



Share Class (Principal series)	NAV	August 2006		Since Inception†	
		Fund (%)	Cash (%)*	Fund (%)	Cash (%)*
Class A – US\$	\$106.40	+0.97	+0.46	+6.37	+4.68
Class B - £	£106.04	+0.88	+0.39	+6.03	+4.60
Class C - €	€104.22	+0.75	+0.26	+4.22	+2.55

*Cash rates used are Citigroup 3-Month 'Eurodeposit' – Source: Citigroup

†1st September 2005

COMMENT The month of August seemed quieter than usual this year and little of note happened to perturb equity or bond markets. With the exception of the FTSE 100, most equity markets drifted gently upwards, and bond indices were generally slightly better as inflation and interest rate fears faded into the background.

Absolute Focus recovered some of the losses of the past two months and produced a return for the Class B shares of 0.88% largely as a result of strong performance from the event-driven and distressed debt strategies. All six funds in the event-driven portfolio were up in August and ED10 emerged as the second best overall performer of the month with a rise of 3.53%. Distressed strategies contributed 0.46% to overall performance and DHY5 rose by 8% to recover some of its losses of the past two months.

The Japanese equity long/short portfolio, a major disappointment so far this year, showed a much improved trend in August with a combined return of 0.18%. European and US equity long/short funds were also positive for the month, although USLS15, a US long/short fund specialising in the technology sector disappointed with a further loss in August and we have now issued a redemption notice.

The largest negative return of -0.23% came from SBE7, Absolute Focus' sole exposure to short-bias equity. Like most of its competitors, SBE7 found shorting to be very difficult during a month in which there were few catalysts to drive down the valuations of weak or failing companies. Short-bias credit also generated a small loss as bond markets were quiet and high yield credit spreads actually tightened a little.

OUTLOOK Looking ahead, Absolute Focus seems well set to benefit from its exposure across the range of strategies, however we expect to make some changes over the next few months.

The short-bias strategies, while offering defensive characteristics, act as a drag on performance and we are therefore likely redeem the holding in SBE7 (US short bias) at an appropriate point. The holding in short-bias credit (SBC2) will be retained as exposure to this strategy is tactical rather than defensive; we strongly believe that high-yield bonds are over-valued and currently yield too little compared to government bonds. Any widening of this interest rate 'spread' will lead to significant gains for SBC2.

Finally, we plan to cut back some of the fund's exposure to equity-based strategies in order to reduce correlation with equity markets at a time when conditions may become more difficult and the global economic environment is deteriorating. This will be achieved in part by cutting exposure in the event-driven sector, and instead making investments in strategies with lower equity market correlation.

STRATEGY	Contribution Aug 2006 %	Weighting Aug 2006 %
US Equity Long/Short	0.06	15.0
Japan Equity Long/Short	0.18	11.8
European Equity Long/Short	0.13	11.0
Event-driven	0.50	29.6
Convertible Bond Arbitrage	0.05	5.5
Distressed Debt (hedged)	0.46	10.2
Global Macro	(0.08)	5.0
Short-bias Equity & Credit	(0.23)	6.6

Best 3 Funds	%	Strategy	Aug	YTD
DHY5	4.9	Distressed Debt	+8.7	+53.2
ED10	5.5	Event-Driven	+3.5	+9.0
JLS10	4.8	Japanese Equity L/S	+3.1	(5.3)

Worst 3 Funds	%	Strategy	Aug	YTD
SBE7	6.3	Short Bias Equity	(3.6)	(0.2)
USLS15	4.4	US Equity L/S	(1.1)	(12.3)
SBC3	4.9	Short Bias Credit	(0.4)	+0.5

FUND DATA		Investment Manager
No. of Holdings: 19	Share Classes: \$, € & £	Absolute Fund Management
Basic Fee: None	Performance Fee: 15% of profits	Marquis House
High Water Mark: Yes, monthly	Dealing: Monthly	67-68, Jermyn Street
Notice Period: 35 days	Min. Investment: US\$100,000	London SW1Y 6NY
Fund Domicile: Cayman Islands	Fund Listing: Irish Stock Exchange	Contact: Christopher Aldous
Class A (\$) SEDOL: BOHTJF7	Class B (£) SEDOL: BOHTJG8	+44 20 7925 8070
Class C (€) SEDOL: BOHTJH9		Administrator
		Northern Trust International
		Fund Administration Services
		(Ireland) Ltd.
		George's Quay House
		43, Townsend Street
		Dublin 2 Ireland
		Contact: Sean Donnelly
		+353 1 670 0660

Class B £ Track Record	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2004									A back-tested performance record				
2005	is available on request								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					2.37
Annual Rate of Return			6.03	Sharpe Ratio (@ 5% risk free)				0.27	Biggest Monthly Loss				(1.61)
Standard Deviation			3.74	Correlation FT World Index (Local)				0.47	Biggest Peak-to-Trough Drawdown				(2.6)

Source: Absolute Fund Management

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