

Fund Performance

Share Class (Principal series)	NAV	April 2003		2003 Year to Date		Since Inception [†]	
		Fund (%)	FT World (%)*	Fund (%)	FT World (%)*	Fund (%)	FT World (%)*
Class A – US\$	US\$103.24	+0.46	+8.88	+1.43	+3.30	+3.24	(8.3)
Class B - £	£105.84	+0.64	+7.68	+2.14	+4.05	+5.84	(15.68)
Class C - €	€104.30	+0.54	+6.48	+1.64	(2.85)	+4.30	(25.16)

*The FT World Share Index in the currency of the respective share class – Source: FT/Bloomberg

†1st October 2001

As we previewed in last month's Outlook, the swift conclusion to the military part of the campaign in Iraq was accompanied by a big relief-rally in equity markets. Led by shares of companies which had previously fallen the most and which are the most geared to stock market performance (such as insurance companies), the FT World Index bounced by 8.2% in April in local currency terms, extending its rally since the middle of March to more than 14%. Such euphoria seems almost reminiscent of the late 1990s! If only it was underpinned by buoyant economies and rising corporate profits.....

Regular readers of these reports will be aware that we regard rallies which are sentiment- and liquidity-driven, and in which traditional stock-picking skills are more of a handicap than a help, as particularly challenging for the strategy we pursue. However, although gains of 0.46 – 0.64% (depending on share class) are respectable in absolute terms, we paid far too much for our disaster insurance in April. We have calculated through attribution analysis that the Absolute Fund's 9% weighting in short bias funds depressed performance by no less than 0.50% in April. A meaningful allocation to short bias funds remains a vital component of our strategy, not because we are gambling that stock markets have further to fall but in order to protect investors' capital from blind-side shocks such as 1998's LTCM and Russian debt crises and 2001's terrorist attacks. We fully expect this part of the portfolio to be a drag on performance when stock markets are rising and a cost of as much as 25bp in a month like April would have been acceptable. A cost of 50bp, however, is not and we will be making appropriate changes to the portfolio.

The remainder of the long/short equity part of the portfolio contributed 0.35% to overall performance. In further evidence of the technical nature of the stock market rally, the more extreme it was in magnitude region by region, the more difficult the Fund's managers found it to make money. In Japan, where the TOPIX rose by only 1%, all six of our managers were profitable, headed again by the excellent JLS3 fund with a gain of 4.1%. In contrast, just two of our six managers in Europe were able to deliver profits despite the biggest one-month increase in the FTSE Eurotop Index since March 1986! Four of our five long/short managers in the US were profitable.

The 'Arbitrage & Other' part of the portfolio contributed approximately 0.70% to overall performance in April with 22 out of 23 funds profitable. Given the consistent success of our selection of arbitrage funds, some investors may be puzzled why we persevere with exposure to equity long/short funds. We address this conundrum under 'Outlook'.

Biggest 5 Holdings as at 30th April 2003

Name of Fund	%	Strategy	April (%)	Year to Date (%)
USLS11	3.1	US Equity Long/Short	1.7	2.5
ED2	2.9	Event-driven	0.3	2.2
CBA4	2.9	Convertible Bond Arbitrage	1.6	7.4
CBA1	2.9	Convertible Bond Arbitrage	0.6	4.7
ELS1	2.8	European Equity Long/Short	0.4	1.2

Best 3 Funds in April

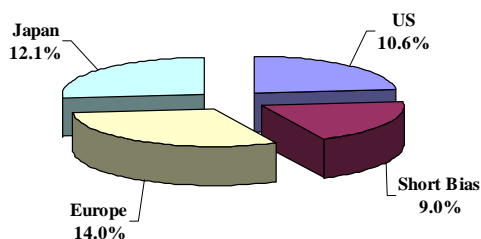
Name of Fund	Strategy	April	YTD
JLS3	Japan Long/Short	4.1	7.3
OA1	Option Arbitrage	3.8	5.5
DHY8	Distressed Debt	3.7	8.6

Worst 3 Funds in April

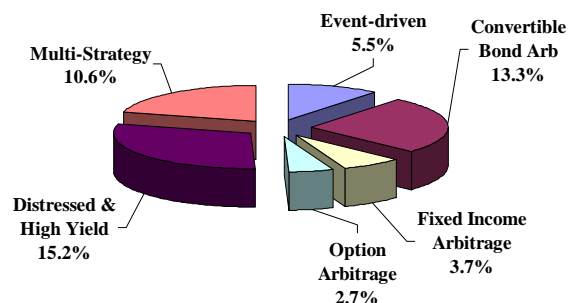
Name of Fund	Strategy	April	YTD
USSB5	Short Bias	(8.4)	(6.3)
USSB6	Short Bias	(7.6)	(14.4)
USLS3	US Long/Short	(4.3)	(8.0)

Asset Allocation by Strategy (as at 30th April 2003)

Equity Long/ Short (45.7%)



Arbitrage & Other (51.1%)



