



Share Class (Principal series)	NAV	December 2006		Since Inception*	
		Fund (%)	Cash (%)*	Fund (%)	Cash (%)*
Class A - US\$	US\$108.80	+1.91	+0.45	+8.80	+6.57
Class B - £	£108.30	+1.86	+0.43	+8.30	+6.33
Class C - €	€105.90	+1.81	+0.30	+5.90	+3.70

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

†1st September 2005

COMMENT

After a cumulative loss of 2.6% during June and July Absolute Focus is now back at an all-time high and the rise of 1.91% in December was a reminder of how the fund can and should perform on a much more regular basis.

Return for the year was only in line with cash, which is unsatisfactory in our view, held back by a dire performance from the Japanese long/short portfolio and an almost consistently negative contribution from the defensive short-bias components of the fund. In December, everything finally came together with positive contributions from all except the short-bias credit portfolio which produced an insignificant loss of -0.03%. The divergence in valuations between small and large capitalisation stocks in Japan seems to have finally run its course and this part of the portfolio contributed +0.20% to performance in December while European equity long/short had a bumper month and yielded +0.50%.

The fund's heavy exposure to event-driven during the year has also paid off with a total contribution of +2.8% of which +0.39% came in December. Distressed securities performed well too, producing +0.41% for the month and over 3% for the year. On the negative side, after Japan, the biggest drag on performance both for the month and the year came from the short-bias strategies. Although the aggregate negative contribution from both short-biased equity and credit was only just over -1% during 2006, this masks the opportunity cost of having money tied up in these 'insurance'-type strategies instead of a profitable area such as event-driven.

OUTLOOK

With the benefit of hindsight, 2006 was not a year to have worried overly about taking a defensive stance. However, hedging risk is a core part of Absolute Focus's strategy and in our view global economic and political stresses and strains have not gone away and any fall-out has merely been postponed. For example, we have written more than once this year about our reasons for avoiding strategies based on 'over the counter' (OTC) credit derivatives, an asset class which as of June 2006 has a face value of US\$360 trillion - about ten times global GDP and far greater than the value of the fixed interest market from which it derives! We question the stability and liquidity of this relatively new and unproven market if credit defaults begin to rise.

Looking ahead, 2007 will see a much lower dependence on conventional short-bias strategies and a move towards funds with latent defensive characteristics such as convertible bond arbitrage which can offer equal downside protection but produce less drag on performance during strong markets. We also expect Japan to more than repay the patience which we afforded it in 2006. Elsewhere, we will be continuing to improve and hone the portfolio. We would like to thank our investors for their patience and support during 2006 and confidently expect to come rather closer to delivering them our target returns of "ten-percent-plus per year" during 2007.

STRATEGY	Contribution Dec 2006 %	Weighting Dec 2006 %
US Equity Long/Short	0.05	12.0
Japan Equity Long/Short	0.20	11.8
European Equity Long/Short	0.50	14.6
Event-driven	0.39	24.0
Convertible Bond Arbitrage	0.25	13.0
Distressed Debt (hedged)	0.41	8.8
Global Macro	0.18	5.1
Short-bias Equity & Credit	0.00	16.4

Best 3 Funds	%	Strategy	Dec	YTD
DHY3	3.1	Distressed Debt	+7.3	+40.6
ELS3	6.0	European Equity L/S	+4.3	+43.7
ELS2	5.8	European Equity L/S	+4.2	+18.3

Worst 3 Funds	%	Strategy	Dec	YTD
SBC2	4.6	Short Bias Credit	(0.6)	(4.3)
USLS6	4.9	US Equity L/S	+0.0	+6.6
USLS3	5.7	US Equity L/S	+0.6	+12.1

FUND DATA

Size of Fund: US\$16.6m
 No. of Holdings: 20
 Share Classes: \$, € & £
 Basic Fee: None
 Performance Fee: 15% of profits
 High Water Mark: Yes, monthly
 Dealing: Monthly
 Notice Period: 35 days
 Min. Investment: US\$100,000
 Fund Domicile: Cayman Islands
 Listing: Irish Stock Exchange
 Class A (\$) SEDOL: BOHTJF7
 Class B (£) SEDOL: BOHTJG8
 Class C (€) SEDOL: BOHTJH9

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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	0.32	(0.36)	0.30	1.86	4.55
Annual Rate of Return			6.15	Sharpe Ratio (@ 5% risk free)				0.33	Biggest Monthly Loss				(1.61)
Standard Deviation			3.52	Correlation FT World Index (Local)				0.41	Biggest Peak-to-Trough Drawdown				(2.6)

Source: Absolute Fund Management

RISK WARNING

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