



Share Class (Principal series)	NAV	October 2006		Since Inception*	
		Fund (%)	Cash (%)*	Fund (%)	Cash (%)*
Class A - US\$	\$106.45	(0.33)	+0.46	+6.43	+5.63
Class B - £	£106.00	(0.36)	+0.41	+5.98	+5.44
Class C - €	€103.88	(0.52)	+0.28	+3.88	+3.10

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

†1st September 2005

**COMMENT** The market ebullience which emerged in late summer continued apace throughout October. The FT World Share Index enjoyed its biggest rise since January and higher-risk asset classes such as emerging markets and small and medium capitalisation equities performed particularly well. The only major market which was not captured by the general euphoria was Japan.

Against the background of steady, uni-directional returns from global markets, Absolute Focus had a rather difficult month with a loss of 0.36% for Class B (sterling) shares - a little better than the earlier estimate. Virtually everything which could work against the Absolute Focus strategy did so in October including a disappointing contribution of only 0.02% from our 11.7% tactical weighting towards Japanese equity long/short.

The investment press has once again taken to agonising about the putative over-extended state of US and other equity markets. We would not disagree with their concerns and Focus has had a tactical weighting in short-bias equity 'insurance' since March. This worked well up until May and for a short while we thought that we might have actually picked the market peak for this economic cycle. However, the powerful uptrend since the late summer has put paid to that notion and SBE4, the main component of the sub-strategy, fell by 5.5% during the month. Short-selling will remain a thankless occupation in an environment where failing or terminally-flawed companies often go unpunished. Rather than a sharp decline in their share price, these companies may instead be rewarded by an over-priced bid from one of the growing army of private equity houses, awash with cash and desperate to invest.

Finally, to compound matters, a coterie of our strongest-conviction funds produced lower returns than we would have expected in the prevailing market conditions. DHY3, the distressed securities fund was no exception and fell by 13% to bring its year-to-date gain to a mere 51%!

**OUTLOOK** It is not easy for a properly-hedged fund of hedge funds to perform well in boisterous and somewhat irrational markets. The potential upside for the equity market is currently very hard to judge and short-bias strategies can be a blunt instrument in these conditions. Although Absolute Focus is first and foremost about achieving absolute returns of 10% plus with an acceptable level of risk, the defensive characteristics we seek for the fund can be achieved by means other than short-bias equity; such as long-volatility strategies. In future, short bias strategies will be used more opportunistically to offset the near-term effects of falling markets rather than tactically as a permanent 'insurance policy'. Elsewhere, Japan, which has cost Absolute Focus around 3% in terms of negative performance and opportunity cost this year, offers a tremendous potential for future returns. We strongly believe that over the coming months the mismatch in pricing between small and large cap Japanese stocks will once again begin to normalise as it did in 2005 and that this and other of the fund's strategies will deliver handsome returns for our investors in 2007.

STRATEGY	Contribution Oct 2006 %	Weighting Oct 2006 %
US Equity Long/Short	0.04	14.7
Japan Equity Long/Short	0.02	11.6
European Equity Long/Short	0.09	10.9
Event-driven	0.34	22.5
Convertible Bond Arbitrage	(0.03)	12.6
Distressed Debt (hedged)	(0.52)	10.1
Global Macro	0.13	4.7
Short-bias Equity & Credit	(0.36)	10.7

Best 3 Funds	%	Strategy	Oct	YTD
GM1	4.8	Global Macro	+2.7	(1.4)
USLS5	4.5	US Equity L/S	+2.2	(8.8)
ED7	5.6	Event-Driven	+2.1	+12.3

Worst 3 Funds	%	Strategy	Oct	YTD
DHY3	4.0	Distressed Debt	(13.1)	+51.1
SBE4	5.7	Short Bias Equity	(5.5)	(8.8)
USLS6	4.9	US Equity L/S	(1.1)	+5.7

### FUND DATA

Size of Fund: US\$16.6m  
 No. of Holdings: 20  
 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)	0.88	0.32	(0.36)			<b>2.33</b>
Annual Rate of Return			5.11	Sharpe Ratio (@ 5% risk free)				0.03	Biggest Monthly Loss				(1.61)
Standard Deviation			3.53	Correlation FT World Index (Local)				0.41	Biggest Peak-to-Trough Drawdown				(2.6)

Source: Absolute Fund Management

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