Monthly Report to Shareholders of the Optimal Japan Absolute Long Fund – *November 2011*

Optimal FUND MANAGEMENT

Monthly Performance % - *as at 30 November 2011*

	NAV	November	YTD	AUM
Offshore Feeder	US$10.84	-4.91%	-11.07%	US$15M
Topix - *Topix Return is in USD unhedged using WM London 4pm close*		-4.24%	-15.32%	

So unremittingly downbeat are Japanese officials that one has learnt not to expect to hear any good news from them. Indeed, if neglect and negativity are preconditions for a bottoming market, then Japanese assets must offer some of the world's best buying. The main journals of the western print media are not usually filled with positive stories on Japan but in the November 19th edition of ' The Economist ' there was an exception to the rule with an article on page 71 entitled ' Whose lost decade? '. The article pointed out a study that compared the annual real GDP growth achieved in Japan, the USA and the Euro area over the decade from 2001-2010. So far, no surprises. The US came first with 1.6% followed by the Euro area at slightly better than 1% and Japan languished with just under 0.8% pa. When one looked at real GDP per person however, the results were different with Japan leading the other two. Japan's demographics are not conducive to strong GDP growth, but total productivity has been better than the rest.

In addition to the aging population, Japanese companies have struggled with another macro-economic headwind over the same period. Deflation has plagued Japan for most of the past fifteen years and unsurprisingly, there has been only a slight improvement in the median profitability of listed Japan in the decade to 2010. It is impossible to expect any quick fix to the demographic profile of Japan, but deflation is another matter, where policy decisions can change price levels if there is sufficient determination. It is hard to change consumer and investor behavior unless there are changes in expectations and neither the Bank of Japan nor successive Japanese governments have shown the wherewithal to tackle entrenched deflationary expectations. Japanese shoppers and company managers expect they will buy goods in the future at the same or lower prices than they can today, so they defer consumption and expenditure. In a country where the tax take is the lowest in the OECD, there is clearly room to move in this area of policy and the discussion on the timing and scale of increases in the consumption tax rate is becoming more urgent and detailed. 2012 should be a year when economic growth accelerates after the disruptions to growth Japan has experienced this year. Such a backdrop should make it easier for Mr Noda and his cabinet to announce the inevitable tax hike and with this, we might begin to see changes in the expectations about future price levels.

November was (another) bad month for equities with the MSCI World index down 2.7%. Japan's Topix index was worse with a 4.7% decline (4.2% in USD) as companies finished reporting their first half results and revising their forecasts for the full year. Buffeted by the March earthquake and tsunami, the Thai floods and the strong Yen, recurring profits are expected to decline by 8% with manufacturing faring the worst. In contrast, services companies and banks are expecting profits to rise and their recent stock market performance has been commensurately strong. Japanese banks do struggle with tepid loan demand but have an embarrassment of deposits which should enable them to capitalise on opportunities that are arising as European and US banks pull back on commitments and reduce their assets. We have seen a number of mid-size overseas acquisitions by Japanese banks and insurers in the past year and it is clear that this desire to buy assets (and higher growth) with the strong Yen is growing.

Aside from its stake in Morgan Stanley, MUFJ already owns the Bank of California and it would be surprising to us if they – and SMFG – do not make further acquisitions in the USA in the coming year. Increasing acquisitions overseas is one of the trends that seem to be growing stronger. The other one is the increase in MBO activity - especially in the smaller and mid-cap area. Evidence of Japan's extensive overseas investments is now clear in the current account surplus Japan enjoys despite running a deficit on the trade account in recent months. The much-watched government indebtedness of Japan is offset by massive corporate and individual savings. Net cash held by Japanese listed companies exceeds US$1trillion and increasingly we expect this to be used in (overseas) acquisitions, share buy-backs and increased dividends. Japanese banks should also welcome MBOs that would provide demand for loans. With the JGB yield at 1%, surely some well-judged MBO finance would provide better returns.

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

Recent 3 month Fund Exposure

% of NAV in	Sep 11	Oct 11	Nov 11
Long Stock Positions	95.93	86.02	85.88
Index Futures	-	-	-
Net Exposure	95.93	86.02	85.88

Optimal FUND MANAGEMENT

Should you wish to make an enquiry about the Optimal Japan Absolute Long Fund, please see our website www.optimalasia.com or contact us by email at optimal@optimalasia.com.

Position Concentration

	Top 5	Top 10
Longs	24.20%	44.34%
Total no. of positions	31	

Top Five Positions

Aeon Co Ltd
Asahi Kasei Corp
Hitachi Ltd
JS Group Corp
Mitsubishi Estate Co Ltd

Winners

Aeon Co Ltd
Yamato Kogyo Co Ltd
Seria Co Ltd
Benesse Holdings Inc
Aeon Delight Co Ltd

Losers

Mitsui OSK Lines Ltd
JS Group Corp
Sumitomo Mitsui Trust Holdings Inc
Eagle Industry Co Ltd
Sumitomo Realty & Development Co Ltd

Sector Exposure *as at 30 November 2011*

	Longs		Longs
Consumer Discretionary	23.66%	Industrials	9.48%
Consumer Non-Discretionary	5.40%	Information Technology	10.25%
Energy	4.20%	Materials	10.42%
Financials	16.85%	Telecommunications	5.62%

Historical Returns- *Optimal Japan Absolute Long Fund Monthly Returns in USD (before Performance Fees)%*

Below we provide a table detailing the monthly returns of the Fund since its inception in September 2004.

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	Topix* 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	-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	1.72	-0.51	1.02	3.69	-6.40	-3.98	2.70	-4.91		-11.07	-15.32

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