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ABSOLUTE FOCUS FUND

Changes in Pursuit of Higher Returns

Historically, Absolute Focus's portfolio has replicated almost exactly the equity long/short 'half' of the Absolute Fund's portfolio. Over the last five years, Absolute Focus has provided returns which are almost twice that of the FT World Share and the HFR Funds of Hedge Funds indices and has also outperformed the Absolute Fund. In 2008, Absolute Focus was one of very few funds of hedge funds on the planet to have made money for its investors. Despite this success, we have been frustrated by disappointingly dull performance over the last two years and we have decided to make some changes which we believe will bring higher returns.

During our fund research work, from time to time we come across funds which have excellent track records but which have never been marketed and are too small in size for the Absolute Fund to make an investment. We never want to own more than 10% of any underlying hedge fund and as the Absolute Fund's usual size of investment is US\$2m this effectively rules out funds which are less than US\$20m in size. Funds which are below this size can, of course, be much nimbler, can invest meaningfully in much smaller and under-researched companies without jeopardising liquidity and also tend to have their own managers as their largest investors, thus providing real motivation and alignment of interests. Not surprisingly, therefore, smaller funds often have better performance than larger funds whose managers may perhaps have become less hungry. Absolute Focus usually invests in units of US\$500,000 which means it can invest in smaller funds than the Absolute Fund. Over the next few months, we will be replacing some of the investments in larger hedge funds in Absolute Focus's portfolio with investments in these smaller funds. Our due diligence process will be exactly the same as for larger funds in respect of investment process and will be even more demanding in respect of operations, administration and audit. Absolute Focus's mandate to invest predominantly in equity long/short funds will remain unchanged and we will not be seeking to make investments in exotic (=illiquid) regions. The intention is that the performance of Absolute Focus Fund and the equity long/short 'half' of the Absolute Fund will diverge with the former having higher returns in exchange for a little more risk.

For much of June, fears about a Greek debt default, the impasse over raising the US debt ceiling, the end of QE2, fal-

tering economic growth and a Chinese hard landing weighed heavily on markets, the FT World Share Index falling 5.2% from the level at which it started the month. However, a remarkable rally in the last week of June as Greece successfully negotiated the release of a €12bn tranche of its first bailout loan (money that will have been used up by the end of August) left the Index down by just 1.6% for the month. The abrupt change in investor sentiment for the second month in succession once again left many of the cleverest investors wrong-footed. Over the last two months, the HFR Fund of Hedge Funds Index is down by 2.5% and it is no mean achievement that Absolute Focus is up and within easy striking distance of February's all-time high.

June's profitable outcome was due mainly to strong performance from USLS6 (+5.4%) and EELS4 (+3.1%). Honourable mention also goes to JELS3 which delivered a gain of 2.0% in its first month in Absolute Focus's portfolio. Frustratingly, the two US equity long/short funds, USLS10 and USLS5, to which we submitted redemption notices at the end of May, rewarded us with losses of 3.7% and 2.6% in their final month in the Absolute Focus's portfolio. The overall scorecard for June was nine funds up and ten funds down.

Looking back at the first half of the year, almost all of Absolute Focus's return can be attributed to its investments in the US. USLS6 (+27.6%) is the standout success but USLS1 (+6.8%) and USLS2 (+5.2%) have also made notable contributions. Our investments in Europe have, in contrast, generally been disappointing, not because we have lost money but because the return on invested capital has been so poor. It remains a conundrum to us why we find it relatively easy to find great investment talent in the US but much harder on our doorstep.

We are genuinely enthused about the changes we are making to Absolute Focus's portfolio. The only relevant measure of those changes, however, will be the returns Absolute Focus provides for its investors in the months and years ahead. We're confident!

Charles Hovenden & Andrew Wheeler
21st July 2011

Results

Share Class	NAV	June 2011		Year-to-date	
		Fund (%)	FT World (%)*	Fund (%)	FT World (%)*
Class A - US\$	US\$123.42	+0.24	(1.55)	+1.36	+5.23
Class B - £	£124.95	+0.27	+0.93	+1.55	+2.61

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

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Biggest 5 Holdings as at 30th June 2011

Name of Fund	Size %	Strategy	June (%)	Year-to-date (%)
USLS6	7.6	US Equity Long/Short	+5.4	+27.6
USLS2	6.8	US Equity Long/Short	+0.8	+5.2
JELS2	6.8	Japanese Equity Long/Short	(0.8)	+2.5
EELS1	6.8	European Equity Long/Short	+0.1	+1.1
EELS2	6.4	European Equity Long/Short	+1.6	+3.1

Best 3 Funds in June

Name of Fund (size)	Strategy	June %	YTD%
USLS6 (7.6%)	US Equity L/S	+5.4	+27.6
EELS4 (6.1%)	European Eq L/S	+3.0	(2.6)
JELS3 (3.1%)	Japanese Eq L/S	+2.0	+2.0

Worst 3 Funds in June

Name of Fund (size)	Strategy	June %	YTD%
USLS10 (3.0%)	US Equity L/S	(3.7)	(9.2)
USLS5 (3.1%)	US Equity L/S	(2.1)	(5.5)
USLS8 (6.2%)	US Equity L/S	(1.6)	(1.0)

Full Track Record & 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	3.57
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	4.55
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	9.39
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	1.72
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	0.43
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	1.67
2011	0.64	1.03	(0.05)	(0.15)	(0.19)	0.27							1.55
Annual Rate of Return	3.89		Sharpe Ratio (@ 3% risk free)		0.31		Biggest Monthly Loss		(1.61)				
Standard Deviation	2.84		Correlation FT World Index (Local)		0.27		Biggest Peak-to-Trough Drawdown		(2.58)				

Source: Absolute Fund Managers LLP

General Information

Description: Equity-focused fund of hedge funds
Firm AuM: US\$87.4m/£54.4m
No. of Holdings: 19
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

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Source: Absolute Fund Managers LLP