

**Monthly Performance % - as at 31 October 2007**

	NAV	October	YTD	Asset size
Offshore Feeder	\$15.28	-1.04%	4.09%	\$654M
US Feeder	\$15.40	-1.03%	4.90%	\$35M

Looking back over the events in October, it is difficult to identify anything in Japan that would have persuaded one to change one's position – be it positive or negative. Moody's upgraded Japan's sovereign debt rating on October 10th and the market rose strongly to reach its October peak on the 11th. Moody's would be relieved that at least in Japan, their credit ratings still seem to carry that sort of weight. On the 11th, not only did the Topix index reach its (monthly) zenith, but the Yen also reached its weakest level against the already weak USD by hitting 117.3/\$. Usually, a strong Yen has been associated with a better equity market and vice versa, but over the past year or two, this long-term relationship has gone into reverse, and so it was in October. From the 11th of October's lows, the Yen has risen strongly against most currencies and is now at Y110.6/\$, whilst over the same period, the Topix index is off 11%. The equity market finished October with a tiny monthly increase, but in the first third of November, selling has swamped buying and the Topix market sits almost 8% lower now (November 9th) than it was a mere nine days ago.

We wish we had an interesting answer as to why this is so. We know that there have been a couple of cases of Japanese companies admitting losses on their US mortgage-backed securities forays (Nomura Holdings and Mizuho Securities) but the amounts are not particularly big and certainly nothing compared with the losses we are seeing spew out from US corporates on a daily basis. Uncertainty is the gremlin that equity investors fear most, and investors in Japan seem more skittish than others, so it appears to us a case that Japan's banks and financials groups are being punished for their past (admittedly heinous) sins. The thinking runs that as they lost a fortune doing dumb things in the past, they've probably done it again but are too scared to admit it. We believe that the most likely case is that being so deeply scarred by the 1990's deflation and property losses, Japanese city banks have been fully engaged trying to properly manage their mergers and have been only marginally involved in the area of sub-prime loans. A lot of others clearly do not hold this same view.

Results for the half year ending September have been coming thick and fast. Of the companies in the Nomura 400 universe that had reported as at November 5th, 65% had exceeded forecast profits by more than 5%, 25% had reported profits within 5% of the forecast and only 10% had fallen short by more than 5%. They now have a revised forecast for Nomura 400 recurring profits to grow by 11.7% in the full year to March 2008. Many of the companies are benefiting from the rising trade between Asia and Japan with the region's share of total sales now at 14.9% against that of

the USA at 16.3%. The gap between the USA's share and that of Asia's has narrowed from over 3% to 1.4% in the past two years and will inevitably narrow further. A number of companies that we follow (Hitachi Construction Machinery for example) are reporting significant weakness in their US business but are still experiencing overall sales and profits growth due to even bigger increases in their business from other regions. The Japanese market now trades below 16x forward earnings while our long positions are as follows:

1 year forward PER:	14.8x
Operating Profit Margin:	17.5%
Last FY PBR:	2.2x
Last FY RoE:	13.4%
Last FY RoA:	10.2%
Gearing(Equity to assets):	47.3%

We can't believe the buying opportunity that we are being given with the market at these levels and intend to hang on tight while the Sub-Prime storm rages over Wall Street.

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## Recent 3 month Fund Exposure

% of NAV in	Aug 07	Sept 07	Oct 07
Long Stock Position	91.14	90.33	91.97
Index Futures			
Net Exposure	91.14	90.33	91.97

## 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](http://www.optimalasia.com) or contact us at – [optimal@optimalasia.com](mailto:optimal@optimalasia.com)*

### Position Concentration

	Top 5	Top 10
Longs	24.91%	45.67%
Total no. positions	34	

### Top Five Positions

Komatsu Ltd  
Toyota Motor  
Suzuki Motor  
Fanuc  
Sumitomo Corp

### Winners

Suzuki Motor  
Mitsubishi UFJ Financial Group  
Fanuc  
Ushio  
Nachi-Fujikoshi

### Losers

JFE Holdings  
Taiheyo Cement  
Sumitomo Corp  
Isuzu Motors  
Sumitomo Metal Industries

## Sector Exposure as at 31 October, 2007

	Longs
Materials	13.7%
Industrials	34.4%
Futures	
Financials	18.6%
Energy	

	Longs
Consumer. Non Disc	
Consumer Disc	19.7%
Utilities	
Telecom	
Technology	5.6%

## 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			4.09