Optimal FUND MANAGEMENT

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

30 March 07	Offshore Feeder	US Feeder
NAV*	$15.16	$15.24
Monthly return %	-1.88	-1.17

***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.*

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.

A 2% gain for the first quarter is not a lot to sing about but already the Topix index return for 2007 is twice the total return for 2006. For the growing number of Japanese retail investors venturing into their own equity market, it must seem like the good times are back. Despite two hikes in the official discount rate, the Bank of Japan still only pays banks 50bps per annum and retail depositors are only achieving a fraction of that. Adding to the feel good factor is the recent official land price survey which made the recovery in real estate "official" – validating what anyone with a pulse and an interest in Japanese real estate has known for years. If one was lucky enough to have owned land in the five central wards of Tokyo, the feeling must be very gratifying as price rises there have been especially powerful.

And yet, and yet, it did not feel like a very productive three months to us, or to many others as far as we can tell. Digging behind the Topix index return, we find yet again some explanations for the feeling of disquiet that pervades. On the positive side we find Shipping (+16.5%), Steel (+14.3%), Wholesale/Trading Companies (+12%) and Real Estate (+10.2%) all with double digit gains but on the other side of the ledger we have Autos (-7.2%) and Banks (-4.8%) dragging down the market return. Despite there being 23 of the 33 Topix sectors in positive territory, the falls in the two biggest sectors above had a particularly big effect on the whole market. Our funds were hurt by these as we have large holdings in Toyota (-5.2%) and Suzuki (-8.9%) but fortunately we did not own Honda (-12.55%) or Nissan (-11.9%). Honda is seen as being particularly vulnerable to weakness in the US market and Nissan is struggling with an unpopular and tired model lineup.
In banks, the worst performers have been the Big Three who together account for almost 63% of the total Bank Index by capitalisation. Mizuho (-10.7%) and Mitsubishi UFJ (-9.5%) are both in our portfolio now while Sumitomo Mitsui (-12.3%) is fortunately not. The fact that the Bank index fell only 4.8% in spite of these worse returns from the Big Three is due to strength in the regional banks. Having met with the Chairman of Hiroshima Bank a month or so back, it is clear that some of the regions are doing well with bank lending up 4-5% year-on-year and mortgage lending improving too.

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Our problem is with the valuations where the good news appears to be fully discounted in the current prices. The Big Three in contrast, are trading at earnings multiples well below that of the market average, and offer upside in the event the economy continues to recover and rates trend further upwards.

In mid March we made factory visits in Korea and Japan. In Japan the two visits were to Star Micronics' Shizuoka factory - where they manufacture sophisticated automatic lathes for use in the watch, communications and medical equipment areas – and to OSG's Yana factory outside Toyohashi in the Kinki Region. OSG is one of the world's largest makers of taps (tools that bore metal for screws and bolts) with over 25% of the global market and meeting 70% of the demand for taps from Japanese auto makers. The problem both factories have is that there are not enough days in a week for them to meet demand. The risks are a general economic slowdown and especially in OSG's case, a decline in the relative position of Japanese auto makers. The factories were spotless, and highly efficient. If I were an automatic lathe specialist, or a veteran of the tap industry, I might be able to add something more specific, but as I am neither, I can only attempt to convey my strong impression that these were plants with significant expertise on a global scale and with a very motivated and proficient work force. Both were showcases for what Japan does best, and where Asian competition is not significant at this stage.

In mid March we reduced the Fund's net exposure by selling Topix index futures. This took net exposure below 50% (from 90%) and as the market has recovered some 3% since then, it has cost the Fund about 1% in opportunity foregone. This caution is due solely to uncertainty over the credit market in the US and what flow-on effects this might have. It is not our intention to keep exposure down at these levels for long, but with the passage of time, I expect to cover these short futures positions and benefit from a firmer outlook for Japan for the balance of 2007.

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Month-end investments (as % NAV):
Equity Long: 83.37%
Index Future: (40.83%)
Net exposure: 42.54%

Fund size: US$ 518 mil

Total number of positions: 37

Top 5 positions:

	% of NAV
Toyota Motor	4.98 %
Tokyo Tatemono	4.97 %
Mitsui Fudosan	4.56 %
Sumitomo Corp	4.29 %
Tokyu Corp	4.13 %
Total	**22.93%**

Best Performers: Tokyo Tatemono, Mitsui Fudosan, Fanuc

Worst Performers: Topix Index Future Jun07, Toyota Motor, Mizuho FG

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	6.76	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	-0.29	-1.51	3.73	1.48	1.94	9.14
2007	1.50	3.69	-1.88										3.27

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