

A

F

M

## ABSOLUTE FOCUS FUND

## Hangovers follow Binges

Both share classes of Absolute Focus appreciated by more than 1% in February, setting new all-time highs for a fourth consecutive month. Being at all-time highs might not sound particularly impressive but this achievement puts us in rare company in the investment world. Double-digit gains in 2009 and 2010 have corrupted the memories of many investors but it is a fact that the FT World Share Index needs to rise by another 15% to recover its October 2007 high. In the UK, the FTSE 100 Index finished February at 5994, still 11% below the level at which it stood before the financial crisis. Incredibly, the FTSE's peak of 6930 was set more than 11 years ago. Within our peer group, the HFR Funds of Hedge Funds Index finished February 8% adrift of its 2007 high. Whilst these are observations of performance relative to indices, the fact remains that most investors have less money now than they had in September 2007 whilst investors in Absolute Focus have comfortably more. This is the only relevant benchmark of absolute return investing.

Performance attribution in February was very similar to last month with Absolute Focus's US investments providing most of the gains. USLS6 (+5.5% in February, +11.8% year-to-date) and USLS1 (+3.5% in February, +8.9% year-to-date) were again the sub-strategy's top performers. However, they are very different funds. San Francisco-based USLS6 is a classic hedge(d) fund with maintains low net market exposure. Returns can therefore be attributed almost entirely to stock selection which is widely diversified. In contrast, Dallas-based USLS1 has a long bias and the long part of its portfolio is concentrated in relatively few stocks. Even though USLS1 was profitable in 2008 (+6.7%), it is, in our assessment, a riskier investment than USLS6 and is sized accordingly. Focus's two Japanese investments contributed solidly to overall performance in February and the collective return of our European investments also improved after January's modest loss. However, we remain frustrated and dissatisfied with this part of the portfolio which is currently the main focus of our fund-selection work.

Away from the harrowing headlines in Japan and Libya, a much bigger threat to financial markets has quietly been continuing to grow. During the last few weeks, differences in yield ("spreads") in euro-zone government bond markets have widened to new records. Despite EU bailouts, yields on 5-year euro-denominated bonds sold by Greece have soared to 14% and by Ireland

to 10%. Portuguese bond yields have breached 7% (the level at which the Greek and Irish governments were forced to seek financial help) and Spanish, Belgian and Italian bond spreads (versus Germany whose 5-year bonds yield 2.5%) have all set new highs in the lifetime of the euro. Despite these ominous signs, euro-zone politicians continue to adopt a 'sticking plaster' approach to a problem which will only worsen if interest rates have to be increased to combat rising inflation. The guardians of the euro know that many banks in euro-land remain woefully undercapitalised and are in no state to absorb the losses which default or restructuring of their vast holdings of euro-zone government bonds would precipitate. Prices in the market imply that restructuring is inevitable. Either that or Greek bonds are the investment steal of the decade.

Meanwhile, in the US, the great con continues. The economy is growing but it would be deeply worrying if it wasn't given the vast ongoing fiscal, financial and monetary support. Even here though, the day of reckoning cannot be postponed forever. In just over three months time, QE2, the life-support mechanism through which money continues to be pumped into the US economy through the Federal Reserve's buying of US government bonds, will end. QE3 is a possibility but its announcement would likely see the dollar plunge and could also cause Treasury bond yields to rise instead of fall.

For the last two years, investors have binged on cheap and endless liquidity. However, we are far from convinced that the world is any healthier economically as a result. Reasons to be cautious are plentiful: euro-zone finances, stubbornly high unemployment, austerity and inflation, to list just a few of the main ones. I know we sound like a scratched record but the world is still awash with too much debt and there is no easy or painless way to get rid of it. We see no alternative to years of below average growth in which standards of living for many will decline. This economic backdrop will, however, ruthlessly expose the strengths and weaknesses of companies and will therefore provide an investing environment in which Absolute Focus Fund should be able to deliver highly competitive returns.

**Charles Hovenden & Andrew Wheeler**  
22nd March 2011

## Results

Share Class	NAV	February 2011		Year-to-date	
		Fund (%)	FT World (%)*	Fund (%)	FT World (%)*
Class A - US\$	US\$123.78	+1.02	+3.01	+1.65	+5.02
Class B - £	£125.10	+1.03	+1.44	+1.68	+1.08

\*Index in the currency of the respective share class – Source: FT/Bloomberg

A F M

## Biggest 5 Holdings as at 28th February 2011

Name of Fund	Size %	Strategy	February (%)	Year-to-date (%)
USLS6	7.8	US Equity Long/Short	+5.5	+11.8
USLS7	7.0	US Equity Long/Short	+1.4	+3.0
USLS2	6.6	US Equity Long/Short	+3.0	+3.8
JELS2	6.6	Japanese Equity Long/Short	+1.7	+1.7
EELS1	6.5	European Equity Long/Short	+0.0	(1.0)

