

# Newsletter

## General Market Review January 2006

U.S. GDP grew at an annual rate of 3.5% in 2005 compared with 4.2% in 2004. The slowdown in GDP growth in 2005 mainly reflected a downturn in inventory investment and a slowdown in consumer spending and federal government spending. Consumer spending decelerated, increasing only 1.1% in Q4 2005 after growing at 4.1% in Q3 2005. This was mainly due to the decline in purchases of motor vehicles. Federal government spending fell 7.0% in Q4 2005 after increasing 7.4% in the previous quarter.

The improvement in consumer confidence suggests that business and labor market activity will continue to pick up over the next several months. With a positive consumer outlook and job concerns remaining relatively steady, there is little reason to expect a dramatic shift in consumers' spending. Retail sales rose 1.0% in December, driven by an incentive-induced gain in vehicle sales and decent sales of general merchandise.

Source: CS Research & Analytics

## Absolute U.S. Ltd.

Absolute U.S. is an investment company, which invests in a variety of absolute return-oriented management styles. These investment strategies are focussing on globally diversified and industrialized financial markets. The investment company was established to respond to investors who desire an attractive, well-diversified portfolio of alternative investments in US Dollar values, which can be actively allocated across different investment styles and strategies throughout the universe of alternative investments.

### Investment Performance as of January 31, 2006

		Monthly Return	Year to Date Return	Inception*) To Date (Nov 2000)	Average Annual Return	Annual Standard Deviation	Sharpe Ratio
Absolute U.S. NAV (USD)	283.40	3.32%	3.32%	26.92%	4.64%	5.67%	Neg.
Share price (USD)	246.60	3.05%	3.05%	4.64%	0.77%	7.55%	Neg.
S&P 500 Index (USD)	1280.08	2.55%	2.55%	-10.62%	-2.15%	14.90%	Neg.

Past performance is no guarantee of future results. Performance figures are estimated net of management and performance fees and are subject to change.

\*) Absolute US has paid out Sfr. 9 (= US\$ 7.36 or ca. 2.70 %) on June 30, 2004 due to a par value repayment. This Special Dividend is not included in the above numbers.

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## Investment Review

The overall portfolio generated a positive return of 3.32% for the month of January.

### Cadogan/Cadogan Conferre Fund

Your funds were up 5.0% in the Absolutissimo Cadogan Fund and 5.6% in the Cadogan Conferre Fund. We were quite pleased with the month's results but understand that they were accomplished with the help of a significant tail wind – strong US equity markets and both funds' high betas. The fund also benefited broadly from the volatility in Japan and the rally in Asia.

Absolutissimo only had one fund with a negative return for the month, the short biased Compass with an 80 bps loss. Considering the market momentum, we were pleased with the modest loss. Absolutissimo's strong performance was predominantly made by two funds with exceptional months. The fund's two top performers were Penta Japan Fund and Steelhead Offshore. Penta gained 48.3% while Steelhead returned 18.7%. These two funds are the most volatile managers that we have in this fund. By April of last year Penta had lost Absolutissimo approx. 21% and Steelhead had lost approx. 26%. After January both funds are net positive contributors for the first time.

Cadogan Conferre Fund had a strong return in January with all eight positions at month-end contributing positively. The strongest performance on a percentage gained basis was our long position in a nitrogen fertilizer manufacturer. We own both the common and the preferred and both securities experienced mid teens percentage gains during the month. Natural gas's 18% decline was the primary reason for the improvement. The company had taken down production in various US and International locations due to the high gas prices; as the feedstock price declined they were able to bring some production back on line. The high gas prices earlier led to high nitrogen based fertilizer prices, which appear to have caused 6-7% demand decline. This number is lower than many had anticipated.

