Performance % - *as at 30 September 2009*

	NAV	September	Qtr	YTD	Asset size
Offshore Feeder	US$11.04	-3.58%	4.15%	6.05%	US$218M
US Feeder	US$11.20	-3.28%	3.04%	6.67%	US$4M

** The NAV shown above is after expenses and management fees but before any performance fees. The Fund return may thus not be the same as the return of a discrete investment that might be subject to performance fees through equalisation.*

In our last monthly letter we mentioned that at the time of writing (Sept 11th), Japan's Topix index was – uniquely amongst the world's equity markets – down for the month-to-date. Well, that early September decline in Japan only accelerated over the rest of the month with Topix finishing down 5.8% - hardly a gleeful response by investors to the overthrow of the LDP and arrival of Mr Hatoyama as Prime Minister. Searching for causes on a month-by-month basis is not easy, or necessarily productive, but the strong Yen is as good a scapegoat as any for the weakness in equities. Against the Dollar, the Yen has been strengthening since the Spring, and finished September at a higher closing point than any month since July 1995. This overstates the strength of the Yen as everyone would be aware of the general weakness in the USD and currencies that are pegged to it. Nevertheless, with plenty of other issues to deal with, Japanese manufacturers and exporters have suffered the headwinds of a strong currency and as one would expect, the auto sector was particularly affected. Interestingly, other sectors commonly thought to be "Yen sensitive" such as Machinery and Electricals did not have a particularly poor month and we can only assume that the general improvement in sentiment in most economies acted as a cushion for these sectors against the more direct effects of a strong Yen. The same might have been expected from the autos area, but as a number of the government stimulus-linked "cash for clunkers" programmes have ended, there has been an increase in the number of analysts and commentators who predict tougher times ahead for auto sales.

More difficult to quantify but nevertheless noteworthy has been the comments coming from Mr Shizuka Kamei, newly appointed Minister of Financial Services in Hatoyama's cabinet. Mr Kamei, who turns 73 on All Saints Day in less than two weeks time, was a minister in Mr Koizumi's last LDP cabinet and fell foul of his then PM by expressing his opposition to Koizumi's plans to privatize the Japanese Post Office. Like a number of erstwhile LDP Diet members, Mr Kamei has left the listing LDP mothership and now finds himself in coalition with the DPJ government courtesy of his position as leader of the People's New Party. The comments that have caught attention are his suggestions that banks should agree to a debt repayment moratorium for their small and medium sized business customers, although he has continued to modify his suggestions and generally confused the issue by stating that any loans "delayed" as a result would not need to be classified as bad or doubtful assets by the banks. Although not due solely to Mr Kamei's comments, it is no surprise that banks did poorly in September (-16% in fact) and were the third worst performing sector behind fellow financials Securities (-25%) and Other Financials (-21%). Looking back over the past twenty years, the Topix Banks sector now trades at the lowest point relative to the Topix index and is 90% lower than it was in mid November 1989 while the Topix index is "only" down 67%. Not nice.

Other than Mr Kamei and the strong Yen, we are also told that the recent equity capital raisings in Japan have contributed to the market weakness over this past month and quarter. If this is a factor, it can only be so in the context of the relatively small allocation to equities by Japanese institutions and individuals. Developed equity markets are all up by 15-30% this year and Emerging Markets are up by a lot more in nearly all cases. Most markets have seen considerable equity issuance as companies pay down debt and deleverage and this has not hurt their equity indices, but Japan, with only a small total raised this year, has struggled with their's. Perhaps it is a feeling that listed Japanese companies as a whole do not need to deleverage and a good number of those businesses that have come to market to raise equity capital have quite a bit to prove. The most recent candidate in that group is Nomura Holdings, which has just completed an equity issue of almost Y400bn after already raising Y270bn in March this year. The company has given a number of purposes – mainly plausible – as to what they will do with

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the money raised – but ultimately we suspect it is mainly about getting a credit rating that allows them to handle their interest paid on debt. If Nomura were able to demonstrate that they could execute their business well, this equity raising might be seen as a good way of helping a business capitalise on new opportunities. The market remains dubious, but at least they have the money in hand now, and we can watch how they put it to work, and what ends up coming back to shareholders' benefit.

The cuurent quarter and the one following should see starkly better year-on-year numbers in a variety of economic indicators from Japan. These should be supportive of better sentiment towards Japanese equities, as indeed evidenced by the very strong buying by foreigners in the first week of October. For something more durable and tangible than a quarter of two of good numbers, we shall be looking for more policy responses from Mr Hatoyama's government. Confidence is a delicate thing, and once lost it is very hard to recover, but the issues he faces are neither new, nor Herculean, and we look forward to a better couple of months for what remains of his inauguration "honeymoon".

Recent 3 month Fund Exposure

% of NAV in	Jul 09	Aug 09	Sept 09
Long Stock Position	86.96	84.22	91.06
Index Futures	-	-	-
Net Exposure	86.96	84.22	91.06

Performance Statistics

Last 12 Months	5.04%
3 Yr Annual Average Return	-6.90%
5 Yr Annual Average Return	2.33%
Average Annual Return Since Inception	1.97%

Position Concentration

	Top 5	Top 10
Longs	24.77%	42.92%
Total no. positions	31	

Top Five Positions

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

Winners

Shin-Etsu Chemical Co Ltd
Bridgestone Corp
Nippon Telegraph & Telephone Corp
Capcom Corp
K's Holdings Corp

Losers

Tokyo Tatemono Co Ltd
Mitsubishi UFJ Lease & Finance Company Limited
Nintendo Co Ltd
Sumitomo Mitsui Financial Group Inc
Mitsubishi Materials Corp

Sector Exposure *as at 30 September, 2009*

	Longs
Materials	15.40%
Industrials	17.83%
Financials	18.31%
Energy	-
Consumer. Non-Disc	2.43%
Consumer Disc	20.78%
Utilities	-
Telecom	8.73%
Technology	7.57%
Total Equity	91.06%
Index Futures	-
Net Exposure	91.06%

September Qtr Sector Performance – P&L

	Longs	Shorts	Total
Materials	-0.46%		-0.46%
Industrials	-0.10%		-0.10%
Financials	-3.69%		-3.69%
Telecom	0.16%		0.16%
Consumer Non-Disc	0.08%		0.08%
Consumer Disc	0.35%		0.35%
Utilities	-		-
Technology	-1.01%		-1.01%
Index Futures	-		
FX and Other	8.81%		8.81%
Total	4.15%		4.15%

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				6.05

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***