## Best 3 Funds in February

Name of Fund (size)	Strategy	February %	YTD%
USLS6 (7.8%)	US Equity L/S	+5.5	+11.8
USLS1 (3.8%)	US Equity L/S	+3.5	+8.9
USLS2 (6.6%)	US Equity L/S	+3.0	+3.8

## Worst 3 Funds in February

Name of Fund (size)	Strategy	February %	YTD%
USLS4 (2.7%)	US Equity L/S	(1.0)	(1.5)
USLS8 (3.2%)	US Equity L/S	(0.9)	+1.1
USLS5 (6.1%)	US Equity L/S	(0.6)	+0.4

## Full Track Record &amp; Summary Statistics (Class B - £)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Year
2005									0.98	(0.05)	0.77	1.83	<b>3.57</b>
2006	2.13	(0.19)	0.94	0.99	0.25	(0.99)	(1.61)	0.88	0.32	(0.36)	0.30	1.86	<b>4.55</b>
2007	0.23	1.12	1.08	0.59	1.72	1.17	0.17	(0.11)	0.66	2.59	(0.87)	0.70	<b>9.39</b>
2008	(0.65)	0.76	(0.51)	0.54	0.57	0.93	0.27	0.19	(0.72)	(1.01)	1.12	0.24	<b>1.72</b>
2009	0.60	0.15	(0.69)	(0.99)	1.48	0.02	(1.18)	0.05	0.57	(0.12)	(0.15)	0.72	<b>0.43</b>
2010	0.00	0.03	0.47	0.28	(0.83)	(1.35)	0.68	(0.09)	0.75	0.59	0.66	0.49	<b>1.67</b>
2011	0.64	1.03											<b>1.68</b>
<b>Annual Rate of Return</b>	<b>4.15</b>		<b>Sharpe Ratio (@ 3% risk free)</b>				<b>0.40</b>		<b>Biggest Monthly Loss</b>			<b>(1.61)</b>	
<b>Standard Deviation</b>	<b>2.90</b>		<b>Correlation FT World Index (Local)</b>				<b>0.28</b>		<b>Biggest Peak-to-Trough Drawdown</b>			<b>(2.58)</b>	

Source: Absolute Fund Managers LLP

## General Information

**Description:** Equity-focused fund of hedge funds  
**Firm AuM:** US\$88.7m/£54.6m  
**No. of Holdings:** 17  
**Share Classes:** US\$, £ and Euro  
**Basic Fee:** 0.50% p.a.  
**Incentive Fee:** 15% of profits  
**High Water Mark:** Yes  
**Dealing:** Monthly (with 35 days notice for redemptions)  
**Min. Investment:** US\$100,000  
**Fund Domicile:** Cayman Islands  
**Listing:** Irish Stock Exchange

**Investment Manager:** Absolute Fund Managers LLP  
 Marquis House, 67/68 Jermyn Street  
 London SW1Y 6NY  
 Telephone: **+44 (0) 20 7925 8078**  
 Contact: **Andrew Wheeler**

**Administrator:** Northern Trust International Fund  
 Administration Services (Ireland) Ltd.  
 George's Court, 54 -62 Townsend Street  
 Dublin 2  
 Telephone: **+353 1 670 0660**  
 Contact: **Darran Walsh**

## Risk Warning

The Absolute Focus Fund Ltd. (the "Company") is not a recognised collective investment scheme for the purposes of the Financial Services and Markets Act 2000 (the "Act"). This document is issued by Absolute Fund Managers LLP ("AFM"), which is regulated by the Financial Services Authority and is being communicated only to persons (each a "permitted recipient") of the kind to whom both (1) the Company is permitted to communicate financial promotions pursuant to The Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (the "Order") and (2) AFM is permitted to communicate financial promotions relating to the Company or otherwise promote the Company under the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the "CIS Order"). It may not be passed on or communicated by the recipient to any other person. Such permitted recipients include existing shareholders of the Company, authorised persons and other investment professionals under

Article 19 of the Order and Article 14 of the CIS Order. It does not and is not intended to constitute an offer or solicitation to purchase shares of the Company which may only be made on the basis of the latest private offering memorandum of the Company and the risk and other disclosures made therein. Persons who do not have professional experience in participating in unregulated collective investment schemes should not rely on the information contained herein. The rules made under the Act for the protection of private customers do not apply and the Financial Services Compensation Scheme will not be available for investments in the Company. Past performance is not necessarily a guide to future performance and the value of an investment can go down as well as up. Investors may not get back the full amount originally invested. The value of overseas investments may be influenced by changes in exchange.

Source: Absolute Fund Managers LLP