

### Fund Performance

Share Class (Principal series)	NAV	August 2003		2003 Year to Date		Since Inception <sup>†</sup>	
		Fund (%)	FT World (%)*	Fund (%)	FT World (%)*	Fund (%)	FT World (%)*
Class A – US\$	US\$105.76	+0.86	+2.27	+3.91	+16.50	+5.76	+3.42
Class B - £	£109.01	+0.94	+3.93	+5.19	+18.58	+9.01	(3.90)
Class C - €	€107.24	+0.98	+4.84	+4.50	+11.38	+7.24	(14.20)

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

†1st October 2001

In what proved to be another challenging month for some hedge fund strategies and for many of our peers, we are pleased with performance ranging from 0.86% to 0.98% (depending on share class) in August. Two thirds of the way through the year, cumulative gains stand at 3.9% for investors in the Absolute Fund's US\$-denominated shares, 5.2% for investors in the £-denominated shares and 4.5% for investors in the €denominated shares, equivalent to annualised returns of 5.2%, 6.9% and 6.0% respectively. We hope that actual gains for the whole of 2003 will be even higher.

Most of August's performance came from the equity long/short half of the portfolio, providing further reward and vindication for our decision to persevere with a significant allocation to equity-based hedge funds after the high opportunity cost we paid last year. For the third month in succession, Japan was the most profitable component of the Fund and, in underlying composition, must rival our collection of 'distressed' funds as the jewel in the Absolute Fund's crown. Having described July's gain of 3.4% as 'exceptional', we are not quite sure of which adjective to use for JLS3's performance last month! JLS3's manager has timed the expansion of his fund's total and net exposure to Japanese shares to perfection. However, we are mindful that the fund could now be vulnerable to a sudden snap-back in the Japanese stock market and we have told him so! We have always regarded JLS3 as the most aggressive of our Japanese funds and none of the others (including JLS5) allowed their net exposure to rise above 30% during August. All five Japanese funds delivered profits in August and the 'worst' achieved a gain on 'only' 2.4%. The Absolute Fund also benefited from a full house of profitable funds in the US and only in Europe are we dissatisfied with our present fund selection. The short bias insurance trimmed about 0.15% from overall performance which we regard as an acceptable premium to pay in a month when equity markets continued their ascent.

In contrast, August was the third bad month in a row for convertible bond arbitrage, diminishing overall performance by about 0.2%. The problem has continued to be both the imbalance of new supply over demand which has tended to depress prices and the lack of stock market volatility which has starved practitioners of profits they earn from re-setting equity hedges. Convertible bond valuations are now generally cheap and we anticipate better performance over the autumn months which traditionally see an increase in stock market volatility. However, we remain concerned about the extent to which the convertible bond universe is owned by, and therefore dependent on, hedge funds and we have submitted redemption requests which will reduce exposure to the strategy from 15% to about 10% by the end of the year. 17 of the other 18 funds in the 'Arbitrage & Other' half of the portfolio were profitable in August.

### Biggest 5 Holdings as at 31<sup>st</sup> August 2003

Name of Fund	%	Strategy	August (%)	Year to Date (%)
JLS3	3.8	Japanese Equity Long/Short	+9.1	+29.5
JLS6	3.3	Japanese Equity Long/Short	+3.2	+20.6
ED4	3.3	Event-driven	+3.8	+12.9
DHY7	3.3	Distressed Securities	+1.1	+19.0
USLS11	3.2	US Equity Long/Short	+0.6	+6.3

### Best 3 Funds in August

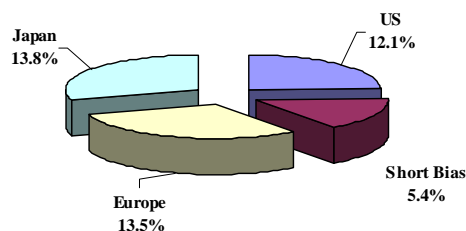
Name of Fund	Strategy	August	YTD
JLS3	Japan Equity L/S	+9.1	+29.5
JLS5	Japan Equity L/S	+8.1	+17.1
USSB6	US Equity L/S	+6.4	(9.9)

