



Share Class (Principal series)	NAV	June 2006		Since Inception†	
		Fund (%)	Cash (%)*	Fund (%)	Cash (%)*
Class A – US\$	107.08	(1.00)	+0.42	+7.06	+3.73
Class B - £	106.83	(0.99)	+0.37	+6.82	+3.79
Class C - €	105.34	(1.14)	+0.23	+5.33	+2.03

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

†1st September 2005

COMMENT The old adage “Sell in May and go away” seems to have been particularly apposite this year. Markets failed to settle down after the rout in May and investors continued to worry about higher inflation and interest rates leading to sharp intra-month declines. However, a surprisingly dovish statement about inflation and the interest rate outlook accompanied the Fed's well-flagged interest rate hike at the end of June. This led to a sharp relief rally in the equity markets leaving most little-changed over the month.

Absolute Focus Fund suffered its worst month to date with a fall of 0.99% in the sterling share class. It is some consolation that June's negative performance can be accounted for entirely by the performance of DHY5 which fell by 14.6% during the month and cost Absolute Focus 1.0%. DHY5 is still up by over 65% so far this year and due to the nature of its underlying investments a volatile performance profile is to be expected; June's decline is therefore likely to prove more of a 'mark-to-market' decline than an actual permanent loss.

Other areas of note were the Japanese long/short book, which made its first positive contribution since March of +0.09% and the group of event-driven funds which were collectively down by exactly the same amount. The essentially flat performance of the remaining strategies does, however, highlight the difficulties experienced by long/short managers during periods of market instability. Although hedge funds are reputed to thrive on market volatility, these wild intra-month swings are difficult to contend with. A sharp equity market sell-off obliges the prudent manager to reduce market exposure and therefore risk, but if this decline is immediately followed by a huge bounce the manager will inevitably have only limited participation in the upside.

OUTLOOK We are becoming increasingly concerned by the high market correlation shown by some event-driven funds which could lead to substantial losses in falling markets. We also consider that market volatility is likely to rise over the coming months as a) we move into the mature stage of a three-year bull market or b) we enter the early stages of a bear market. Consequently, we will be adjusting the portfolio to give more exposure to market volatility and less to market direction. This will be achieved by adding a further convertible bond arbitrage fund and redeeming two of the six event-driven funds.

Elsewhere, USLS15, a US long/short fund is under review and proceeds from liquidating this fund may be used to move into other, less equity-exposed strategies. USLS15 specialises in shorting 'no-hope' smaller technology companies which have been priced by their hype, not by their prospects while holding long positions in the technology gorillas such as Microsoft and Intel. Performance has been poor in 2006 and a recent research meeting with the manager has not convinced us that this trend is likely to change.

We believe that these small changes will mean that the portfolio will be in good shape to face uncertain markets over the next few months.

STRATEGY	Contribution June 2006 %	Weighting June 2006 %
US Equity Long/Short	0.03	13.0
Japan Equity Long/Short	(0.09)	17.7
European Equity Long/Short	(0.01)	11.3
Event-driven	(0.09)	28.8
Convertible Bond Arbitrage	0.02	5.6
Distressed Debt (hedged)	(0.99)	12.3
Global Macro	0.00	5.2
Short-bias Equity & Credit	0.01	11.8

Best 3 Funds	%	Strategy	June	YTD
USLS16	2.8	US Equity Long/Short	+1.8	+8.8
JLS8	3.7	Japanese Equity L/S	+1.3	+5.4
ED11	6.4	Event-Driven	+1.0	+21.7

Worst 3 Funds	%	Strategy	June	YTD
DHY5	5.5	Distressed Debt	(14.6)	+65.7
ED10	5.6	Event-Driven	(1.6)	+5.9
ED9	5.3	Event-Driven	(1.5)	+6.6

FUND DATA		Investment Manager
No. of Holdings:	21	Absolute Fund Management
Share Classes:	\$, € & £	Marquis House
Basic Fee:	None	67-68, Jermyn Street
Performance Fee:	15% of profits	London SW1Y 6NY
High Water Mark:	Yes, monthly	Contact: Christopher Aldous
Dealing:	Monthly	+44 20 7925 8070
Notice Period:	35 days	Administrator
Min. Investment:	US\$100,000	Northern Trust International
Fund Domicile:	Cayman Islands	Fund Administration Services
Listing:	Irish Stock Exchange	(Ireland) Ltd.
Class A (\$)	SEDOL: BOHTJF7	George's Quay House
Class B (£)	SEDOL: BOHTJG8	43, Townsend Street
Class C (€)	SEDOL: BOHTJH9	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)							3.14
Annual Rate of Return			8.24	Sharpe Ratio (@ 5% risk free)				1.00	Biggest Monthly Loss				(0.99)
Standard Deviation			3.26	Correlation FT World Index (Local)				0.55	Biggest Peak-to-Trough Drawdown				(0.99)

Source: Absolute Fund Management

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