

**Performance % - as at 31 March 2011**

	NAV	March	Qtr	YTD	Asset size
Offshore Feeder	US\$11.65	-9.20%	-4.43%	-4.43%	US\$85M
Topix (Return is in USD unhedged using WM London 4pm close)		-9.66%	-5.34%	-5.34%	

The crisis caused by the damage to the nuclear reactors in Fukushima has continued to cast a pall over investors in Japan. The damage from the March 11th earthquake and tsunami that followed is bad enough, but the world's first serious nuclear accident since the mid-'80s has thrown up many questions that will not be answered in the near term. The fact that the nuclear plants were not destroyed by the huge earthquake is testimony to the superb engineering and construction standards of the Japanese nuclear industry. The apparent mishandling of the recovery process by the Tokyo Electric Power Company and the failure of the prime minister or senior politicians to visit the stricken areas is testimony of a different nature and is grist to the pessimists' mill.

In a gut reaction common to the modern era of act first and think later, the Yen immediately rose, and then subsequently backed off the highs as the G7 leaders intervened to arrest the Yen's appreciation. There is no evidence that Japanese insurers are selling their foreign assets to bring back as Yen – nor did they do so in 1995 after the earthquake in Kobe. Japanese casualty insurers are often chided for keeping too much of their surplus in "catastrophe reserves" rather than paying out to shareholders, but the irony is that that occasionally, catastrophes do happen and when they do, it is in the interest of the insured - and shareholders – that they have lots in reserve.

We are still trying to get a clearer picture of the quantum of the financial loss for the economy and for companies, but unlike those who perished in the communities that were nearest the epicentre, there will be a recovery. In general, we believe the earthquake's economic effect can be seen as a dampener to growth and profits near term and a stimulus for later this year. For certain companies and industries that farm or fish in the area near the damaged Fukushima reactors, the losses are possibly long-lasting, but production in plants that were affected by the earthquake is expected to

be back to normal levels by the summer and power shortages might not be as severe as first estimated. We will quantify this shortfall as best we can in the weeks ahead.

The Topix index fall of 7.49% on March 14th marked the 5th largest one day fall since 1980 – until the 9.5% decline on March 15th pushed it back to 6th place in the table of shame. In two days, the index was down 16.3% with Tokyo Electric Power down by its daily maximum on both days, closing on the 15th 42% lower than the closing level on March 11th. It has since fallen a further 62% and its future as an independent listed company is very tenuous. We feel fortunate and relieved that the Fund was not a holder.

One bright spot in a very bad month was the positive performance of JS Group – one of our largest holdings. JS Group is Japan's largest building materials company and is expected to benefit from the rebuilding work as the Tohoku area tries to return to normality. We also used the sharp price falls to begin new positions in Inpex (Japan's only LNG gas play), JGC (the biggest plant engineering company) and Daikin (a global leader in air-conditioners). The stocks that made way for these include Kirin (fears that the AUD might fall and hurt their consolidated income) and Resona Bank.

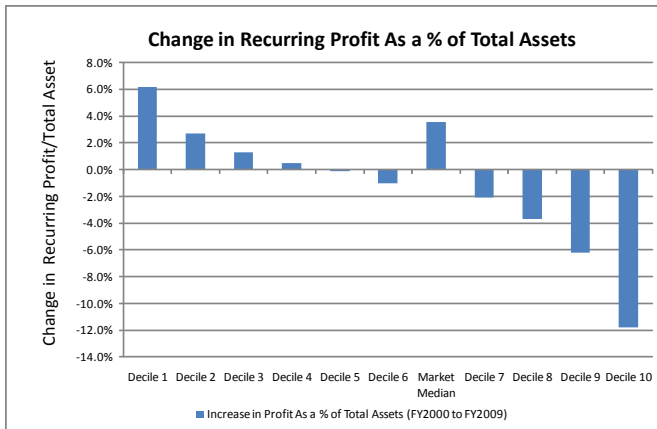
Following an impressive visit to Canon in early March, we decided to review the performance of listed companies in terms of their profitability on assets and their share price valuation. The starting point was the financials as at the end of fiscal year 2000 (mostly ending March 2001) and the end was the most recent completed financial year, being FY2009 (ending March 2010). The results are shown in the first graph below and plot the change in operating profits as a percentage of total firm assets. The results are mixed, not surprisingly given that 1) the whole period was one of almost constant falling prices and 2) the end point was the first year of recovery after the horrors of 2008 and 2009.

