

Monthly Report to Shareholders of the Optimal Japan Absolute Long Fund 11th October, 2005

	OJAL NAV*	Performance
30 September 2005	\$12.08	+9.32%

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

What a dreadful month in which to have been long the Japanese airlines. Fortunately we weren't, but in a month when the Topix index (in Yen) rose 11.1% and 32 of the Topix's 33 component sectors rose, you would have felt rather special had you been an investor in either All Nippon Airways or JAL. Both fell almost 3%, whilst steel rose 27%, banks 19% and real estate companies 17%. Having many times wondered why the Japanese airline stocks traded on the dizzy multiples that they do, it is no insult to common sense that they fell – at last. More perplexing was the quite pronounced weakness of the Japanese Yen against the US Dollar. Whilst foreigners poured money into Japanese equities – presumably out of foreign currencies – the Yen fell 2.6% and the weakness shows for all to see in the YTD return from Japanese equities. In Yen, the Topix index (as at 7 October close) is +19.4% whilst the USD return is only 7.6%. Observers of Japanese bull (and bear) markets would know that strong equity markets invariably go hand in hand with a stronger Yen. Maybe we are still in a bear market after all but it does not feel like it.

As we had hoped and expected, Mr Koizumi was returned to government in the September 11th poll. Much has been written on the subject and we can add little. Policy will not likely change much. And in Japan, at least for now, that is a definite positive. The large victory is affirmation of the shift in focus and power from rural Japan to urban Japan and that is both natural and desirable. The eventual privatisation of the Japan Post Office is also a very symbolic shift away from the administration of government by bureaucrat and rural strong men. Banks should benefit, but it won't be an overnight windfall.

We ran net exposure in the Fund in excess of 80% for all of the month until the 27th when we sold futures to cut exposure back to about 45%. This was based more on instinct than any objective analysis and once we have recovered our breath, we expect to cover this short position and reinstate net exposure above 80%.

Only two issues that are Japan specific continue to be of concern. One is the low dividend pay-out ratio and the second is the lack of independent directors on Japanese boards. Both issues are broadly in the sphere of "governance" and thus will not be resolved overnight. As we have seen with corporate profits however, once the bit is between the teeth, the Japanese horse is a determined and impressive runner.

The Optimal Fund Management web-site has been resuscitated and is going live as we write. Please take a look at www.optimalasia.com and if needed, notify us if you want a password for full access. Our office phone numbers have also changed, and these can be found on the site.

This Material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our opinions only. The material is based upon information, which we consider reliable, but we do not represent that it is accurate or should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities

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

Optimal FUND MANAGEMENT

Month-end investments (as % NAV):**Equity Long: 81.13%****Index Future: 37.01%****Net exposure: 44.12%****Fund size: US\$ 39 mil****Total number of positions: 28****Top 5 positions:**

	% of NAV
Mizuho Financial	5.95%
Toyota Motor	5.91%
Mitsui Fudosan	5.29%
Mitsui OSK	4.97%
Sumitomo Metal	4.63%
Total	26.75%

Best Performers: Mizuho Financial Group, Tokyo Tatemono, Mitsui Fudosan, Mitsui OSK**Worst Performers:** Ishihara Sangyo, Ajinomoto, Chintai Co***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				14.29

This Material is for your private information and we are not soliciting any action based upon it. Opinions expressed are our opinions only. The material is based upon information, which we consider reliable, but we do not represent that it is accurate or should not be relied upon as such. Past performance is not an indication of future performance. This material is not intended for distribution in Japan or for Japanese domiciled entities

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