Outlook

A portfolio consisting entirely of arbitrage funds is not only unlikely to generate the 10% annualised returns to which we aspire over the medium term but also contains inherent and significant risks which many investors currently seem willing to ignore but which may sooner or later exact their toll. With interest rates so low and a proliferation of new funds only adding to the capital already seeking to exploit opportunities in arbitrage, returns are being squeezed. In our opinion, it is unrealistic to expect core returns of more than 6-8% p.a. from arbitrage funds without leveraging to a scale which to us is excessive and in itself highly risky. Moreover, we worry about the degree to which some sectors of the capital markets are dominated by hedge funds. For example, it is evident that more than half of the universe of convertible bonds is owned by convertible bond arbitrage hedge funds. Indeed, we note that some convertible bond issues for capital-hungry companies are being structured in such a way as to be attractive only to hedge funds. At the moment we have a virtuous circle due to inflows of capital into convertible bond arbitrage funds but this could easily become a vicious circle if capital flows suddenly reverse for whatever reason. Leverage (which essentially all convertible bond arbitrage funds employ) will only compound the problem. Finally, managers of principally arbitrage funds-of-hedge-funds already seem to have forgotten the lessons of 1998. Although they may believe that they are managing diversified portfolios in which individual fund correlations appear to be low, 1998 proved that most arbitrage funds tend to perform in a highly correlated fashion in a crisis and to the detriment of investors. For us, a portfolio which is invested entirely in arbitrage funds is therefore much too risky.

In contrast, we believe that equity long/short funds are easily capable of delivering returns in excess of 10% p.a. over the medium term. Moreover, most equity long/short funds (and the ones we use in particular) employ little or no leverage and hedge funds account for only a small proportion of equity ownership. Equity long/short returns have been disappointing over the last year not because stock markets have fallen but because stock market volatility has been so high and this has made stock selection skills effectively redundant. However, volatility has fallen significantly since the war in Iraq ended and investors can now focus again on economic and corporate matters. Good returns from equity long/short funds are not dependent on rising stock markets (for example, in 2000 and 2001, years in which the FT World Share Index fell by 8% and 14%, average returns of the equity long/short funds in which we had investments were approximately 20% and 8% respectively). All our equity long/short managers need is for investors and share price movements to differentiate between the differing prospects for different companies. On a risk/reward basis, the case for retaining exposure to equity long/short funds is compelling.

As always, we welcome any comments, questions and suggestions.

Charles Hovenden & Christopher Aldous

Manager's Track Record & Summary Statistics (for Class A US\$ shares)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
1999	0.83	1.07	0.96	2.60	1.43	0.74	1.61	0.37	0.81	0.70	2.46	0.57	15.05
2000	1.36	3.21	1.87	(0.03)	1.01	1.63	0.98	0.80	0.83	0.17	(0.28)	0.58	12.77
2001	0.87	0.41	0.36	0.38	0.62	(0.32)	(0.10)	0.68	(0.19)	0.39	0.24	0.63	4.02
2002	0.49	(0.01)	0.82	0.65	0.41	(0.52)	(0.78)	(0.04)	(1.07)	(0.42)	0.18	0.83	0.53
2003	0.67	0.30	(0.01)	0.46									1.43

Annual Rate of Return	7.64	Sharpe Ratio (@ 5% risk free)	0.96	Biggest Monthly Loss	(1.07)
Standard Deviation	2.76	Correlation with FT World Index (Local)	0.34	Biggest Peak-to-Trough Drawdown	(2.08)

NB: The monthly returns in the shaded portion of the 'Manager's Track Record' table are those of a portfolio previously managed by the Investment Manager of the Absolute Fund. Together with other almost identical portfolios, it was the forerunner of the Absolute Fund in terms of both investment strategy and procedures and its investments have been absorbed into the Absolute Fund. Returns prior to October 2001 have been adjusted to reflect the Absolute Fund's scale of fees. Figures from October 2001 onwards are for the Class A (Principal series) shares of the Absolute Fund.

General Information

Size of Fund:	US\$60.8m	Investment Manager:	Absolute Fund Management Ltd. 33, St. James's Square London SW1Y 4JS Telephone: +44 (0) 20 7661 9342 Website: www.absolutefund.co.uk Contact: Christopher Aldous
No. of Holdings:	45	Administrator:	International Fund Managers (Ireland) Ltd. IFSC House International Financial Services Centre Dublin 1 Telephone: +353 1 670 0660 Contact: Andrew Martin
Share Classes:	US\$, £, €		
Basic Fee:	1%		
Incentive Fee:	15% of gains between 6% and 24% p.a.		
High Water Mark:	Yes		
Dealing:	Monthly (with 35 days notice for redemptions)		
Min. Investment:	US\$100,000		
Fund Domicile:	Cayman Islands		
Listing:	Irish Stock Exchange		

Price Information

	Financial Times	Bloomberg	SEDOL	ISIN
Class A (US\$)	under The Absolute Fund Ltd	ABSFNDA KY <Equity>	3093568	TBC
Class B (£)	"	ABSFNDB KY <Equity>	3093591	TBC
Class C (€)	"	ABSFNDC KY <Equity>	3093610	TBC

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