**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

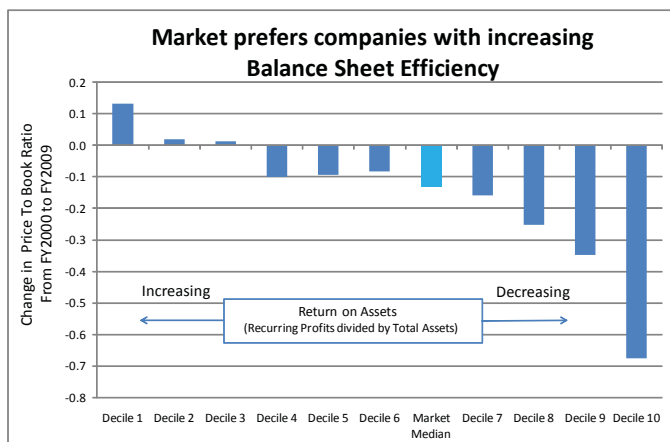
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would make these returns look a lot rosier, and perhaps the current pressure on the Bank of Japan to adopt a more aggressively easy monetary policy might get us to that goal.

We then looked to see how the change in profitability related to the sample's Price-Book ratio and found that in this regard, the market penalised those with the worst history of change in profitability and rewarded (relatively) the best ones. Given that the whole market has experienced a decline in the PBR, relatively few companies experience any uplift in their PBR, but the evidence clearly shows that greater asset efficiency will see better relative performance.



Canon – which we have bought recently – is one company that has improved its profitability (as defined here) and we are confident that their management is working successfully to achieve greater profits on fewer assets. Our company visits are useful in forming a view as to whether management sees this as a goal worth striving for, and our feeling is that a majority of these visits confirm this to be the case. Many listed companies are, however, indifferent to achieving more with less, and these companies are likely to continue to underperform. It goes without saying that some inflation

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## Recent 3 month Fund Exposure

% of NAV in	Jan 11	Feb 11	Mar 11
Long Stock Position	45.96	95.04	89.81
Index Futures	-	-	-
Net Exposure	45.96	95.04	89.81

## Performance Statistics

Last 12 Months	4.11%
3 Yr Annual Average Return	-3.71%
5 Yr Annual Average Return	-4.41%
Average Annual Return Since Inception	2.35%

## Position Concentration

	Top 5	Top 10
Longs	25.08%	43.01%
Shorts	-	-
Total no. positions	34	

## Top Five Positions

Hitachi Ltd  
 JS Group Corp  
 Mitsubishi Estate Co Ltd  
 Canon Inc  
 Itochu Corp

## Winners

JS Group Corp  
 Softbank Corp  
 Inpex Holdings Inc  
 JGC Corp  
 Itochu Corp

## Losers

Matsui Securities Co Ltd  
 Toshiba Corp  
 Resona Holdings Inc  
 All Nippon Airways Co Ltd  
 Kirin Holdings Co Ltd

## Sector Exposure as at 31 March, 2011

	Longs	Shorts	Total
Materials	14.30%	-	14.30%
Industrials	19.40%	-	19.40%
Financials	14.86%	-	14.86%
Energy	2.19%	-	2.19%
Consumer Non-Disc	4.45%	-	4.45%
Consumer Disc	11.05%	-	11.05%
Utilities	-	-	-
Telecom	6.09%	-	6.09%
Technology	17.46%	-	17.46%
Total Equity	89.81%	-	89.81%
Index Futures	-	-	-
Net Exposure	89.81%	-	89.81%

## March Qtr Sector Performance – P&L

	Longs	Shorts	Total
Materials	0.66%	-	0.66%
Industrials	1.62%	-	1.62%
Financials	-1.83%	-	-1.83%
Telecom	0.46%	-	0.46%
Consumer Non-Disc	-0.49%	-	-0.49%
Consumer Disc	-0.64%	-	-0.64%
Energy	0.30%	-	0.30%
Health Care	0.04%	-	0.04%
Utilities	-	-	-
Technology	-1.29%	-	-1.29%
Index Futures	-0.02%	-	-0.02%
FX and Other	-	-	-3.25%
Total	-1.18%	-	-4.43%

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## 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 <sup>1</sup> 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	3.36	-2.39	5.77	3.79	0.36	8.26	16.65	13.67
2011	1.31	3.89	-9.20										-4.43	-5.34

<sup>1</sup> Topix Return is in USD unhedged using WM London 4pm close

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