

Monthly Performance % - as at 28 February 2013

| | NAV | February | YTD | AUM |
|--|-----------|----------|-------|---------|
| Offshore Feeder | US\$11.59 | 1.40% | 5.65% | US\$14M |
| <i>Topix Return is in USD unhedged using WM London 4pm close</i> | | 2.64% | 6.35% | |

Please note:

- The Fund now is open for dealing weekly (rather than monthly)
- The Manager is changing the Fund's policy on hedging and will soon move to a position of being fully hedged out of Yen (into USD) rather than completely un-hedged as has been the policy since inception.

Please contact the Manager if you have any questions regarding either of these changes.

Watch out! Abe-nomics is catching on in even the habitually cautious world of Japanese pension funds. The GPIF is talking up domestic equities and they have much to do to get weightings back to anywhere near respectable levels given their current allocation is only 11%. It is the first time in many, many years that we have seen such a bullish view on equities expressed by a senior person at a Japanese pension fund. The following piece appeared in the press on February 21st:

"Public Pension Giant To Review Asset Weightings. TOKYO (Nikkei)--The Government Pension Investment Fund, which oversees more than 100 trillion yen in retirement savings, will consider raising its exposure to domestic stocks in its first portfolio reallocation in years.

The fund ranks as one of the world's biggest institutional investors, with 107.72 trillion yen in managed assets at the end of September. Some 67% of this money is allocated to Japanese bonds, 11% to domestic stocks, 9% to foreign equities and 8% to

foreign bonds. These basic weightings have not changed since 2004.

Starting this spring, the fund's Investment Committee will discuss reformulating the asset mix. The changes could come as early as the second half of fiscal 2013. But the shift will be gradual to avoid unsettling the markets.

The fund may raise its weightings of domestic stocks and foreign assets, GPIF President Takahiro Mitani suggested Wednesday. He predicted Japanese shares will continue to perform well and said "some committee members may argue that stocks make a good investment option." In addition, some at the fund may think it needs to reduce its dependence on domestic bonds."

There has been a steady stream of positive articles in the media covering areas such as real estate, banks and de-regulation (e.g. simplification of the trials and approvals process for new drugs) and meanwhile, approval ratings for PM Abe's government have climbed above 70%. The Topix managed a very solid 3.8% rise in local currency after the massive 9.4% jump in January and saw a bunch of new names make the list of best performing sectors with rubber, paper, airlines and shippers at the top. Unlike the previous two months, our sector and stock selection was not good and would have been worse had it not been for our large position in the real estate sector.

Our largest sector bet remains the banks, which after a stellar January, performed in line with the market last month. As is so often the case, as the banks shares go higher, the news flow gets better. We have written before of the opportunity for Japanese banks to grow their businesses as European banks shrink

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and consolidate their balance sheets and it is clear that this is real and ongoing.

From the Nikkei on February 18th:

“ Mitsubishi UFJ Financial Group Inc. (8306) became the leading financier of infrastructure and resource projects in 2012, snagging the No. 1 spot for the first time in global rankings.

According to Thomson Reuters, MUFG was followed by Sumitomo Mitsui Financial Group Inc. (8316), which came in third, and fourth-ranked Mizuho Financial Group Inc. (8411). The three megabanks' share of the global project financing market rose 1.9 points to 12.9%.

All three megabanks took part in the year's biggest financing project -- lending totaling 1.6 trillion yen to an Australian liquefied natural gas project led by Inpex Corp. (1605).

MUFG took on a wide range of projects in Japan, the U.S. and Europe. Having poached senior specialists in the field from Citigroup Inc. of the U.S. and Royal Bank of Scotland of the U.K., the bank has increased lending to non-Japanese projects.”

The Japanese market has certainly had a good run since the November low, rising by 39% in Yen, but only 19% in USD. Cyclical sectors - both domestic ones such as banks and real estate, and global ones such as steel, shipping and autos – have been at the forefront of the rally, and should remain well bid. Domestic investors have returned to the market and although net sellers for the year so far, the retail investors have been very active with their share of market turnover rising to 30% on much increased volumes. Domestic investors – whether acting directly or via investment trusts (mutual funds) have also been active participants in new equity raisings for IPOs– particularly in the J REIT sector. This makes a lot of sense to us and it has been a source of frustration that until recently, the individual Japanese investor seemed unimpressed by J REITs with stable dividends trading on yields of 5, 6 or even 7%.

