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

Optimal FUND MANAGEMENT

Monthly Performance % - *as at 30 November 2010*

	NAV	November	YTD	Asset size
Offshore Feeder	$11.26	0.36%	7.75%	$152M
Topix - *Topix Return is in USD unhedged using WM London 4pm close*		2.09%	5.42%	

"Japan is inexpensive. It is underowned. Earnings and dividends are growing more robustly, and more durably, than widely expected."

From Morgan Stanley MUFG Securities' strategist Alexander Kinmont in "Big Debates: 2011, Japan Strategy" of Dec 8, 2010.

According to the research from Mr Kinmont, Japan is a cheap market, wildly underowned. Their analysis of global markets using a Cyclically-Adjusted P/E ratio (CAPE) shows Japan to be the cheapest major market in the world (13.2x) followed by Europe (13.9x), the US S&P500 (20.2x), MSCI Asia ex Japan (21.5x) and then China and India to be considerably more expensive. As we know, high PERs usually reflect high growth expectations, so it is no surprise that China and India would be up the top by this measure, but growth stocks that disappoint see savage de-ratings, so their growth had better meet expectations. Japan by contrast, reflects low expectations for growth and yet for the next two years, earnings are forecast to grow by between 15-20% each year.

Readers of the FT might have spotted a back page piece in the FTfm section of December 6th entitled *"Japan beginning to look pretty cheap"*. The article was penned by Edward Chancellor and argues that Japan deserves investor attention once again. In the final paragraph Chancellor writes: "There is no doubt Japan faces severe challenges. Yet it is hard to avoid the conclusion that today's apocalyptic commentary is overblown. Therein lies the investment opportunity."

Unsurprisingly, we concur with his views. Our only real quibble is with his assertion that Japanese stocks are serial underperformers. The reality is that since late 1998, Japanese equities have moved in line with the rest of the developed equities markets – **when measured in common currency terms**. In a relative (and unhedged) sense, the time to exit Japanese equities was in fact the end of 1989, as the next nine years saw share prices plunge and awful returns relative to almost anywhere else you could think of. I had exited Japanese equities in early 1987, believing them to be absurdly overvalued, and watched miserably as they promptly doubled again between end 1986 and the peak at end 1989. After the wild bull ride of the 80s, the 90s were a disastrous decade for Japanese equities, but the past ten years have been poor for nearly all equity markets, and Japan has been no worse than the rest. The question we face however, is what the next decade (in reality the next year) holds in store, and it is clear that people have become used to dismissing Japanese equities as an irrelevance and thus are missing the real story. There is way too much apocalyptic commentary and lazy (lack of) thinking, and very few investors looking at the facts and figures.

Sceptics quite reasonably will ask for catalysts that will change the way investors look at Japan. Predicting a catalyst has a touch of the absurd to it – something akin to the phrase "for the forseeable future" – but like diamonds, everyone wants to find catalysts, so here are a few (thanks again to Morgan Stanley). Monetary Policy – the Bank of Japan are forced to act more aggressively in monetary easing. Trade liberalisation – the government looks to the next lower house election and decides that the risk of angering the agricultural lobby is one worth taking if entering free trade agreements benefits the urban population. Political realignment – one senses that Japan is moving inexorably to a political consensus that will reap better (clearer) policy making, but we are one or two elections away from that stage. Leadership – the thing that has eluded Japan for a long time. This is probably linked to the previous point, but could also come about from a change in the corporate world.

For now, we feel comfortable betting on a recovery from a clearly oversold position to one of "fair value" or neutrality. With any real sign of change however, the potential re-rating of Japan is something that investors would be foolish to discount. The Yen appears to have stalled in its upward trajectory and yet neither companies nor analysts are factoring in a weaker currency when predicting sales and profits. We might be disappointed again, but we expect the surprises to be ones to the upside.

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Recent 3 month Fund Exposure

% of NAV in	Sep 10	Oct 10	Nov 10
Long Stock Position	84.90	91.88	85.58
Index Futures	-	-	-
Net Exposure	84.90	91.88	85.58

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	26.83%	47.15%
Shorts	-	-
Total no. positions	33	

Top Five Positions

- Chuo Mitsui Trust Holdings Inc
- Hitachi Ltd
- Fanuc Ltd
- JS Group Corp
- Nippon Telegraph & Telephone Corp

Winners

- Nippon Electric Glass Co Ltd
- T&D Holdings Inc
- Hitachi Ltd
- Itochu Corp
- Ryohin Keikaku Co Ltd

Losers

- JS Group Corp
- All Nippon Airways Co Ltd
- Tokyo Electric Power Co
- Nippon Paper Group Inc
- SHO-BOND Holdings Co Ltd

Sector Exposure as at 30 November 2010

	Longs	Shorts
Materials	7.18%	-
Industrials	19.73%	-
Technology	11.91%	-
Financials	25.25%	-
Energy	0.20%	-

	Longs	Shorts
Consumer Non Disc	6.81%	-
Consumer Disc	9.81%	-
Telecom	4.69%	-
Utilities	-	-

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	1.88	-8.25	-3.15	3.36	-2.39	5.77	3.79	0.36		7.75	5.42

[1] *Topix Return is in USD unhedged using WM London 4pm close*