

Fund Performance

Share Class (Principal series)	NAV	February 2002		2002 Year to Date		Since Inception [†]	
		Fund	FTWorld*	Fund	FTWorld*	Fund	FTWorld*
Class A – US\$	US\$101.75	-0.01%	-0.95%	+0.49%	-3.76%	+1.75%	+5.55%
Class B - £	£101.87	+0.15%	-1.03%	+0.89%	-0.97%	+1.89%	+9.68%
Class C - €	€101.49	+0.11%	-1.41%	+0.76%	-0.93%	+1.49%	+11.12%

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

†1st October 2001

February proved to be a tricky month for traditional and hedge fund investors alike. The FT World Share Index fell by almost 4% in the first week of the month as fall-out from the Enron affair continued to undermine equity and corporate bond markets. However, sentiment improved suddenly and dramatically after better-than-expected economic data in the US spurred hopes of an imminent and vigorous economic recovery. This prompted share prices, of economically-sensitive companies in particular, to rally and FT World Index finished the month with a modest loss of only 1%.

The performance of the Absolute Fund in February was flat. Whilst this could be construed as disappointing it was better than many other hedge funds, with the widely-quoted CSFB Tremont Hedge Fund Index down by 0.56% over the month. Many equity hedge fund managers were caught out by the sudden change in the markets' direction whilst those with exposure to bond markets (including convertible bond arbitrageurs) struggled to contain the effects of widening corporate credit spreads.

Another more localised challenge was presented by the Japanese government's latest attempt to prop up the sinking Japanese stock market, this time by introducing new rules designed to curb short-selling. All five of our Japanese equity funds were down in price over the month (but the worst by only 1.3%) as share prices of many of the weakest companies (in which our managers typically have short positions) soared in a knee-jerk reaction. However, after examining the small print, our managers have concluded that the new regulations will have little impact on their ability to go short and we remain enthusiastic about prospects for good returns from this part of the Absolute Fund's portfolio.

US equity hedge funds occupied the top places in our lists of best and worst performing funds in February. Fund USLS2 was our most profitable hedge fund last year and, having spoken to its manager in the last few days, we have decided to retain this investment for the time being (whilst adhering strictly to our new 6% ejection rule). In the final month of its ownership within the Absolute Fund, Fund USLS7's appearance yet again in the rogue's gallery was depressingly predictable. On a more positive note, however, we are delighted that Fund USLS5, a fund we unearthed in Dallas only in January, headed the list of our winners.

Top 5 Holdings as at 28th February 2002

Name of Fund	%	Strategy	February	2002
Fund DHY2	4.0	Distressed Securities	+0.5	+2.3
Fund MM1	3.8	Multi-Strategy	-0.3	+0.5
Fund CBA5	3.5	Convertible Bond & Merger Arbitrage	+0.1	+1.2
Fund CBA4	3.4	Convertible Bond Arbitrage	+0.4	+2.1
Fund MA2	3.1	Event-driven	+0.1	+0.5

