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

Optimal FUND MANAGEMENT

Performance % - *as at 31 March 2010*

	NAV	March	Qtr	YTD	Asset size
Offshore Feeder	US$11.19	4.19%	7.08%	7.08%	US$218M
Topix (*Return is in USD unhedged using WM London 4pm close)*		4.11%	7.45%	7.45%	

** 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.*

As mentioned in the February letter, we went to Japan in late March and made a number of company visits. We had planned the visit schedule as "The Dinosaur Tour" as the companies selected had largely disappeared from the investment world we inhabit. In no particular order, we saw Sony, Panasonic, NEC, Fujitsu, Hitachi, Mitsubishi Electric and Fujifilm and have taken positions in three of these since our meetings.

In the early 1980s, these companies would have been the core holdings in all foreign investors' Japanese equity holdings, but their business returns had progressively deteriorated since the end of the Bubble and despite continuing to employ massive numbers of workers, their market capitalisations and importance to the Japanese investor universe had relentlessly diminished over the intervening twenty years.

Any specialist investor in Japan with more than fifteen years experience has these companies' four digit stock codes seared in their memory and has without doubt awoken from a dream to sit bolt upright muttering "six seven zero two, six five zero one……" or similar combinations – much as Citizen Kane recited the word "Rosebud" in the film classic of the same name. It was a reminder of happier times.

The companies were all in the electronics (consumer & industrial) sector and our meetings were generally positive. Most of the company spokesmen gave us a strong impression that management was aiming for greater operating efficiency (such as higher asset turnover), more productive capex, lower costs (reduced labour forces and greater use of external suppliers) and slimmed down business segments to focus on areas of greatest advantage. The consumer electronics companies (Sony & Panasonic in particular) are keenly aware of the ground gained by their Asian rivals – especially Samsung and LG – over the past decade and acknowledged that competition from these countries in consumer products such as TVs meant that margins would be unlikely to ever regain the double digit level. A respectable RoE would only be achieved with higher asset turnover and moderate leverage rather than by stellar profit margins.

Their greatest difficulties lie however in dealing with their enormous workforces. If we exclude Fujifilm, whose company origins lie in the chemicals industry, the other six companies have an aggregate of 1.25million employees. The Big Daddy of them all is Hitachi with over 350,000 and it is a very difficult management issue for the company when their Japanese employees are not entitled to a well-developed unemployment benefits system. The company is all too aware of the hardships that many sacked workers would face and the new government has also commented on this being a hindrance to creating more profitable companies, but introducing a good unemployment benefits scheme will not be done without great changes in taxation to boost public finances. We wrote on this in the January letter and continue to see this (improving the tax system) as a fundamental building block in the case for a long-term recovery for Japanese asset prices. The upper house elections in the first half of July might be very important in this regard as policy remains the greatest possible surprise for Japanese investors in our opinion.

The other change afoot that will have a significant impact for investors in Japan is the turning point in the real estate cycle. After three or more years of declining rents and rising office vacancies, there are clear signs that things have started to improve. Having underperformed the market until the end of March, the real estate sector has put on the gas and is now on a par with the return of the Topix index year-to-date. With mergers in the J-REIT sector and indications of increased buying interest in real property - albeit only in the best locations – the next move is likely to be a compression of cap rates that will send the J-REIT and developers' shares higher. We have added two new names in these areas and

SYDNEY: Level 5, Wyoming, 175 Macquarie St, Sydney NSW 2000 **Phone:** 61 2 8239 3300 **Fax:** 61 2 8239 3333 **Email:** optimal@optimalasia.com

TOKYO: KS Building 10th Floor, 2-9 Minami Aoyama 6-chome, Minato-ku, Tokyo 107-0062 **Phone:** 81 3 5774 6507 **Fax:** 81 3 5774 6508

now have over 13% of the Fund's NAV in real estate. A stronger real estate market always flows over into stronger performance from financials and we have also boosted our commitment to that area. After many years of a perception - often not entirely warranted – that domestic demand is falling and in terminal decline, we expect the best returns to come from this area in the months ahead. Should the July election turn out well for the governing DPJ, that positive momentum could be extended into years rather than just months, but let's not get too far ahead of ourselves here. It is Japan that we are talking about after all.

Recent 3 month Fund Exposure

% of NAV in	Jan 10	Feb 10	Mar 10
Long Stock Position	93.51	92.63	87.74
Index Futures	-	-	-
Net Exposure	93.51	92.63	87.74

Performance Statistics

Last 12 Months	23.65%
3 Yr Annual Average Return	-9.63%
5 Yr Annual Average Return	1.20%
Average Annual Return Since Inception	2.04%

Position Concentration

	Top 5	Top 10
Longs	29.00%	46.01%
Total no. positions	32	

Top Five Positions

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

Winners

- Sony Corp
- Chuo Mitsui Trust Holdings Inc
- Mitsui & Co Ltd
- Nippon Telegraph & Telephone Corp
- Daicel Chemical Industries Ltd

Losers

- Gulliver International Co Ltd
- Kirin Holdings Co Ltd
- Bridgestone Corp
- Ube Industries Ltd
- Toyota Motor Corp

Sector Exposure *as at 31 March, 2010*

	Longs
Materials	14.32%
Industrials	16.96%
Financials	20.60%
Energy	-
Consumer. Non-Disc	3.08%
Consumer Disc	16.58%
Utilities	-
Telecom	6.67%
Technology	9.53%
Total Equity	87.74%
Index Futures	-
Net Exposure	87.74%

March Qtr Sector Performance – P&L

	Longs	Shorts	Total
Materials	0.92%		0.92%
Industrials	2.59%		2.59%
Financials	1.12%		1.12%
Telecom	0.63%		0.63%
Consumer Non-Disc	-0.29%		-0.29%
Consumer Disc	1.16%		1.16%
Utilities	-		-
Technology	1.76%		1.76%
Index Futures	-		-
FX and Other	-0.81%		-0.81%
Total	7.08%		7.08%

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										7.08	7.45

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***