Monthly Report to Shareholders of the Optimal Japan Absolute Long Fund – *May 2009*

Optimal FUND MANAGEMENT

Monthly Performance % - *as at 29 May 2009*

	NAV	May	YTD	Asset size
Offshore Feeder	$10.38	9.49%	-0.29%	$216M
US Feeder	$10.67	9.21%	1.62%	$9M

The global equities rally that started in early March continued to run hard in May with Japanese equities up more than 7% for the month. The rally has been led by cyclicals – with global demand-dependent sectors such as shipping and trading companies jostling for top spot in the monthly returns alongside domestic cyclicals such as real estate and brokers. Our funds had too few of these in our long selection and too many of them on the short side, and we again find ourselves disappointed with the return for this month. After a disastrous 2008, Asian equity markets have had a rip-roaring start to 2009 with country indices up by more than 50% (India and Indonesia) at best and 5% (Japan) at worst. Due to the depressed level where markets finished 2008 however, this year's gains still leave the broader Asian indices down by almost 40% from the end of 2007 to the end of May 2009. In that context, our Fund's return fares better with the failure to catch the upside fully this year offset to a large extent by the protection on the downside last year.

As one might expect, there have been few conclusive signs that economic and corporate performance are on track to return to the more buoyant state that they were in when the markets began to crash in mid 2007. Surveys of investor sentiment and of business conditions are certainly pointing higher and correlate well with the upturn in stock prices. Industrial production has also seen a big improvement in the most recently reported month (April) but is still almost one third lower than it was at the most recent high in February 2008. As a result of the collapse in production, inventories of manufactured goods have certainly fallen considerably and a rebound in production is guaranteed to some extent. The Industrial Production index is a good cyclical indicator and as it continues to recover from the February lows, we can expect cyclical industries to see better share price performance. For now, equity markets are happy to see any sort of increase in economic activity, so month-on-month gains are enough evidence of the much vaunted "green shoots" to encourage buyers into the market. Year-over-year comparisons are still unflattering however, and as one would expect, Japanese companies are certainly not accentuating the positive when briefing investors on either current conditions or their outlook for the year ahead. Having been so poor at foreseeing a slowdown – let alone the meltdown we had – we should not put too much faith in their ability to tell us what their world will be like in six or twelve months hence.

A trip to Tokyo this week did not offer many surprises. We visited Sumitomo Heavy Industries ("SHI") and were left with mixed feelings after the meeting. Like many Japanese companies, SHI has some excellent businesses and some modest ones. The good news is that over the past fifteen years, the company has certainly achieved higher margins and profit growth that has well outpaced the increase in their revenue. They had exited some businesses and allowed others to wither, and have made acquisitions in strategic areas that they wish to allocate more capital to. The problem is the pace at which all this happens. It is a fairly typical Japanese corporate story and frustrating to those who are used to company management that are keen to show strong results and register profit improvement on their watch. Of five business segments at SHI, two should be exited, but you can bet that this is unlikely to be a matter of urgency or priority to the board and management of the company.

At least SHI have three good businesses out of five, which is a lot more than can be said for Toshiba. As a sign of how forgiving the capital markets have become, Toshiba has just raised $3bn in an equity issue that increased their shares outstanding by 26%. This despite having incurred a $2.6bn operating loss and a net loss of $3.5bn in the year just ended March 2009 which reduced the book value per share to Y138 from Y316. The 870 mn new shares were sold at Y333, which equates to a PBR of 2.4x.

In this sort of market, you would expect the shares to rally post the issue and indeed they have – reaching almost Y390 this week. If Toshiba had a lean, focused business model with a strong commitment to profits, the valuation might well be reasonable, and indeed they are global leaders in the world of nuclear power plants and in NAND flash technology. We struggle to get excited with them however as they are committed to 37 business divisions and have stated that their company-wide aim is to achieve an average operating profit margin of 5% from their 37 businesses. We can easily understand a bullish case on SHI, but are bewildered that investors would spend $3bn bolstering Toshiba when they have such modest aims for profits and returns to shareholders. In this sort of market, we should not be so rational.

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Recent 3 month Fund Exposure

% of NAV in	Mar 09	Apr 09	May 09
Long Stock Position	51.82	59.89	67.44
Index Futures	-	-	-
Net Exposure	51.82	59.89	67.44

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***

Position Concentration

	Top 5	Top 10
Longs	23.68%	42.07%
Total no. positions	24	

Top Five Positions

Mitsui Fudosan Co Ltd
Nippon Telegraph & Telephone Corp
Suzuki Motor CB

Mitsubishi UFJ Lease & Finance Company Limited
Shin-Etsu Chemical Co Ltd

Winners

Mitsui Fudosan Co Ltd
Tokyo Tatemono Co Ltd

Mitsubishi UFJ Lease & Finance Company Limited
Kubota Corp

Nippon Telegraph & Telephone Corp

Losers

Nintendo Co Ltd
Honda Motor Co Ltd

Riken

Press Kogyo Co Ltd

Toyota Motor Corp

Sector Exposure as at 29 May 2009

	Longs	Shorts
Materials	10.76%	
Industrials	9.30%	
Technology	6.75%	
Financials	16.13%	
Energy	-	

	Longs	Shorts
Consumer. Non Disc	2.27%	
Consumer Disc	15.19%	
Utilities	2.08%	
Telecom	4.96%	

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
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	6.66	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	1.49	1.27	-4.97	2.18	-1.04	-5.37	-6.57	-7.97
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
2009	-5.28	-11.56	3.78	4.75	9.49								-0.29