



| Share Class (Principal series) | NAV      | September 2006 |           | Since Inception† |           |
|--------------------------------|----------|----------------|-----------|------------------|-----------|
|                                |          | Fund (%)       | Cash (%)* | Fund (%)         | Cash (%)* |
| Class A – US\$                 | \$106.80 | +0.38          | +0.45     | +6.78            | +5.15     |
| Class B - £                    | £106.38  | +0.32          | +0.39     | +6.37            | +5.01     |
| Class C - €                    | €104.43  | +0.20          | +0.26     | +4.42            | +2.82     |

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

†1st September 2005

**COMMENT** Although markets trended better in September, hedge funds had a more difficult month. Many high-profile funds of hedge funds reported losses due to exposure to Amaranth – a supposedly well-diversified multi-strategy fund. Amaranth allowed its energy trader to use more than half the fund to build up a huge speculative position in natural gas derivatives. He hoped to make a killing if prices were driven higher during the hurricane season. However, there were no major hurricanes and the price of natural gas actually fell, causing Amaranth to lose over 60% of shareholder's assets. At the same time, Vega, a high-profile global macro fund, indicated that September returns were -8.0% bringing losses to nearly -15% for the year to date. As a result the HFR Fund of Hedge Funds Index was at best flat for the month, despite the ebullience of equity and bond markets.

Fortunately, Absolute Focus avoided both of these banana skins thanks to its rigorous fund selection criteria and returned +0.32% for September in sterling terms. This was a very satisfactory outcome for a month during which, at times, it had looked as though Absolute Focus would produce a loss. The short-bias components of the portfolio were particularly costly in September, as is inevitable when markets are so ebullient. SBE7, a short-bias equity fund, was the month's biggest loser at -3.28% and made a negative contribution of -0.21% to the overall fund. Whilst this cost is painful during benign market conditions, short-bias funds are included in the portfolio as one of the few effective means of preserving capital during market 'dislocations'.

The US equity long/short book was marred by USLS16 which has produced excellent returns so far this year, especially in difficult and volatile market conditions. However, it made an unexpected loss of 2.47% in September equivalent to a reduction of -0.11% in Absolute Focus's performance.

**OUTLOOK** There appears to be little for markets to fret about at the moment. The cooling-off of the US housing market seems to have reassured investors that US inflation is now under control, paving the way to further rises in equity markets. We are not so convinced that this is case. The US has been 'importing deflation' by buying cheap products from China and other emerging markets for some time now. However, the Chinese Yuan has begun to appreciate and industrial margins are now under pressure in China. This may drive manufacturers to increase the prices of the goods they export to the US. In addition, the US inflation measure reflects the cost of renting homes and may soon spike upwards as disgruntled housebuyers decide to rent instead of buy thus driving rents up and the available supply of rental property down.

Such factors are likely to lead to more, not less, market volatility – in our view one of the most undervalued commodities in the market. We have again increased Absolute Focus's ability to profit from a rise in market volatility by adding to the holding of CBA4, which we consider to be one of the highest quality funds in the convertible bond arbitrage sector.

| STRATEGY                   | Contribution Sep 2006 % | Weighting Sep 2006 % |
|----------------------------|-------------------------|----------------------|
| US Equity Long/Short       | 0.03                    | 14.9                 |
| Japan Equity Long/Short    | (0.04)                  | 11.9                 |
| European Equity Long/Short | 0.11                    | 11.0                 |
| Event-driven               | 0.12                    | 25.9                 |
| Convertible Bond Arbitrage | 0.10                    | 10.7                 |
| Distressed Debt (hedged)   | 0.48                    | 10.6                 |
| Global Macro               | (0.11)                  | 4.9                  |
| Short-bias Equity & Credit | (0.27)                  | 11.2                 |

| Best 3 Funds | %   | Strategy        | Sep   | YTD    |
|--------------|-----|-----------------|-------|--------|
| DHY5         | 5.4 | Distressed Debt | +10.7 | +73.8  |
| ED11         | 6.2 | Event-Driven    | +2.0  | +25.0  |
| USLS15       | 4.5 | US Equity L/S   | +1.9  | (10.7) |

| Worst 3 Funds | %   | Strategy          | Sep   | YTD   |
|---------------|-----|-------------------|-------|-------|
| SBE7          | 6.1 | Short Bias Equity | (3.3) | (2.9) |
| USLS16        | 5.0 | US Equity L/S     | (2.4) | +6.9  |
| GM1           | 4.8 | Global Macro      | (2.1) | (4.0) |

| FUND DATA                       |  | Investment Manager           |
|---------------------------------|--|------------------------------|
| Size of Fund: US\$16.6m         |  | Absolute Fund Management     |
| No. of Holdings: 20             |  | Marquis House                |
| Share Classes: \$, € & £        |  | 67-68, Jermyn Street         |
| Basic Fee: None                 |  | London SW1Y 6NY              |
| Performance Fee: 15% of profits |  | Contact: Christopher Aldous  |
| High Water Mark: Yes, monthly   |  | +44 20 7925 8070             |
| Dealing: Monthly                |  | <b>Administrator</b>         |
| Notice Period: 35 days          |  | Northern Trust International |
| Min. Investment: US\$100,000    |  | Fund Administration Services |
| Fund Domicile: Cayman Islands   |  | (Ireland) Ltd.               |
| Listing: Irish Stock Exchange   |  | George's Quay House          |
| Class A (\$) SEDOL: BOHTJF7     |  | 43, Townsend Street          |
| Class B (£) SEDOL: BOHTJG8      |  | Dublin 2 Ireland             |
| Class C (€) SEDOL: BOHTJH9      |  | 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                   |                         |        |      |                                    |      |        |        |      | <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                                    |        |      |      | <b>2.70</b> |
| Annual Rate of Return  |                         |        | 5.86 | Sharpe Ratio (@ 5% risk free)      |      |        |        | 0.24 | Biggest Monthly Loss                    |        |      |      | (1.61)      |
| Standard Deviation     |                         |        | 3.58 | Correlation FT World Index (Local) |      |        |        | 0.47 | Biggest Peak-to-Trough Drawdown         |        |      |      | (2.6)       |

Source: Absolute Fund Management

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