

Fund Performance

Share Class (Principal series)	NAV	December 2003		2003		Since Inception [†]	
		Fund (%)	FT World (%)*	Fund (%)	FT World (%)*	Fund (%)	FT World (%)*
Class A – US\$	US\$109.15	+0.82	+6.10	+7.24	+33.88	+9.17	+18.84
Class B - £	£113.17	+1.04	+1.94	+9.21	+20.39	+13.10	(2.43)
Class C - €	€10.77	+0.84	+0.84	+7.94	+11.43	+10.76	(14.17)

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

†1st October 2001

The very satisfactory performance of the Absolute Fund in December took gains over the full calendar year to 7.2%, 9.2% and 7.9% for investors in the US\$, £ and €share classes respectively. Although we regard returns of this magnitude as reasonable, especially in a year in which conditions were far from ideal for our strategy, we are confident that the Absolute Fund can deliver considerably more.

Except for the euro share class (in which performance was insulated from the currency's 20% appreciation against the dollar simply by our policy of systematically hedging all currency exposure), performance for the year looks disappointing when compared with equity market indices. However, this benchmark is as irrelevant in 2003 as it was in 2002. For what it is worth, the Absolute Fund has still outperformed the FT World Share Index by 24% and 34% in £ and €terms respectively over the last two years and matched it in US\$ despite benefiting from none of the US currency's weakness.

We also estimate that returns would have been as much as 1.5% higher last year if the Fund had had no exposure to short bias funds. We acknowledge that we paid too much for this insurance against 'blind-side' events in 2003 but we will always settle for lower returns with insurance than slightly higher returns without. The preservation of our investors' (and our own) capital in even the most adverse circumstances remains our primary resolution.

December saw solid performance almost without exception from the Absolute Fund's investment strategies and underlying funds, with 39 out of 48 profitable. Japanese equity long/short and Distressed Securities tied as the most successful strategies, each contributing about 0.25% to overall performance. With equity markets finishing an extraordinary year with a final self-congratulatory rise, further losses from the short bias funds were inevitable but their scale was manageable (-0.1%). The only other losing strategy was European equity long/short which has been generally disappointing all year, paradoxically after being one of our star strategies in 2002. This part of the portfolio will receive remedial attention if returns do not improve significantly over the next few months.

Biggest 5 Holdings as at 31st December 2003

Name of Fund	%	Strategy	December (%)	2003
ED4	3.3	Event-Driven	+5.0	+29.4
JLS3	3.2	Japanese Equity Long/Short	+2.1	+24.9
JLS6	3.2	Japanese Equity Long/Short	+1.2	+31.2
DHY7	3.1	Distressed Securities	+0.7	+27.2
MS1	3.1	Multi-Strategy	+1.6	+21.3

Best 3 Funds in December

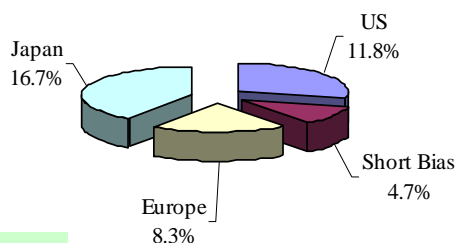
Name of Fund	Strategy	Dec.	2003
ED4	Event-Driven	+5.0	+29.4
JLS8	Japanese Equity L/S	+3.2	N/A
FICA5	Credit Arbitrage	+3.0	+21.2

Worst 3 Funds in December

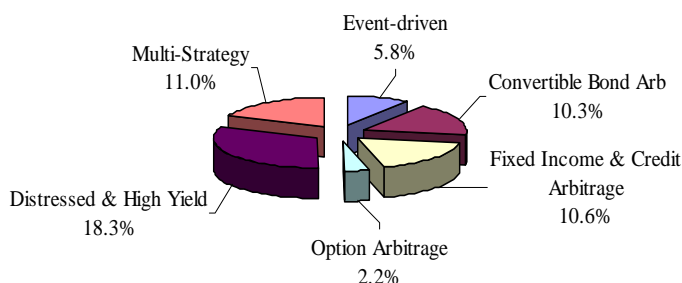
Name of Fund	Strategy	Dec.	2003
USSB3	Short Bias	(4.1)	(24.1)
USSB5	Short Bias	(3.8)	(32.3)
OA1	Option Arbitrage	(2.6)	+1.2

Asset Allocation by Strategy (as at 31st December 2003)

Equity Long/Short (41.5%)



Arbitrage & Other (58.1%)



Outlook

Having written in last year's Annual Report that "the 20% returns with which investors were spoiled between 1995 and 1999 are unlikely to be repeated for a generation" we feel a little embarrassed! However, it is still our view that such returns are simply not sustainable at a time when interest and inflation rates are set to remain in very low single digits, when economic growth is being boosted partly by non-sustainable measures and when pricing power for many companies remains a pipe dream. We continue to believe that our target return of 10% p.a. represents an attractive rate of return for investors and will, if achieved, prove to be extremely competitive.

As we have already stated, market conditions were far from ideal for the Absolute Fund last year because most of the price action in stocks and bonds was driven by liquidity and sentiment. Whatever discrimination investors exhibited defied fundamental logic as securities of the weakest and most speculative companies appreciated the most. In the corporate bond market, investors' voracious appetite for yield allowed companies with weak financial structures and poor business prospects to re-finance their debts and thus extend their lifespans. The Bear Stearns High Yield Composite (Bond) Index rose by a staggering 29% in 2003.

'Shorting' the securities of impaired companies was therefore a very unrewarding activity last year not only for the Fund's short bias managers but for all of our equity and bond long/short managers. Far from being disheartened, however, we see tremendous future opportunity in the irrational exuberance displayed by investors last year as they learn the hard way that their naïve enthusiasm and trust was unjustified.

We intend to continue with a broadly equal split between equity long/short and arbitrage funds, with little directional net exposure to either equity or bond markets and wide diversification amongst the various hedge fund strategies. However, as we review the improvements we believe that we have made over the last year and look down the current list of the Absolute Fund's underlying investments, it is sometimes hard to contain our optimism and excitement about the Fund's future prospects.

As always, we thank the Fund's investors for their trust and welcome any comments, questions and suggestions.

Charles Hovenden & Christopher Aldous

23rd January 2004

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	0.84	1.41	0.10	0.82	7.24

Annual Rate of Return	7.79	Sharpe Ratio (@ 5% risk free)	1.07	Biggest Monthly Loss	(1.07)
Standard Deviation	2.61	Correlation with FT World Index (Local)	0.35	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

Size of Fund:	US\$77.6m
No. of Holdings:	48
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

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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

Risk Warning

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