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## ABSOLUTE FOCUS FUND

## Re-arranging the Deckchairs on the Titanic

November was a testing month in which the announcement of QE2, anticipation of which had propelled the prices of most 'risk assets' higher in September and October, came and went and fears about European sovereign debts returned with a vengeance. In a challenge to the credibility of policymakers and defiance of what was intended, bond yields rose (i.e. bond prices fell) in both the US and Germany. Corporate credit spreads (the additional interest paid by companies over and above that paid by governments) also widened and most major equity markets, with the exception of Japan, closed the month lower. In the UK, the FTSE 100 Share Index fell by 2.6%. Against this background and in a month when the peer-group HFR Funds of Hedge Funds Index was also down, we are pleased to report a gains of +0.63% and +0.66% for the US\$ and £ share classes respectively..

This takes the share prices of Absolute Focus Fund to new all-time highs. Although we will be the first to admit that we have subjected investors (and ourselves) to immense frustration with dull performance over the last eighteen months, we would wager that investors have few other investments (which they have owned from before 2008) about which they can make the same claim. After all, most major equity market indices (including the UK's FTSE and the US's S & P Composite) are still 20% below their 2007 peaks. Amidst all the excitement over the last two years about the developing economic powerhouses of China, India and Brazil, readers might think that investments in emerging markets have been different and much more profitable. However, the Morgan Stanley Emerging Markets Index is also 20% below its October 2007 high.

Our insistence that all the underlying managers to whom we allocate employ genuinely hedged investment strategies and are not opportunist, long-only managers 'in disguise' was the key to November's success. US hedge funds contributed 55bps to overall gross performance. Dallas-based USLS1 was up by another 4% in November, taking its year-to-date performance to 22%, whilst New York-based USLS7 also took its 2010 gain into double figures with a return of 3.6% last month. Chicago-based USLS10 made 2.1% in its first month in Absolute Focus's portfolio. Indeed, the aver-

age gain recorded by the six profitable US equity funds was +2.2% whilst the average loss suffered by our four losing funds was just -0.5%. European hedge funds contributed 30bps, headed by EELS2 (+2.9%) and new fund EELS5 (+2.8%). In Asia, gains from our two Japanese funds were offset by AELS1's 3.4% loss. Fortunately, we had halved the size of this investment in July.

The developing sovereign debt crisis in Europe will be just one source of uncertainty for financial markets in 2011. Ireland's €85bn bail-out demonstrated that it is thought vital for the credibility of the euro that no member of the euro-zone should default and restructure its debts, regardless of the economic grounds for doing so. Few seem to care that it will take close to an economic miracle for Ireland ever to be able to repay the additional borrowings forced on her. We do not for one moment underestimate the political will within the EU to preserve its sacred cow, but the denial cannot last forever. Some of the euro-zone's weaker states will eventually have to restructure their debts and, as Chancellor Merkel has already and entirely reasonably suggested, holders of sovereign bonds, which include many European banks, will have to face up to their losses.

Our hedged strategy should continue to insulate Absolute Focus Fund from swings in investor sentiment regarding the economic outlook and the accompanying dips and rallies in equity and bond markets. As we noted above, 2010 has been an immensely frustrating year for us because the deluge of cheap money has created entirely artificial investing conditions in which persistently high correlations have made stock selection skills largely redundant. However, our core thesis that much of the debt accumulated over the last ten or more years will eventually have to be repaid, sentencing the developed world to years of below-average growth, remains unchanged. In such an environment, we remain absolutely confident that marked dispersion between the share prices of strong and weak companies will return and this will provide a lucrative opportunity set for our managers and for Absolute Focus Fund.

**Charles Hovenden & Andrew Wheeler**  
21st December 2010

## Results

Share Class	NAV	November 2010		Since inception	
		Fund (%)	FT World (%)*	Fund (%)	FT World (%)*
Class A - US\$	US\$121.21	+0.63	(2.27)	+21.21	+19.59
Class B - £	£122.44	+0.66	+0.34	+22.44	+38.15

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

## Biggest 5 Holdings as at 30th November 2010

Name of Fund	Size %	Strategy	November (%)	Year-to-date (%)
EELS1	7.3	European Equity Long/Short	+0.4	+4.9
USLS6	7.3	US Equity Long/Short	+2.0	+18.3
USLS7	6.7	US Equity Long/Short	+3.6	+10.0
JELS1	6.6	Japanese Equity Long/Short	+0.5	+3.3
JELS2	6.5	Japanese Equity Long/Short	+0.9	+5.7

## Best 3 Funds in November

Name of Fund (size)	Strategy	November %	YTD%
USLS1 (3.5%)	US Equity L/S	+4.0	+22.1
USLS7 (6.7%)	US Equity L/S	+3.6	+10.0
EELS5 (6.2%)	Euro Equity L/S	+2.8	+30.5

## Worst 3 Funds in November

Name of Fund (size)	Strategy	November %	YTD%
AELS1 (2.6%)	Asian Equity L/S	(3.3)	(8.1)
USLS4 (5.9%)	Euro Equity L/S	(1.6)	(1.0)
USLS4 (2.8%)	US Equity L/S	(0.8)	(9.5)

## 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		<b>1.17</b>
<b>Annual Rate of Return</b>	<b>3.93</b>		<b>Sharpe Ratio (@ 3% risk free)</b>				<b>0.31</b>		<b>Biggest Monthly Loss</b>			<b>(1.61)</b>	
<b>Standard Deviation</b>	<b>2.95</b>		<b>Correlation FT World Index (Local)</b>				<b>0.27</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\$83.9m/£53.9m  
**No. of Holdings:** 18  
**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