



Share Class (Principal series)	NAV	January 2006		Since Inception†	
		Fund (%)	Cash (%)*	Fund (%)	Cash (%)*
Class A – US\$	US\$105.80	+2.20	+0.37	+5.80	+1.69
Class B - £	£105.78	+2.13	+0.38	+5.78	+1.89
Class C - €	€104.87	+1.95	+0.20	+4.87	+0.92

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

†1st September 2005

COMMENT A sharp sell-off towards the end of January gave equity investors a rather bumpy ride, but their rewards were still substantial with particularly strong upward moves in the Japanese and European markets. Sharp intra-month market corrections can often leave hedge funds nursing losses so it is surprising therefore that most hedge fund indices also made substantial gains. The truth is that many hedge funds are no longer properly 'hedged' and instead are highly correlated to equity markets; during 2005 the HFR Funds of Hedge Funds index showed over 85% correlation with the FT World Share Index. Thus, these funds will make big returns when the market rises, but may produce substantial losses if there is a sustained correction.

Absolute Focus also produced a very satisfactory return of +2.2% in US\$ terms in January but we are pleased to report that this was not due to riding the upward momentum in equity markets. In fact, half of the returns came from a single distressed fund; DHY5. At the end of last year Aspen's manager shrank the fund to a small number of residual positions. Due to our relationship with the manager Absolute Focus was able to take up entitlements to the 'stub' rejected by other managers as too small or insignificant. Our expectation was that performance would generally be flat with an occasional very large month and we certainly didn't expect a +30% month to occur in our very first month of ownership!

Elsewhere, the main contribution to performance came from event-driven which is a pleasing endorsement of our decision to invest heavily in this area. ED9 was the best performing fund which has come as a relief after four months of dull performance.

OUTLOOK Some small changes to the portfolio are planned whereby the exposure to short-bias credit will be reduced to around 7% and a new holding in a short-bias equity fund may be introduced. Although we retain our strong conviction that corporate credits are over-valued and do not reflect the true level of risk for investors, we are concerned that this situation may endure for some time. If this is the case, our short-bias credit funds will not cost the Fund too heavily in terms of downside, but there will be the opportunity cost of not having invested more profitably elsewhere. The new short-bias equity position is intended to not only give downside protection in weak equity (and credit) markets but may also generate some useful returns during rising markets.

STRATEGY	Contribution Jan 2006 %	Weighting Jan 2006 %
US Equity Long/short	(0.02)	19.6
Japan Equity Long/short	(0.04)	17.2
European Equity Long/Short	0.26	5.2
Event-driven	0.62	24.7
Convertible Bond Arbitrage	0.24	9.8
Distressed Debt (hedged)	1.61	10.1
Global Macro	0.03	5.4
Short-bias Credit	(0.02)	8.7

Best 3 Funds	%	Strategy	Jan	YTD
DHY5	5.9	Distressed Debt	+30.7	+30.7
ELS13	5.0	European Equity L/S	+5.0	+5.0
ED10	5.4	Event-driven	+4.3	+4.3

Worst 3 Funds	%	Strategy	Jan	YTD
USLS15	5.0	US Equity L/S	(5.3)	(5.3)
JLS5	6.2	Japanese Equity L/S	(3.9)	(3.9)
SBC2	4.2	Short Bias Credit	(0.5)	(0.5)

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

Class B PERFORMANCE	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	3.52
2006	2.13												2.13
Annual Rate of Return			14.42	Sharpe Ratio (@ 5% risk free)				3.12	Biggest Monthly Loss				(0.05)
Standard Deviation			3.02	Correlation FT World Index (Local)				n/a	Biggest Peak-to-Trough Drawdown				(0.05)

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