US\$ for goods and services rendered who have used conservative exchange rates (eg. 100/\$ to 103/\$) when giving earnings guidance for the coming year may have to revise up their expectations at a later date. However, even without this we thought general earnings guidance for the current fiscal year looked conservative, so this could be a bonus.

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Optimal FUND MANAGEMENT

Major Positions

Toyota Motor, Mizuho Financial, Mitsubishi Co, Mitsui Fudosan

Month-end investments (as % NAV): 69.96%

Fund size: US\$ 18.86 mil

Total number of positions: 26

Top 5 positions:

	% of NAV
Toyota Motor	5.07%
Mizuho Financial	4.59%
Mitsui Fudosan	4.35%
Tokyo Tatemono	3.78%
Kubota	3.43%
Total	21.22%

Best Performers: Nippon Mining, Sumitomo Metal Mining, Mitsubishi Co

Worst Performers: Ushio, Mizuho Financial, Tokyo Tatemono

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							-3.12

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