



Share Class (Principal series)	NAV	January 2007		Since Inception†	
		Fund (%)	Cash (%)*	Fund (%)	Cash (%)*
Class A – US\$	US\$109.08	+0.25	+0.45	+9.08	+7.05
Class B - £	£108.55	+0.23	+0.44	+8.55	+6.80
Class C - €	€106.11	+0.20	+0.31	+6.11	+4.02

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

†1st September 2005

COMMENT The year began with a whimper as commodity markets sold off substantially – as much as 10% at the trough in some cases. A salutary reminder of underlying inflationary pressures then came mid-month when the Bank of England implemented a surprise 0.25% rise in base rates. This move briefly checked any upward momentum in the UK equity market but was rapidly shrugged off as a necessary preventative measure against overheating in the housing and service sectors. During the second half of the month, buoyed by a reassuring forecast of good growth and low inflation-risk by the US Federal Reserve, global equity markets moved ahead strongly and equity market volatility reached a new record low.

Although such low volatility hampers certain strategies, the outlook remains good for most of Absolute Focus Fund's core strategies. Event-driven has already performed well for the fund and there is extensive corporate change and structural financing taking place, especially now in Europe, which will give the sector considerable further potential during 2007. Stronger than expected corporate earnings, plentiful liquidity and low volatility also provide benign conditions for long/short equity managers and we are pleased with the fund's performance in this area. However, we are becoming increasingly concerned with the high level of directional exposure of many long/short equity hedge funds (i.e.. they are more long-only than long/short) and their consequent close correlation with equity markets will lead to big losses if the markets experience a sharp and unexpected setback.

The Class A shares of Absolute Focus were up by just 0.25% in January held back by a negative contribution of -0.13% from the defensive short-bias equity component and losses by ELS3, a high-octane European long/short equity fund, and ED7, a Boston-based event-driven fund. These latter losses were unexpected but should be seen in the context of 2006 returns from the two funds of 18.4% and 17.5% respectively and we are seeing a strong recovery by both funds in February. The principal disadvantage of a concentrated portfolio is the way in which negative numbers from two or three funds can dent what would otherwise be a very good monthly return, but the offsetting benefit is Focus' ability to produce 2% months as it did in December.

OUTLOOK Market volatility is near all-time lows – a reflection of extreme complacency and risk-tolerance by investors – and Absolute Focus has substantial exposure to volatility at these cheap levels. We believe that markets will soon either experience a significant correction or begin to behave more normally for what is in our view the mature phase of a bull market. Both scenarios should be characterised by increased market volatility whereby the value of instruments which capture volatility will rise and produce substantial gains for the fund. The fund is well-placed to benefit from the near-term benign market conditions and sufficiently defensive that it should not suffer significant losses in any setback – we expect to achieve our target returns in 2007.

STRATEGY	Contribution Jan 2007 %	Weighting Jan 2007 %
US Equity Long/Short	0.14	11.36
Japan Equity Long/Short	0.18	10.9
European Equity Long/Short	0.15	16.76
Event-driven	0.07	23.36
Convertible Bond Arbitrage	0.12	12.52
Distressed Debt (hedged)	(0.09)	8.68
Global Macro	(0.06)	4.94
Short-bias Equity & Credit	(0.13)	8.36

Best 3 Funds	%	Strategy	Jan	YTD
ELS2	5.8	European Equity L/S	+4.4	+4.4
USLS5	1.2	US Equity L/S	+3.9	+3.9
ED8	6.6	Event-Driven	+3.0	+3.0

Worst 3 Funds	%	Strategy	Jan	YTD
ED7	5.4	Event-Driven	(5.1)	(5.1)
DHY3	2.8	Distressed Debt	(4.7)	(4.7)
ELS3	5.6	European Equity L/S	(3.1)	(3.1)

FUND DATA

Size of Fund: US\$17.4m
 No. of Holdings: 18
 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
2007	0.23												0.23
Annual Rate of Return			5.95	Sharpe Ratio (@ 5% risk free)				0.28	Biggest Monthly Loss				(1.61)
Standard Deviation			3.42	Correlation FT World Index (Local)				0.43	Biggest Peak-to-Trough Drawdown				(2.6)

Source: Absolute Fund Management

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