

### Fund Performance

Share Class (Principal series)	NAV	April 2002		2002 Year to Date		Since Inception <sup>†</sup>	
		Fund	FTWorld*	Fund	FT World*	Fund	FT World*
Class A – US\$	US\$103.25	+0.66%	-3.29%	+1.98%	-2.76%	+3.27%	+6.65%
Class B - £	£103.64	+0.77%	-5.50%	+2.62%	-2.89%	+3.62%	+7.56%
Class C - €	€103.27	+0.79%	-6.37%	+2.53%	-3.91%	+3.27%	+7.78%

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

†1<sup>st</sup> October 2001

April's corporate reporting season served up a dose of reality to counter March's wishful optimism about economic recovery. In local currency terms, the FT World Share Index fell by 4.4%, more than erasing March's gain of 4.1% and leaving the Index down by 3.4% since the beginning of the year. Against this turbulent background, the Absolute Fund delivered gains of 0.66%, 0.77% and 0.78% for investors in the US\$, £ and € share classes respectively, restoring the healthy margin by which performance has exceeded the FT World Share Index since the beginning of the year. Performance since inception still lags the Index because of the spirited and defiant rally in equity markets which followed the atrocities of September last year but this target is now almost in range and firmly in our sights. We wish, of course, that the Absolute Fund had been ready for launch a few months earlier but investors whose portfolios were the forerunner of the Absolute Fund will remember that the strategy not only preserved capital but also produced gains in 2001, a year during which the FT World Share Index fell by 13.5%.

Not surprisingly given the market conditions, there was a higher number of losers amongst the Absolute Fund's investments in April than in March. Nevertheless, 35 of the 45 underlying hedge funds were profitable over the month and we regard this as a respectable ratio. In our performance attribution analysis, it was pleasing to note that every hedge fund strategy represented within the Absolute Fund contributed positively to overall performance, the most successful on a capital-weighted basis being Japanese long/short equity and distressed securities. We would like to reassure investors who might be concerned that the top two places on April's 'Best Funds' list are occupied by funds which exploit opportunities in Asian distressed markets. These two funds together account for just 2.5% of the Absolute Fund and we have no intention of increasing further the Fund's exposure to this esoteric and relatively illiquid sector.

The only disappointing strategy in terms of performance in April was short-bias equity. Logically, short-bias funds should prosper when stock markets are falling but Fund USSB3 was the only one of the four short-bias funds owned by the Absolute Fund to deliver a decent gain last month. We continue to believe that a significant allocation to this sector is a vital ingredient in the Absolute Fund's composition. However, it is clear from our research (and morbid fascination of short-bias funds) that this is one of the most difficult investment strategies to execute successfully and consistently. We expect that our quest to find the perfect short-bias fund which provides big gains when the stock market is falling but does not lose money when share prices are rising will be eternal. Nevertheless, we will never give up! Elsewhere, we have already spoken to the managers of Fund USLS2 and Fund USLS4. Fund USLS2 has always been one of the more volatile funds on our roster but also provided the biggest gain (+21.4%) last year. The attraction of Fund USLS4 is that it is a market-neutral fund in which the stock selection is based entirely on quantitative factors. As such, it should represent a valuable strand of diversification within the Absolute Fund's investments. However, recent performance has not matched the promise of the investment thesis and we have decided to reduce exposure pending evidence of a marked improvement.

### Top 5 Holdings as at 30<sup>th</sup> April 2002

Name of Fund	%	Strategy	April	Year to Date
Fund DHY2	3.8	Distressed Securities	+0.2%	+2.9%
Fund MM1	3.7	Multi-strategy	+1.1%	+2.5%
Fund CBA4	3.3	Convertible Bond Arbitrage	+1.1%	+4.6%
Fund CBA5	3.3	Convertible Bond & Merger Arbitrage	+0.4%	+2.7%
Fund USLS5	3.1	US Equity Long/Short	+2.0%	+9.8%

### Best 3 Funds in April

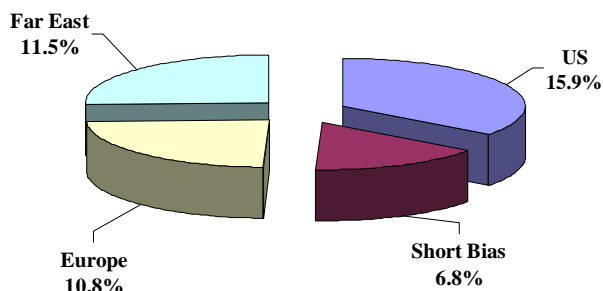
Name of Fund	Strategy	Apr	YTD
Fund DHY3	Asian Distressed	+3.2%	+9.3%
Fund DHY4	Asian Distressed	+2.8%	+12.3%
Fund USSB3	Short Bias Equity	+2.8%	+0.5%