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That has now clearly changed and in the new equity raisings we've seen, the majority of the equity has been placed with retail investors. The following piece from the Nikkei of March 3rd puts this into context:

“Real estate investment trusts are expected to raise 208.4 billion yen in the January-March quarter, almost triple the amount they raised in the preceding quarter and a record for any three-month period, The Nikkei has learned.

REITs invest in property and pay investors dividends mostly out of rental income.

Purchases of properties by REITs are also growing briskly. SMBC Nikko Securities Inc. estimates about 800 billion yen worth of property will be purchased by the trusts in the first five months of the year. At that rate, property purchases would surpass the previous record of about 1 trillion yen marked in 2008.

Land prices are also ticking up in parts of the Tokyo metropolitan area. Expectations for more monetary easing under the Bank of Japan's new leadership are sparking demand for property.”

“It's an opportune time to buy properties now,” said an official at Nippon Building Fund Inc. (8951), “because real estate prices will soon find a floor, which will likely push up office rents.”

With 10 year JGB yields below 70bps, deposits earning nothing, vacancy rates falling and rents edging up, the demand for J REITs is unlikely to disappear and we might well see individual investors become net buyers. If Japanese pensions are looking at buying to raise their equity allocations and individuals turn net buyers, who is going to sell to them? Whoever the seller is, our bet is that it will be at levels quite a lot higher than where we sit today.

We are bullish and the Fund is fully invested. If Mr Abe's new Bank of Japan Governor can deliver on his aggressive inflationary goals, Japanese equities will go a lot higher before we are moved to sell.

Recent 3 month Fund Exposure

| % of NAV in | Dec 12 | Jan 13 | Feb 13 |
|----------------------|--------|--------|--------|
| Long Stock Positions | 93.80 | 98.38 | 96.91 |
| Index Futures | - | - | - |
| Net Exposure | 93.80 | 98.38 | 96.91 |

Optimal FUND MANAGEMENT

Should you wish to make an enquiry about the Optimal Japan Absolute Long Fund, please see our website www.optimalasia.com or contact us by email at optimal@optimalasia.com.

Position Concentration

| | Top 5 | Top 10 |
|------------------------|--------|--------|
| Longs | 32.57% | 55.09% |
| Total no. of positions | 26 | |

Top Five Positions

Sumitomo Mitsui Financial Group Inc
Mitsubishi UFJ Financial Group Inc
Mitsubishi Estate Co Ltd
Nissan Motor Co Ltd
Itochu Corp

Winners

Bridgestone Corp
Mazda Motor Corp
Sumitomo Realty & Development Co Ltd
Seria Co Ltd
Nihon Kohden Corp

Losers

Daito Trust Construct Co Ltd
Yamada Denki Co Ltd
Gree Inc
Benesse Holdings Inc
Hitachi Ltd

Sector Exposure as at 28 February 2013

| | Longs | | Longs |
|----------------------------|--------|------------------------|--------|
| Consumer Discretionary | 29.03% | Industrials | 13.21% |
| Consumer Non-Discretionary | 3.26% | Information Technology | 10.50% |
| Energy | 4.20% | Materials | 2.33% |
| Financials | 29.30% | Telecommunications | 2.39% |
| Health Care | 2.69% | | |

Historical Returns- 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 | Topix* YTD |
|----------------------------|-------|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|------------|
| (Inception September 2004) | | | | | | | | | | | | | | |
| 2013 | 4.19 | 1.40 | | | | | | | | | | | 5.65 | 6.35 |
| 2012 | 2.84 | 2.31 | 1.04 | -1.81 | -9.47 | 3.97 | -1.30 | -1.79 | 1.73 | -1.42 | -0.57 | 5.68 | 0.37 | 5.01 |
| 2011 | 1.31 | 3.89 | -9.20 | 1.72 | -0.51 | 1.02 | 3.69 | -6.40 | -3.98 | 2.70 | -4.91 | 0.83 | -10.34 | -14.55 |
| 2010 | 2.58 | 0.19 | 4.19 | 1.88 | -8.25 | -3.15 | 3.36 | -2.39 | 5.77 | 3.79 | 0.36 | 8.26 | 16.65 | 13.67 |
| 2009 | -5.28 | -11.56 | 3.78 | 4.75 | 9.49 | 2.12 | 3.11 | 4.76 | -3.58 | -2.26 | -2.78 | -0.38 | 0.38 | 2.85 |
| 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 | -28.24 |
| 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 | -6.37 |
| 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 | 0.94 |
| 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 | 24.59 |
| 2004 | | | | | | | | | -1.60 | -1.32 | 6.18 | 2.52 | 5.70 | 8.16 |

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