### Worst 3 Funds in August

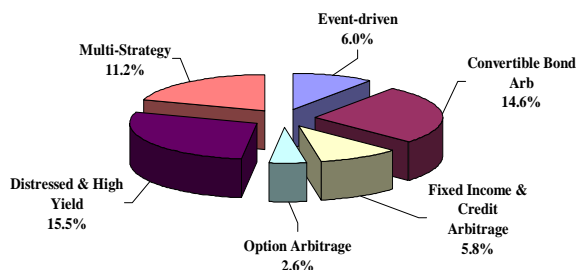
Name of Fund	Strategy	August	YTD
USSB5	Short Bias	(4.3)	(19.9)
USSB3	Short Bias	(3.3)	(13.8)
CBA9	Conv. Bond Arbitrage	(3.2)	+8.0

## Asset Allocation by Strategy (as at 31<sup>st</sup> August 2003)

### Equity Long/ Short (44.9%)



### Arbitrage & Other (55.8%)



## Outlook

The FT World Share Index posted its fifth consecutive monthly gain in August as confidence in a global economic recovery led by the US and Japan strengthened. From its nadir on 12th March, the Index has risen by 30% and is now up by 15% since the beginning of the year. A gain of just a further 48% from here will see it recapture its all-time peak set in September 2000! Since that date, the Absolute Fund and its predecessor portfolios have provided a gain of approximately 10%.

The current euphoria in equity markets is reminiscent of the late 1990s when investors came to expect 20% annual returns as the norm. With negligible overall market exposure, the Absolute Fund is simply not designed to provide these sorts of returns and unflattering returns with the FT World Share Index are inevitable, as they were in 1999. We welcome and have no fear of economic recovery (especially if it proves to be self-sustaining and not just a short-lived fix prompted by loose fiscal and monetary policy). However, equity markets are ultimately driven by corporate profits. With consumers burdened with high levels of debt and fears about employment and companies with spiralling pension and healthcare costs and a near-total absence of pricing power, we think that it is simply unrealistic to expect profits to grow sustainably by more than 10% p.a. This magnitude of return is eminently achievable within the Absolute Fund and, as we have proved, with substantially lower risk of loss.

Given that we regard August as a very satisfactory month for the Absolute Fund, readers might deduce that we have hedged out so many variables as to make a 1% return month unattainable. This is not true! Just one strategy (Japan) accounted for almost all of August's return, two strategies (convertible bond arbitrage and short bias) produced significant losses and all the other strategy components of the Fund made only modest contributions to performance. We are sensible and experienced enough to realise that our diverse range of strategies will never perform well at the same time. However, we can easily reach a 1% return if just two or three strategies do just half as well as Japan in the same month or if we can eliminate or limit the impact of losing strategies. We believe that we have made significant improvements to the asset allocation and fund selection so far this year. We are also genuinely excited about some new funds we have found and intend to add over the next few months.

As always, please don't hesitate to contact us if you have any questions or concerns.

Charles Hovenden & Christopher Aldous

23<sup>rd</sup> September 2003

## 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	0.61	0.60	0.36	0.86					3.91

Annual Rate of Return	7.64	Sharpe Ratio (@ 5% risk free)	0.99	Biggest Monthly Loss	(1.07)
Standard Deviation	2.67	Correlation with FT World Index (Local)	0.34	Biggest Peak-to-Trough Drawdown	(2.80)

*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\$67m	<b>Investment Manager:</b>	Absolute Fund Management Ltd. 4, Arlington Street London SW1A 1RA Telephone: +44 (0) 20 7307 0000 Website: <a href="http://www.absolutefund.co.uk">www.absolutefund.co.uk</a> <b>Contact: Christopher Aldous</b>
<b>No. of Holdings:</b>	46	<b>Administrator:</b>	International Fund Managers (Ireland) Ltd. IFSC House International Financial Services Centre Dublin 1 Telephone: +353 1 670 0660 <b>Contact: Andrew Martin</b>
<b>Share Classes:</b>	US\$, £, €		
<b>Basic Fee:</b>	1%		
<b>Incentive Fee:</b>	15% of gains between 6% and 24% p.a.		
<b>High Water Mark:</b>	Yes		
<b>Dealing:</b>	Monthly (with 35 days notice for redemptions)		
<b>Min. Investment:</b>	US\$100,000		
<b>Fund Domicile:</b>	Cayman Islands		
<b>Listing:</b>	Irish Stock Exchange		

## Price Information

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

## Risk Warning

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[www.absolutefund.co.uk](http://www.absolutefund.co.uk)