



Share Class (Principal series)	NAV	May 2006		Since Inception†	
		Fund (%)	Cash (%)*	Fund (%)	Cash (%)*
Class A - US\$	108.16	+0.29	+0.42	+8.16	+3.30
Class B - £	107.90	+0.25	+0.38	+7.90	+3.41
Class C - €	106.55	+0.11	+0.23	+6.55	+1.79

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

†1st September 2005

COMMENT Equity markets suffered a widespread sell-off during May, reminding investors of the inherent risks of markets which have moved pretty much 'upwards only' since early 2003. Indeed, May saw the first fall of more than 3% in the FTSE100 index since January 2003 and many more volatile emerging stock markets suffered far greater falls; for example the Bombay Sensex Index fell over 13%. At this stage it is impossible to predict whether we are witnessing a small correction in a long-term bull market or the beginning of the next bear market. However, if the latter is the case investors may soon experience some collateral damage to investments which turn out to be really just leveraged plays on the equity markets. These have often been made unwittingly without appreciating the true nature of the underlying risk and include certain structured products and private equity. Moreover, the relentless upward trend in interest rates on both sides of the Atlantic is unlikely to benefit the high yield market and default rates may soon begin to rise.

Despite all this, Absolute Focus Fund endured the vagaries of the markets and the Class B (sterling) shares ended the month up by +0.25%. This was an admirable achievement as the Japan Long/short equity funds continued to experience an extremely difficult environment and delivered a loss of -0.55%. The European equity long/short portfolio also gave back some of the gain generated so far this year with a loss for May of -0.37%. We do not expect our underlying hedge funds to automatically lose money whenever stockmarkets fall, but we acknowledge that markets tend to behave in an irrational manner during sharp (and unexpected) declines. This is the principal reason for diversifying risk and including defensive strategies in both Absolute Focus and the Absolute Fund. The short-bias equity, short-bias credit and distressed debt long/short components of the portfolio served us well this month with a combined rise of 1.49%, outweighing the losses on other parts of the portfolio.

OUTLOOK As mentioned above, the outlook is uncertain and it seems likely that market volatility, which spiked up in May, will rise further during the remainder of the year. We will therefore increase exposure to funds which are exposed to 'vega' and benefit from rises in volatility, such as convertible bond arbitrage. We are also concerned that a weakening dollar will be bad for Japanese exporters and will reduce the interest of overseas investors in the Japanese market. Over the past month we have redeemed our holding in JLS11 which served us very well last year, but has grown from around US\$40m when we first invested in it to around US\$800m today. Its strategy of investing mainly in small and mid-cap Japanese securities while shorting large cap stocks worked well until the 'Livedoor' debacle unsettled demand for smaller capitalisation Japanese stocks. As Absolute Focus is intended to be dynamic, decisive and opportunistic in its fund selection, we will monitor JLS11 for the next few months and only reinvest if the manager regains his old form. Finally, holdings in short-bias equity funds will be increased on any new market highs in order to further strengthen the defensive characteristics of the portfolio.

STRATEGY	Contribution May 2006 %	Weighting May 2006 %
US Equity Long/Short	0.02	13.00
Japan Equity Long/Short	(0.55)	17.77
European Equity Long/Short	(0.37)	11.34
Event-driven	(0.10)	22.46
Convertible Bond Arbitrage	0.10	6.71
Distressed Debt (hedged)	1.36	12.29
Global Macro	(0.20)	5.24
Short-bias Equity & Credit	0.13	5.04

Best 3 Funds	%	Strategy	May	YTD
DHY5	6.5	Distressed Debt	+21.1	+94.0
DHY7	5.8	Distressed Debt	+4.1	+13.4
USLS16	2.7	US Equity L/S	+3.3	+6.7

Worst 3 Funds	%	Strategy	May	YTD
ELS13	5.6	European Equity L/S	(4.8)	+8.2
JLS5	3.8	Japanese Equity L/S	(4.5)	(21.3)
JLS10	5.1	Japanese Equity L/S	(3.9)	(4.6)

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								4.17
Annual Rate of Return			10.66	Sharpe Ratio (@ 5% risk free)				2.09	Biggest Monthly Loss				(0.19)
Standard Deviation			2.71	Correlation FT World Index (Local)				0.63	Biggest Peak-to-Trough Drawdown				(0.19)

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