Source: Cadogan Management, LLC

### Usissimo Ltd.

Global macro managers started the year on a very strong note. Quantitative, diversified and concentrated managers generally posted very strong returns for the month. For most managers, positive contributions came from long positions in global equity indices, where most macro managers have been trading the asset class from the long side for some time. On the fixed income side, short positions in European and Japanese bonds were profitable, as were shorts in the U.S. bond market. Positioning and views in fixed income are somewhat mixed amongst various macro managers. Some see the U.S. Fed at or near the end of its hiking cycle and are looking for good timing and location to get long the front end, while others see steady growth and possible inflationary pressure (wages and energy) having scope to drive interest rates higher. FX trading was generally mixed to positive, with longs in higher-yielding G-10 and emerging markets currencies generating profits. Managers with structural longs in the USD lost money on their view that attractive short rates and steady/strong growth will be bullish for the USD. On the commodity side, managers experienced fairly broad-based trading profits. These profits came from long positions in base and precious metals, crude oil, and select softs. Sugar reached a twenty-five year high, when Brazil announced its success in transforming some of its sugar cane into a source of energy.

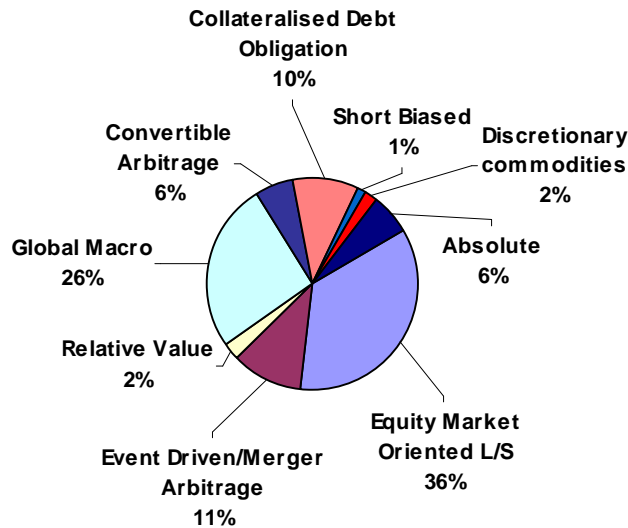
Event driven managers generally posted positive returns for the month of January. Strong global equity markets, especially mid-cap equities aided many event driven equity positions. Merger spreads generally contracted, and most long-dated event trades rallied on the month. Managers reported strong performance from financial exchange and commodity-related themes as well. The confluence of these positive factors contributed to one of the strongest months for event driven equity managers in recent history. Global mergers and acquisitions activity in January, although not as strong as levels reported in December 2005, remains healthy, with approximately \$180 billion in deals announced globally.

Managers benefited from the bidding war for Guidant between Johnson & Johnson and Boston Scientific as well as the fight between Arcelor and ThyssenKrupp for Canadian steelmaker Dofasco. In addition, the \$21.0 billion USD surprise bid for Arcelor by Mittal Steel is indicative of the robust corporate activity that creates opportunities within the space. The Credit Suisse High Yield Index reported a gain of +1.3% in January as its spread to Treasuries tightened 24 bps to end the month at 364 bps in January despite 26 new issues raising \$13.6 billion USD, the highest monthly issuance in over a year. The lowest-rated bonds rallied the most, with distressed bonds returning nearly +3.0% on the month as managers reported seeing a good amount of money coming into the market. Distressed managers also reported profits from trading in auto industry-related debt.

Long/short equity managers started off 2006 the same way they ended 2005, with strong performance. The broad market rally spanned the globe, with most major and emerging market indices showing positive performance. U.S. managers saw particular gains mostly on the long side from their exposure to energy and technology, as well as some consumer-oriented names. Specific industries, most notably semiconductors, experienced more significant moves as the SOX ("Philadelphia Stock Exchange Semiconductor Index") returned over +12% for the month. Several managers have recently turned positive on the technology sector and are currently long the sector. Managers in the U.S. also benefited from positions in long-term value plays, as stocks that did not move much in late 2005 saw some gains in the start of 2006. Once again, small and mid-cap names, where U.S. managers have significant exposure, outperformed the broader markets. The S&P Mid-Cap 400 was up +5.8% and the small-cap Russell 2000 was up +8.9%. Later in the month, some managers experienced losses due to mixed earnings news. Despite beating analyst expectations and displaying significant year-on-year growth, many companies sold off due to over zealous expectations. Managers generally suffered losses on short side, posting negative returns as higher beta names and small and mid cap stocks rallied against them.

Source: Credit Suisse Funds & Alternative Solutions Group

**Strategy Allocation as of January 31, 2006**




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Bloomberg	ABSU SW <equity>
Swiss security number	1'138'774

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