Report to Shareholders of the Optimal Japan Absolute Long Fund – *June 2010*

Optimal FUND MANAGEMENT

Performance % - *as at 30 June 2010*					
	NAV	June	Qtr	YTD	Asset size
Offshore Feeder	US$10.13	-3.15%	-9.47%	-3.06%	US$187M
Topix (*Return is in USD unhedged using WM London 4pm close)*		-1.69%	-9.23%	-2.47%	

** 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.*

Investing in equity markets continues to be a case of "Panic now, ask questions later". This unfortunate state of affairs has been the norm since 2008 (and in fact 2007 in Japan's case) and makes it very difficult for analytical - rather than reactive – investors. With air continuing to leak from the credit bubble, investors are understandably concerned with the outlook for lower economic growth rates in many of the G20 countries. Banks and other financial companies are hungry for more capital but this is costing more than it used to and risk aversion on the part of lenders is still high. Despite being in an environment where governments look to cut spending and raise revenue, the corporate sector is generally sitting with relatively unleveraged balance sheets and generating strong cash flow. As we have seen in Japan over the past decade, low nominal interest rates do not necessarily lead to corporate demand for loans and thus banks take advantage of negligible short-term rates to invest in longer dated government bonds - even when these have been pushed close to record low yields. It is little wonder that "deflation" has become such a commonly used word in investment circles and equities in most of the developed markets have been de-rated in keeping with these deflationary fears.

In spite of all the pessimism, it is worth taking a quick glance at the Bloomberg to remind ourselves just what a bad decade or more this has been for equities. Investors in US, UK and European equities have made no money for twelve years, with all the major indices currently where they were in late 1997 or 1998. With the focus on achieving high returns on equity, companies have also paid relatively little in dividends as they preferred to use excess cash to re-invest in their businesses or to buy back shares. Even accounting for dividends over the past twelve years, the return from equities has failed to match inflation. We have invested in Japan for over twenty five years and are painfully aware how long a bear market can last, but we suggest that with the current bearish expectations for global growth, the outlook for equities is coloured by the past decade of dismal returns rather than by an assessment of current valuations.

We do not follow US and European markets in detail at the stock level, but for the first time in at least ten years, we can say that we wish we were mandated to invest in those regions as well as in Asia. High quality businesses of long standing appear to be selling at bargain prices, and believing as we do, that the economic consensus is usually a reliable contrary indicator for equities, the current bearishness coupled with genuinely cheap valuations makes us more confident that the returns from these stocks will surprise us in the years ahead. The caveat to all this is that equities on cheap valuations can remain "undervalued" for as long as demand remains poor, and especially while consumers expect prices to fall. In the July 9th edition of "Grant's Interest Rate Observer", the author points out that in recent years, P/Es have been falling in tandem with interest rates, an unusual situation for financial theorists.

To quote: "It could be that this multiple compression presages lower profit margins, slower growth or a more punitive regulatory environment. Or it could be that sagging P/Es are simply the mirror to a demoralized world. Or it could be that the world is at last coming to realize that P/Es were previously too high."

It might be some time before investors are willing to pay higher multiples for equities, but at least markets are now priced a lot cheaper than they were at the end of the 1990s. A lot of the pain has already been taken.

In a world of de-rating amid prolonged deflation, nowhere comes close to Japan in terms of duration and scale. After a bright start to 2010, Japan's equity market buckled at the knees as soon as Greece's financial problems took over the headlines and the Topix index fell 14% in the June

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quarter. Since our previous monthly letter, the market has been wallowing without so much of a flutter in July while most markets have strengthened. As is so often the case, the non-pessimists hoping that there would be an event that could bring decisive change were disappointed by the July 11th upper house election results. The ruling DPJ lost a couple of seats and is now in discussion with minor parties to find common ground to ensure that legislation can get through the house of review with a minimum of delay. We count ourselves as non-pessimists and were hoping for a clear majority, but now wait to see what agreements can be reached.

The Fund's exposure ranged between 87% and 95% during the quarter. We did raise exposure - too soon as it turned out – following the big falls in April and May and performance suffered somewhat as a result. In weak market conditions, the classic defensive sectors of drugs, electric power & gas utilities and railways did least badly, while commodities, exporters and financials were amongst the worst. Whereas shares in higher quality companies (higher and more stable profit margins, unleveraged balance sheets) usually change hands at a premium, the recent weakness in the Japanese market has brought a number of these down to record low valuations. These are not cyclicals that are usually sells when they look cheap on earnings (and expensive on book value) but stable earners in dominant positions in their sectors. In this regard, Japan appears similar to other developed markets and we are continuing to boost the Fund's positions in this group of stocks.

Recent 3 month Fund Exposure

% of NAV in	Apr 10	May 10	Jun 10
Long Stock Position	88.11	95.36	95.56
Index Futures	-	-	-
Net Exposure	88.11	95.36	95.56

Performance Statistics

Last 12 Months	-4.43%
3 Yr Annual Average Return	-13.59%
5 Yr Annual Average Return	-0.22%
Average Annual Return Since Inception	0.22%

Position Concentration

	Top 5	Top 10
Longs	26.01%	43.55%
Total no. positions	40	

Top Five Positions

Chuo Mitsui Trust Holdings Inc
Mitsubishi Estate Co Ltd
Nippon Telegraph & Telephone Corp
Hitachi Ltd
Toyota Motor Corp

Winners

Nabtesco Corp
Tokyo Electron Ltd
Pacific Metals Co Ltd
ABC-Mart Inc
K'S Holdings Corp

Losers

Mitsubishi Estate Co Ltd
Toyota Motor Corp
Shin-Etsu Chemicals Co Ltd
FUJIFILM Holdings Corp
Tokyo Tatemono Co Ltd

Sector Exposure *as at 30 June, 2010*

	Longs	Shorts	Total
Materials	9.25%	-	9.25%
Industrials	20.31%	-	20.31%
Financials	31.59%	-	31.59%
Energy	-	-	-
Consumer Non-Disc	4.16%	-	4.16%
Consumer Disc	16.28%	-	16.28%
Utilities	-	-	-
Telecom	4.61%	-	4.61%
Technology	9.37%	-	9.37%
Total Equity	95.56%	-	95.56%
Index Futures	-	-	-
Net Exposure	95.56%	-	95.56%

June Qtr Sector Performance – P&L

	Longs	Shorts	Total
Materials	-1.90%	-	-1.90%
Industrials	-1.88%	-	-1.88%
Financials	-5.55%	-	-5.55%
Telecom	-0.37%	-	-0.37%
Consumer Non-Disc	-0.63%	-	-0.63%
Consumer Disc	-3.20%	-	-3.20%
Utilities	-	-	-
Technology	-1.53%	-	-1.53%
Index Futures	-		-
FX and Others	-	-	5.59%
Total	-15.06%	-	-9.47%

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							-3.06	-2.47

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

Optimal FUND MANAGEMENT

*Should you wish to make an investment or further enquiry about the Optimal Japan Absolute Long Fund, please see our website – **www.optimalasia.com** or contact us at – **optimal@optimalasia.com***