

Optimal FUND MANAGEMENT

Monthly Report to Shareholders of the Optimal Japan Absolute Long Fund July 13th, 2007

29 June 07	Offshore Feeder	US Feeder
NAV*	\$15.70	\$15.80
Monthly return %	1.49	1.41

**The NAV shown above is after expenses and management fees but before any performance fees. The Fund return may thus not be the same as the return of a discrete investment that might be subject to performance fees through equalisation.*

For Japanese investors, the first half of 2007 produced a much better return in the market than was achieved for the whole of 2006. The Topix index was up 5.6% to June 29th in local currency which makes one wonder why the Japanese retail investor keeps pouring money into risky overseas assets. The subject is more interesting when one considers the return from Japanese equities in other currencies (unhedged basis). In descending order, we had Topix index returns over the six months in USD of 2.0%, in UK Pounds -0.55%, in EUR -0.63%, in AUD -5.4% and a woeful return of -7.1% in NZD. In a vicious cycle, the Yen weakens as Japanese investors pour their Yen offshore, pushing up those currencies and inadvertently reducing the return from Japanese equities for non-Japanese holders. When will it end? We don't know, but boldly predict that the end of Yen weakness is nearer today than it was yesterday, last week, last month and last year. The cautious should remain hedged, whilst we venture that a bet on Yen strength will reward the patient.

A quick check of the best and worst performing sectors over the past year paints a very clear picture. Three of the top four sectors are clearly global growth – and especially Asian growth – beneficiaries. Shipping was up 100%, Steel 58% and Wholesale Traders (trading companies) 42%. Machinery, Precision Instruments and Autos all managed to get into the top ten performers, while Real Estate was the only genuine domestic sector to make it – coming in at 6th with a rise of 35%. Other Financials (leasing and consumer loan companies) came 33rd (i.e. last) with a return of -16% while banks came in second last at -13%. Clearly one was paid well to hold a rosy view of global demand for Japanese capital goods and autos and this was certainly a view we adopted based on our regular trips in Asia. It was not a period that rewarded trading and one in which – despite many claims to the contrary – an accurate assessment of demand (and supply) has been reflected in stronger prices.

As the typhoon season begins in Japan, we don our gumboots and sou'westers and prepare to fly into Tokyo in the last week of July. The week will be a mixture of analyst meetings and company visits in Kyushu – centred on the cement plants located there (sounds thrilling I know). It has become a regular whine in these reports but we cannot help lament yet again the practice of quarterly reporting. Whereas once – not long ago – there were two periods each year when companies would refuse meetings, there are now four such “quiet periods” and late July happens to be one. Why anyone expects that the official announcement of first quarter earnings (as it is in this case) gives an

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opportunity to change one's view - and make money - is a mystery to us, but we have to accept the situation as we find it. At least the trip coincides with the upper house election and the high drama associated with last minute electioneering Japan style – white gloved hands waiving from the window of mini-vans etc etc.

At the end of December 2006, we reorganised the Optimal Japan Absolute Long Fund into a Master-Feeder structure and as a result, the existing Fund becomes the Offshore Feeder. A new Feeder Fund for US tax paying investors has been created and will produce K-1 forms for US tax purposes. As a result, there will be no more PFIC reports produced. Anyone interested in investing should contact optimal@optimalasia.com to make sure they get the relevant documents and application forms.

Month-end investments (as % NAV):

Equity Long: 88.13%

Net exposure: 88.13%

Fund size: US\$ 662 mil

Total number of positions: 36

Top 5 positions:

	% of NAV
Komatsu	5.43%
Toyota Motor	5.19 %
Sumitomo Corp	4.60 %
Mizuho FG	4.40 %
Fanuc	4.37 %
Total	23.99%

Best Performers: Komatsu, Star Micronics, Fanuc, Toyota Motor

Worst Performers: Tokyo Tatemono, Mitsui Fudosan, Mitubishi UFJ Lease & Finance

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 Offshore Feeder 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	6.66	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							6.95

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