Optimal FUND MANAGEMENT

Monthly Report to Shareholders of the
Optimal Japan Absolute Long Fund
4th October, 2006

	OJAL NAV*	Performance
29 September 2006	$13.68	-1.51 %

**Please note that the Fund is now quoted with only an NAV price rather than with subscription and redemption prices so the return shown at the Fund level may not be the same as the return of a discrete investment that might be subject to performance fees through equalisation.*

It was yet another month when the final Topix index level masks the true story of the month. September was a grim month with an increasing air of capitulation (though precious little hard evidence of it of course) until all that turned on a pin in the last three trading days. Topix had been down 5.2% as at the 26th close, but finished off a mere 1.5%. We would like to ascribe this burst of confidence to the announcement of Mr Abe's new cabinet (as I imagine he would too) but suspect it is just an overdue return to "normal" conditions after an unnecessarily pessimistic few months. We haven't had a good look at the key members of the new cabinet, but comments have been positive. The fiscal hawks have been banished to non-economic portfolios and the new MoF boss is "pro-growth". We expect the PM will quickly move to establish his statesman credentials as befits the son of a high profile foreign minister and grandson of a famous prime minister but general economic policy is expected to remain largely unchanged.

While on the subject of things "largely unchanged", our market view and portfolio strategy remain positive. As mentioned in the last report, we made a trip to Osaka for a meeting with the president of Arrk and decided that the best course of action is to keep a very close monitor on the company over the next six months. The shares had fallen to just above book value and the president certainly is aware of the areas that need their attention so we are giving him the benefit of the doubt for now. En route to Osaka, we stopped in Hamamatsu for a meeting at Suzuki Motor. I am sure that many companies have carried the tag "best way to play the emerging markets" (didn't they used to say that about Coca Cola?) but Suzuki has to be one of the current candidates. Their 54% stake in Maruti Udyog of India has a current market value of $3.25bn (cf Suzuki's is $14bn.) while their share of Maruti's expected net profit for FY06 is $180mn. This represents almost 30% of Suzuki's total consolidated profit, which now amounts to more than double the size of the parent company's stand alone profits. In Indonesia they have a major motor bike business and in Hungary they are expanding car production capacity to meet demand for the best selling "Swift" – a 1300 cc small car that is a great hit in Europe, India and throughout Asian markets. Such is the extent of demand right now for the sub-compact and small cars, they are running one of their domestic plants 24/7 using three 8 hour shifts while they wait for the completion of extra capacity being installed. The shares are at an all time high at Y3,000 but so is Suzuki's business and the outlook is excellent. Looking at Suzuki based on PER analysis does not paint a complete picture as the company's depreciation policy is very aggressive and over-sized depreciation expenses depress income. On an EV/EBITDA basis, the stock is still attractive on global comparisons and undoubtedly the growth potential is well above average.

We left Suzuki's factory very satisfied with our current holding and excited by their account of new factories and increasing output around the globe. Japan's assemblers and capital goods companies are

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enjoying good times right now and it is worth noting that the weak Yen is certainly helping them. In capital goods, Japan's strongest competition (in quality) comes from Germany, Switzerland and Italy, but with the strong Euro, the Japanese makers are getting a strong tail wind. Our funds are certainly biased to ongoing growth in sales and market share by Japanese companies in industrialising economies. It is not easy to balance our positive view there with the consensus opinion that the US economy will slow and demand fall, but evidence we are seeing first hand makes us believe that the bet is still worth making.

Month-end investments (as % NAV):
Equity Long: 89.59%
Net exposure: 89.59%

Fund size: US$ 195 mil

Total number of positions: 31

Top 5 positions:

	% of NAV
Tokyu Corp	5.60 %
Toyota Motor Corp	4.97 %
JFE Holdings	4.85 %
Sumitomo Trust & Banking	4.42%
Tokyo Tatemono Co	4.34 %
Total	**24.18%**

Best Performers: Diamond Lease, Tokyu Corp, Fujitsu

Worst Performers: Komatsu, Mitsubishi Corp, Makino Milling

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	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				1.71

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