



Share Class (Principal series)	NAV	July 2006		Since Inception†	
		Fund (%)	Cash (%)*	Fund (%)	Cash (%)*
Class A – US\$	105.37	(1.60)	+0.45	+5.35	+4.20
Class B - £	105.11	(1.61)	+0.39	+5.10	+4.20
Class C - €	103.45	(1.79)	+0.25	+3.44	+2.28

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

†1st September 2005

**COMMENT** Equities markets were again treacherous during July causing many of Absolute Focus Fund's underlying equity long/short funds to lose money for a second month running. Although hedge funds aim to produce positive returns during most market conditions, the behaviour of equities during months like July is particularly hard for them to cope with. Rattled by the escalation of hostilities in the Middle East, major markets had fallen by as much as 4% by mid month only to rebound at the end of the month as the outlook for US interest rates became more optimistic. In these conditions many managers reduced market exposure as part of their risk management procedures, often taking losses on the 'long' side of the portfolio, only to find that they then failed to participate in the month-end market rebound.

If Western markets seemed volatile in July, Japan proved to be worse producing even more exaggerated swings during the course of the month. All of Absolute Focus's Japan equity long/short funds lost money and produced an aggregate negative contribution of -0.32%, roughly a quarter of the fund's 1.6% decline in July. Exposure to Japan was reduced at the end of June, but this only partially mitigated further losses from the area. In other markets smaller stocks were more volatile than their large-cap counterparts. This factor caused severe problems for the event-driven part of the portfolio whose managers find many of their best opportunities amongst smaller companies. In addition ED9, one of the fund's more aggressive event-driven holdings, suffered a heavy unrealised loss when China Telecom unexpectedly withdrew from its well-flagged takeover bid for Millicom.

Over one half of the month's losses came from Aspen, the fund's 'star' distressed debt fund. DHY5 had risen by almost 94% so far this year at its peak in May but has since suffered sharp corrections in June and July. Thus it has proved rather more volatile than we would have wished, but is still up by 43% year to date and we are confident that the recent falls are 'mark to market' related and do not represent any permanent loss of value.

**OUTLOOK** As mentioned above, some of the losses during July (DHY5, ED9) were largely short-term and may be recovered over the next couple of months. Elsewhere, Japan has significantly held back performance this year, but we feel that its underperformance has only served to heighten the potential upside available when valuations of smaller and medium-sized companies begin normalise. The Mothers Index which represents smaller Japanese companies has fallen by over 40% so far this year, so this long-awaited catch-up should be both exciting and profitable when it happens. Elsewhere, Focus remains committed to its cores themes of avoiding over-priced corporate debt through exposure to short-bias credit funds and retaining exposure to under-priced market volatility via its convertible bond arbitrage managers. Finally, we are anything but complacent about the fund's losses in June and July and aim to rapidly regain our path towards the target returns of 'at least 10% per annum'.

STRATEGY	Contribution July 2006 %	Weighting July 2006 %
US Equity Long/Short	(0.09)	15.1
Japan Equity Long/Short	(0.32)	12.2
European Equity Long/Short	(0.00)	11.0
Event-driven	(0.27)	27.8
Convertible Bond Arbitrage	0.03	5.5
Distressed Debt (hedged)	(0.76)	11.0
Global Macro	(0.09)	5.1
Short-bias Equity & Credit	0.09	11.4

Best 3 Funds	%	Strategy	July	YTD
ELS14	5.8	European Equity L/S	+1.2	+33.1
SBC3	5.0	Short Bias Credit	+0.9	+0.9
SBE7	6.7	Short Bias Equity	+0.8	+4.1

Worst 3 Funds	%	Strategy	July	YTD
DHY5	4.6	Distressed Debt	(13.6)	+43.1
JLS10	4.8	Japanese Equity L/S	(4.3)	(8.2)
ED9	5.0	Event-Driven	(2.9)	+3.5

### FUND DATA

No. of Holdings: 21  
 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									<b>A back-tested performance record</b>				
2005	is available on request								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)						<b>1.48</b>
Annual Rate of Return			5.58	Sharpe Ratio (@ 5% risk free)				0.15	Biggest Monthly Loss				(1.61)
Standard Deviation			3.90	Correlation FT World Index (Local)				0.47	Biggest Peak-to-Trough Drawdown				(2.6)

Source: Absolute Fund Management

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