

Optimal FUND MANAGEMENT

Monthly Report to Shareholders of the Optimal Japan Absolute Long Fund June 7th, 2007

31 May 07	Offshore Feeder	US Feeder
NAV*	\$15.47	\$15.58
Monthly return %	1.71	1.76

**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.

Even with hindsight, it is usually difficult to point to an event or announcement that causes a rise in a stock market. By Japanese standards, the 3.2% jump in the Topix index in May was startling, (although not as good as the MSCI Asia Ex Japan Index's +3.67%) and yet we cannot identify the trigger. Given the continued strong corporate profits news flow, the positive – albeit mixed – economic signals and buoyant world equities markets, it may be only natural that Japanese stocks should also rise, but as we have pointed out many times, the Japanese equity market does not always respond in a natural fashion.

Shipping continued to perform brilliantly (+11%) but the most notable sector was the banks where May's rise of 10.3% would have raised a cheer from many Japanese fund managers. Between March 2006 and April 2007, this important sector fell 24% whilst the market fell less than 2%. As the bank sector ranks second in market cap behind the electricals and accounts for 12% of the Topix index, its jump in May would have accounted for more than one third of the total rise for the month. With lots of banks one should be smiling whilst having none – or even worse, being short – would have been painful. We have two large banks, and so were happy to participate, but one never has enough of the stuff that is going up.

Bank shares rise with interest rates, and indeed since the recent lows in mid March, both three month bills and ten year government bonds have seen yields rise by 16 and 21 basis points respectively. The ten year JGB is now yielding 2.07% and has opened up a spread over the dividend yield of Toyota of almost 0.35%. At a share price of Y7,600 Toyota's forecast dividend per share of Y130 gives a yield of 1.7%, but how much better could it be? The estimated dividend payout ratio is a meagre 28% and we believe that the shares would rise by the best part of 30% if Toyota would resolve to pay out half

This Material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our opinions only. The material is based upon information, which we consider reliable, but we do not represent that it is accurate or should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities

Level 5
175 Macquarie Street
Sydney NSW 2000
Phone: 61 2 8239 3300
Fax: 61 2 8239 3333
optimal@optimalasia.com
www.optimalasia.com

6F Izumikan Kioicho
4-3 Kioicho, Chiyoda-ku
Tokyo 102-0094
Phone: 81 3 3238 1671
Fax 81 3 3238 1687

Optimal FUND MANAGEMENT

of its profits by way of dividend. If I were a Japanese investor and faced a choice of lending to my government at 2.07% versus buying a share of Toyota's business at a dividend of 3.0%, I know who'd get my money. With \$20bn in cash and marketable securities on their balance sheet, it is amazing that Toyota is not willing to cough up a bit more. We still hold Toyota, but it is more than a little frustrating that they continue to hoard their cash.

Month-end investments (as % NAV):

Equity Long: 90.50%

Net exposure: 90.50%

Fund size: US\$ 645 mil

Total number of positions: 36

Top 5 positions:

	% of NAV
Komatsu	5.10 %
Toyota Motor	5.06 %
Sumitomo Corp	4.71 %
Mizuho FG	4.62 %
Tokyo Tatemono	4.31 %
Total	23.80%

Best Performers: Mizuho FG, Komatsu, Mitsubishi UFJ FG, Mitsubishi UFJ Lease

Worst Performers: Topix Index Future Jun07, Tokyu Corp, Isuzu Motors

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	0.33	1.71								5.38

This Material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our opinions only. The material is based upon information, which we consider reliable, but we do not represent that it is accurate or should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities

Level 5
175 Macquarie Street
Sydney NSW 2000
Phone: 61 2 8239 3300
Fax: 61 2 8239 3333
optimal@optimalasia.com
www.optimalasia.com

6F Izumikan Kioicho
4-3 Kioicho, Chiyoda-ku
Tokyo 102-0094
Phone: 81 3 3238 1671
Fax 81 3 3238 1687