Optimal FUND MANAGEMENT

Monthly Report to Shareholders of the
Optimal Japan Absolute Long Fund
13th November, 2005

	OJAL NAV*	**Performance**
31 October 2005	$11.99	-0.75%

* Price is NAV after performance fee at the Fund level but is subject to equalisation at the investor level.

"Koizumi's greatest achievement has been to get rid of the monsters from his own party" said one of our Tokyo based colleagues recently in response to a question over how much of a genuine reformer is Japan's prime minister. Faint praise perhaps, but for any observer of Japanese government over the past twenty years, it is a significant achievement. The "monsters" were the disciples of the centrally planned economic model that served Japan well in the crisis years following WW2 but which remained in place past its useful life and contributed to the excesses and imbalances of the 1980s and ensuing mega-recession of the '90s. Their fellow travellers can still be found in the upper levels of the Ministry of Finance (the ones with the serious Japanese Government Bond habit) but Mr Koizumi has been adept at marginalising their parliamentary supporters and eventually one should see these administrative "monsters" slain as well.

The share market surprised us in October as we had expected a pullback after September's exceptional gains. Up until the start of the last week of the month, the Topix index had indeed retreated (2.5%) from end September levels but fired by more aggressive buying from foreigners, it rose almost 5% in the last five trading days. The gainers were exclusively domestic in nature with warehousing, insurance and real estate all putting on more than 12% rises. Shipping (one of Optimal's oldest friends) was the worst sector (down 7.5%) and steel also fell (-1.3%). Since month-end however, steel has recovered strongly, led by JFE Holdings who announced their first half results on November 7th. JFE's shares have risen almost 10% in November (MTD) and without doubt the company is firing on all cylinders. Having announced operating profits up 42% yr/yr to Y264bn they also gave some of it back to shareholders by raising the annual dividend by 20 Yen to Y100. On the Nov 7th closing price of Y3760, this is a 2.7% dividend yield. The stock jumped 7% on Nov 8th and although foreigners were no doubt on the buy side, at least some of the $470mn of turnover must have come from Japanese investors deciding that this was an offer worth taking. The good news is that there is plenty of room to increase it further as the company "considers the return of profits to shareholders to be among its top management priorities and has a policy of distributing dividends in light of financial result trends…" (taken from their "Basic Guidelines on Profit Distribution" section in the interim results announcement. Given that they are expecting to make Y529 in earnings per share this year (ending March 2006), the payout ration implied by the Y100 dividend of 19% is hardly indicative of a "top priority" (wonder what the other ones are?). We expect higher dividends in the coming years and believe that these will boost the share price.

Noteworthy in the JFE announcement was their statement that the "JFE Group's corporate vision is to contribute to society with the world's most innovative technology". This is the first sentence under the title

Level 32, The Chifley Tower
2 Chifley Square
Sydney NSW 2000
Phone: 61 2 8239 3300
Fax: 61 2 8239 3333
optimal@optimaljapan.com

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

"Basic Management Policy" and is consistent with the message I received loud and clear on my last company visit to them in August. Over and over again, the spokesman stressed their confidence in the future based on their technological leadership in the steel making and related engineering businesses. The positive side of corporate Japan's lack of focus on shareholder returns is that they have been able to invest heavily in R&D (take Toyota's hybrid car engines as a prime example) and in many materials and manufacturing industries this has left them as undisputed world leaders. We know that our continued faith in materials companies such as JFE, Nippon Steel and Sumitomo Metal Mining will be tested as investor confidence in global economies waxes and wanes, but we are confident that the Japanese companies are adding value in their respective areas and will hold or improve margins where less advanced competitors will find profits under pressure.

To finish on an administrative matter, we wish to stress that any applications for redemptions or subscriptions in our funds that come in to HSBC Institutional Trust Services (Asia) after the dealing deadline will be rejected. Please visit our website www.optimalasia.com for related information and we encourage you to contact us through the web-site.

Month-end investments (as % NAV):
Equity Long: 73.58%
Index Future: 9.92%
Net exposure: 63.66%

Fund size: US$ 50.2 mil

Total number of positions: 26

Top 5 positions:

	% of NAV
Mizuho Financial	6.29%
Toyota Motor	5.96%
Mitsui Fudosan	5.80%
Mitsui OSK	4.84%
Sumitomo Metal	4.58%
Total	**27.47%**

Best Performers: Mitsui Fudosan, Mizuho Financial Group, Diamond Lease
Worst Performers: Mitsui OSK Lines, Kawasaki Kisen Kaisha, Nippon Mining

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 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			13.43

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Sydney NSW 2000
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optimal@optimaljapan.com

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