

Monthly Performance % - as at 31 May 2010

	NAV	May	YTD	Asset size
Offshore Feeder	\$10.46	-8.25%	0.10%	\$193M
Topix - <i>Topix Return is in USD unhedged using WM London 4pm close</i>		-7.88%	-0.79%	

The drama in markets at the start to May continued through the month. It was a dreadful month in all markets, with USD returns ranging from the bad (such as Topix -7.9%) to the ghastly (such as Australia -16%). We must confess that we did not see it coming. Compared with dramatic events in other countries, Japan's May was not particularly newsworthy. The UK got a new coalition government, Greece grabbed more world-wide attention with its bail-out than it has for over 2000 years, Australia's government scared mining entrepreneurs and capitalists alike by declaring a tax on "super profits". Japan merely drifted towards another change of Prime Ministers (albeit this occurred in early June).

With his own support levels below 20%, the writing was on the wall for PM Hatoyama and with upper house elections due in July, he duly resigned his position. He may well have done a great deal more good for his party than by making way for a new leader in that he clearly demanded the simultaneous resignation of Mr Ichiro Ozawa as Secretary General of the DPJ. Mr Ozawa has long been a divisive figure in Japanese politics, but in light of recent further accusations of financial misconduct, his presence in the powerful party leader's role was not helping his parliamentary colleagues. The new Prime Minister Naoto Kan quickly moved to erase Ozawa's legacy by appointing new ministers to important posts who are known as being independent of his influence and the resultant surge in the DPJ's popularity would seem to confirm that the electorate is keen to make a fresh start with hard-nosed and capable policy makers. The upper house poll date has not been confirmed but should be in mid-July and Mr Kan has made a good start to his premiership in the past week.

There is mounting speculation that the consumption tax rate will be lifted from 5% to 10% (and to go higher later) with likely effect from March 2012 and that this will be sweetened by a cut of 5% in the corporate tax rate from its current level of 40%. Unlike in the mid 1990s when then Prime Minister Hashimoto lifted the consumption tax from 3% to 5%, polls show that the majority of Japanese support the mooted increase and the tax hike is not likely to have the severe dampening on consumption that the small increase had back then. We believe that a lot more needs to be done by the Japanese government in addressing their inefficient tax system, but these moves certainly make sense to investors.

The 15% fall in the market (Topix index in Yen) since mid April has brought Japanese company valuations back into

their bottom zone and we expect support from domestic investors around these index levels. Apart from the market's spike low after Lehman's demise, the current situation is as cheap (oversold) as it was in late 2002 and at the risk of going over familiar ground, is worth a few comments. The market (defined here as the stocks listed on the Tokyo Stock Exchange's First Section) trades on a PBR of 1.04x, on a 12 mth forward PER of 16x and carries a dividend yield of 2.04%. Of this universe of companies, fully 65% trade at prices below book value and this compares with 63% in December 2002. Profits are expected to grow by 43% in the current year to March 2011 and then by a further 21% in the following year, which would take the market PER down to around 13x. This in a country where the 10 year government bond currently yields 1.2%. Enough said I think.

New additions:

We would like to advise readers that we have been busy in the past couple of months with new hires and are delighted to introduce two new members of the investment team. In early May, **Boon Hong Yeo** joined Optimal to work with the Sydney investment team on Asia – ex Japan. Boon has 23 years experience in investing in Asian equities and most recently was head of Asia (ex-Japan) equity portfolio management for Credit Suisse Asset Management – based in Singapore and Sydney. We are thrilled to have someone with Boon's experience and quality join us and plan to launch an Asian absolute return long fund for Boon to manage in the near future.

In addition to this, we have hired **Tanuj Dutt** who will start work in the investment team from July. Tanuj's role will encompass portfolio risk analysis and construction and will work with the portfolio managers across both Japan and Asian investments. Tanuj has had many years experience working in the highly regarded quantitative research unit for Citigroup (formerly Salomon) based in Singapore and also had a number of years working in a large buy-side firm covering pan-Asian equity markets. His experience will be highly relevant in a number of areas of our portfolio management and we are all looking forward greatly to working with him.

We look forward to introducing both Boon and Tanuj to investors at the earliest opportunity.

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: 5F Izumikan Kioicho, 4-3 Kioicho, Chiyoda-ku, Tokyo 102-0094 **Phone:** 81 3 3238 1671 **Fax:** 81 3 3238 1687

DISCLAIMER:

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.

Recent 3 month Fund Exposure

% of NAV in	Mar 10	Apr 10	May10
Long Stock Position	87.74	88.11	95.36
Index Futures	-	-	-
Net Exposure	87.74	88.11	95.36

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	28.24%	45.59%
Total no. positions	38	

Top Five Positions

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

Winners

Nabtesco Corp
Mitsubishi Electric Corp
Daicel Chemical Industries Ltd
Sony Corp
Nippon Paper Group Inc

Losers

Mitsubishi Estate Co Ltd
Tokyo Tatemono Co Ltd
Fujifilm Holdings Corp
Chuo Mitsui Trust Holdings Inc
Toyota Motor Corp

Sector Exposure as at 31 May 2010

	Longs	Shorts		Longs	Shorts
Consumer Disc	18.35%	-	Technology	10.02%	-
Consumer Non Disc	4.18%	-	Materials	8.57%	-
Financials	27.85%	-	Telecom	4.39%	-
Industrials	22.00%				

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									-1.60	-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								0.10	-0.79

¹ Topix Return is in USD unbedged using WM London 4pm close