### Worst 3 Funds in April

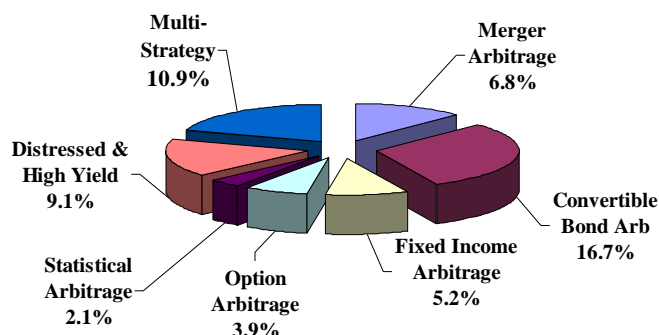
Name of Fund	Strategy	Apr	YTD
Fund USLS2	US Equity L/S	-3.7%	-5.1%
Fund USLS4	US Equity L/S	-3.3%	-0.8%
Fund USSB2	Short Bias Equity	-2.0%	-2.2%

## Asset Allocation by Strategy (as at 30<sup>th</sup> April 2002)

### Equity Long/Short (45.1%)



### Arbitrage & Other (54.6%)



## Outlook

We wrote last December that investors in equity markets might experience another bumpy ride in 2002 and our prediction is certainly accurate after the first four months of the year. Evidence of economic recovery remains patchy but our scepticism about the prospects for attractive returns from equity markets is based principally on our belief that corporate profits need to increase substantially even to justify current share prices. After losses in 2000 and 2001 we would not want to bet against equities market indices finishing up over the year but, equally, we would not be at all surprised if they do not. Statisticians tell us that bear markets usually last on average for about eighteen months. However, the bull market which preceded this bear market was anything but normal as investors took for granted and gorged themselves on 15-20% annual returns at a time when inflation remained in low single digits. Moreover, many of the technology companies which were supposed to herald the beginning of a new golden age of prosperity and were rewarded by obscene share price valuations have now been exposed as financial black holes.

As you know, the Absolute Fund is deliberately constructed in such a way as to be largely insulated from stock market swings and we would not invest our own money in any other way. Both of us are in the final stages of moving all of the pension fund monies we accumulated during our City careers into Self-Invested Pension Plans ("SIPPS") which will be invested entirely into shares of the Absolute Fund. This will augment the sums which our families have already invested. Of course, we would like the returns of the Absolute Fund to be a little higher (and preferably in our target range of 1-2% per month) but our obsessive hatred of losing money remains and we will settle for lower returns if necessary. Remember that compounding works both ways: An investor who consistently makes 10.5% p.a. will double his money every seven years but an investor who loses 33% must then make 50% to get back to where he started.

Finding and researching new funds remains one of the most interesting and rewarding aspects of managing the Absolute Fund and we are generally very pleased with the new funds in which we have invested since the Fund was launched. At the same time, we have become increasingly merciless in selling funds which fail to meet our performance expectations, whose managers appear to have lost their hunger or who fail to provide us with sufficient transparency or depth of relationship. In April, we made investments in Fund USLS9 (a US equity long/short fund) and in Fund DHY5 (a distressed securities fund). We sold the Absolute Fund's investments in Fund ELS3 and Fund ELS5 (both European equity long/short funds).

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

Charles Hovenden & Christopher Aldous – 23<sup>rd</sup> May 2002

## Manager's Track Record & Summary Statistics

	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	0.50	(0.01)	0.82	0.66									1.98

Annual Rate of Return	10.06	Sharpe Ratio (@ 5% risk free)	1.92	Biggest Monthly Loss	(0.32)
Standard Deviation	2.64	Correlation with FT World Index (Local)	0.31	Biggest Peak-to-Trough Drawdown	(0.42)

*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

<b>Size of Fund:</b>	US\$53.7m	<b>Investment Manager:</b>	Absolute Fund Management Ltd. 33, St. James's Square London SW1Y 4JS Telephone: +44 (0) 20 7661 9342
<b>No. of Holdings:</b>	45		
<b>Share Classes:</b>	US\$, £, €		
<b>Basic Fee:</b>	1%		
<b>Incentive Fee:</b>	15% of gains between 6% & 24% p.a.		
<b>High Water Mark:</b>	Yes	<b>Administrator:</b>	International Fund Managers (Ireland) Ltd. IFSC House International Financial Services Centre Dublin 1 Telephone: +353 1 670 0660
<b>Dealing:</b>	Monthly (35 days notice for redemptions)		
<b>Min. Investment:</b>	US\$100,000		
<b>Fund Domicile:</b>	Cayman Islands		
<b>Listing:</b>	Irish Stock Exchange		
<b>Price Information</b>	Financial Times under The Absolute Fund Ltd.		
		<b>Contact: Christopher Aldous</b>	
			<b>Contact: Andrew Martin</b>

## Risk Warning

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