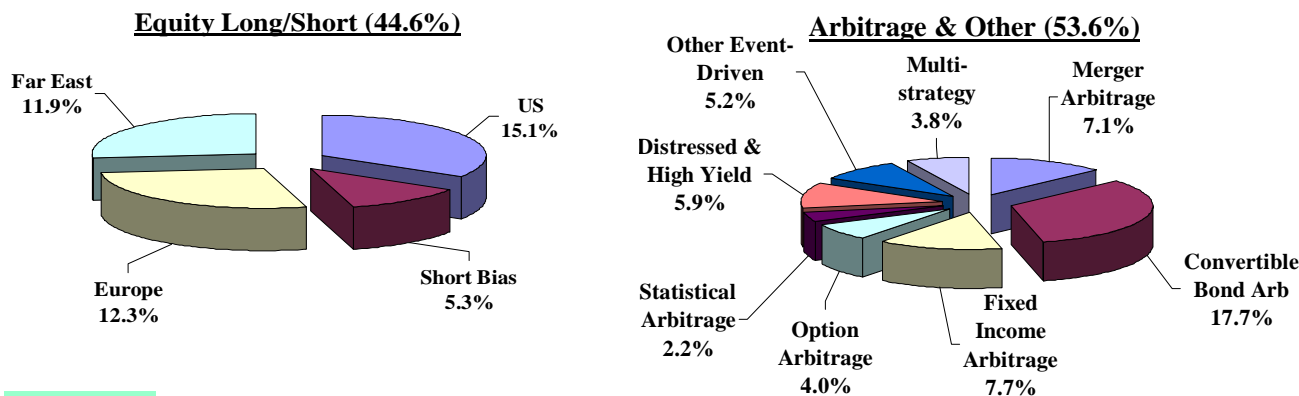
Best 3 Funds in February

Name of Fund	Strategy	Feb	2002
Fund USLS5	US Equity L/S	+4.0	+4.0
Fund ELS3	European Equity L/S	+1.7	+4.1
Fund DHY3	Asian Distressed	+1.5	+2.1

Worst 3 Funds in February

Name of Fund	Strategy	Feb	2002
Fund USLS2	US Equity L/S	-4.8	-6.2
Fund USLS7	US Equity L/S	-3.3	-10.4
Fund JLS4	Japanese Equity L/S	-1.3	-1.1

Asset Allocation by Strategy (as at 28th February 2002)



Outlook

The total transformation in investor sentiment over the past few weeks, which has prompted large gains in many share prices, is remarkable and arguably irrational. We acknowledge that recent economic statistics in the US have hinted at an upturn but just how much of this can be attributed to inventory rebuilding rather than real demand is far from clear. Mr Greenspan's bold interest rate policy has certainly helped to keep the US economy afloat (as it did after the Russian and LTCM crises in 1998) but the country's very serious structural problems, notably the unsustainably high levels of personal and corporate indebtedness, remain. With mortgage re-financing now much less attractive than a few months ago due to the rise in Treasury bond yields, we suspect that consumers must be beginning to feel the squeeze.

Meanwhile, most stock markets are priced for perfection. However, corporate competition remains intense and few companies possess any real pricing power. Our view, therefore, is that any improvement in economic conditions is unlikely to be matched by sufficient increases in corporate profits even to justify current share valuations. The scope for disappointment is considerable and we stick by our prognosis that stock market performance in 2002 will be volatile and returns will ultimately be disappointing for many.

Our mission as managers of the Absolute Fund is to construct a portfolio of hedge funds which will preserve the capital of our fellow investors at all times and also provide steady returns which are independent of trends in stock markets. We remain wholly confident that we can achieve this.

Over the last few months it has become increasingly obvious to us that performance of funds in which we have invested only fairly recently has, in general, been markedly better than performance of funds in which we have held investments for some time. This not only encourages us that our fund selection skills continue to improve but also reminds us that a successful fund of hedge funds portfolio requires constant renewal. There is definitely a 'sweet-spot' in the lifetime of most hedge funds and over the next few months we expect to redeem the Absolute Fund's investments in a number of longstanding and widely-revered hedge funds. The focus of our attention currently is US equity hedge funds, which we have long regarded as the most unsatisfactory part of the portfolio. We are also examining a number of funds which invest on a hedged basis in distressed securities.

As always we welcome your comments and questions.

Charles Hovenden & Christopher Aldous – 21st March 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)											0.49

Annual Rate of Return	10.1	Sharpe Ratio (@ 5% risk free)	1.9	Biggest Monthly Loss	(0.32)
Standard Deviation	2.7	Correlation with FT World Index (Local)	0.3	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

Size of Fund:	US\$50.9m
No. of Holdings:	44
Share Classes:	US\$, £, €
Basic Fee:	1%
Incentive Fee:	15% of gains between 6% and 24% p.a.
High Water Mark:	Yes
Dealing:	Monthly (35 days notice for redemptions)
Minimum Investment:	US\$100,000
Fund Domicile:	Cayman Islands
Listing:	Irish Stock Exchange
Price Information:	Financial Times under AFM Funds Ltd.

Investment Manager:
Absolute Fund Management Ltd.
33, St. James's Square
London SW1Y 4JS
Telephone: +44 (0) 20 7661 9342

Contact: Christopher Aldous

Administrator:
International Fund Managers (Ireland) Ltd.
IFSC House
International Financial Services Centre
Dublin 1
Telephone: +353 (1) 670 0660

Contact: Andrew Martin

Risk Warning

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