Monthly Performance % - *as at 30 October 2009*

	NAV	October	YTD	Asset size
Offshore Feeder	$10.79	-2.26%	3.65%	$213M
US Feeder	$10.97	-2.05%	4.48%	$4M

The market weakness we saw in September continued into October and the Topix index fell almost 2% for the month. The difference in October is that for the first time in some months, Japan's weakness was not an aberration but was in keeping with most other markets – including even the feel good markets of (ex-Japan) Asia. The year-to-date however, tells a story of lagging Japanese equity prices whilst the rest of the world continues to enjoy a strong market recovery – even if rates of economic growth are in many cases inferior to Japan's. One is left wondering what is at the root of this problem and what might reverse the pattern. Increasingly, we are of the opinion that the long-term problem of demographics (ageing society and depleting work force) is the overriding force leading to the de-rating of Japanese equities valuations and the suspicion that most investors carry towards an investment in Japan.

This was all too evident at an investment conference we attended in Tokyo last week. The conference was the 10th one held by the broker concerned and for the first six or seven years was almost totally devoted to Japanese equity investment. About four years ago, there was an introduction of Pan-Asian sessions and panels and by this year's event, the focus was at least as much on Asia as it was on Japan.

As Optimal manages Asian and Australian equities funds in addition to our Japanese funds, this is not altogether negative, but for someone like me who has spent (or misspent as some would have it) most of the past twenty five years investing in Japanese equities it certainly provides plenty of fodder for contemplative thought on the subject. By the last session or two, we were asking our interlocutors whether they had met any manager who was 1) bearish on Asian equity markets or 2) bullish on Japanese equities. The answer to both was basically no.

If one's outlook is largely conditioned by the recent past, these responses are entirely natural, but they do not necessarily argue that equity market returns will correspond with the bullish (bearish) views. We are bullish on Asian economic growth and on the prospects for returns from equities in these markets. Our outlook on Japan is more complex, as policies will have a large impact on sentiment, and Japanese politicians do not have a good record in this area in the recent past couple of decades. As we wrote last month, the market has seemed to judge the new government's prospects for success in this area as poor. We find this bewildering. The DPJ campaigned on a platform that seeks to spur private consumption and tackle issues that relate to the work-force problem and Japan's low birth rate. None of these issues can be solved in one or two months and yet the market has reacted negatively since the election, falling by 10% in the six weeks since. What do people expect? The problems of an ageing society are not fixable in a matter of years, let alone weeks, so the negative assessment we have seen is premature in our view.

The facts are not as bad as the market would have us believe. There are certainly very serious problems such as low returns (in certain sectors), poor demand, an enormous fiscal deficit, slow new business formation and indifference by some companies to their shareholders' rights. There are also long trends that we can point to where Japanese corporate performance has been improving while their shares have been de-rated. Value is plentiful, but Japanese consumers are careful and are seeking bargains. Japan has experienced flat or falling nominal prices for much of the past fifteen years and to travelers from abroad, is now inexpensive. In housing - whether detached homes or apartments – we see low priced models are selling well, and in clothes retailing where Fast Retailing has had such outstanding success with their Uniqlo brand of quality, value clothing, or in general supermarket retail where companies such as Don Quijote are talking share from the older format GMS behemoths Ito Yokado and Aeon, there are clear signs that many companies just cannot compete profitably at a price where Japanese consumers are willing to deal. In their place, younger, lower-cost providers are flourishing and our task is to find these winners before they are too well-known and expensive.

Over the past few months we have actively sought out new investments in the domestic sectors and now have almost half of the portfolio in domestic stocks. We intend to add to some of these positions and aim to have more than half of the fund in domestics in the near future.

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	Aug 09	Sept 09	Oct 09
Long Stock Position	84.22	91.06	92.19
Index Futures	-	-	-
Net Exposure	84.22	91.06	92.19

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	26.40%	45.04%
Total no. positions	32	

Top Five Positions

Nippon Telegraph & Telephone Corp
Mitsui Trust Holdings Inc
Suzuki Motor CB
Mitsui & Co Ltd
Nippon Steel Corp

Winners

Nippon Steel Corp
Kirin Brewery Co Ltd
Suzuki Motor CB
Mitsui & Co Ltd
Press Kogyo Co Ltd

Losers

Nippon Telegraph & Telephone Corp
Tokuyama Corporation
Shin-Etsu Chemical Co Ltd
Star Micronics Co Ltd
Honda Motor Co Ltd

Sector Exposure as at 30 October 2009

	Longs	Shorts
Materials	16.75%	
Industrials	14.82%	
Technology	7.53%	
Financials	18.78%	
Energy	-	

	Longs	Shorts
Consumer. Non Disc	2.68%	
Consumer Disc	22.66%	
Telecom	8.96%	
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
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	-5.37	-6.57	-7.97
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
2009	-5.28	-11.56	3.78	4.75	9.49	2.12	3.11	4.76	-3.58	-2.26			3.65