

Fund Performance

Share Class (Principal series)	NAV	February 2003		2003 Year to Date		Since Inception [†]	
		Fund (%)	FT World (%)*	Fund (%)	FT World (%)*	Fund (%)	FT World (%)*
Class A – US\$	US\$102.78	+0.30	(1.88)	+0.97	(4.81)	+2.78	(15.50)
Class B - £	£104.96	+0.44	+2.40	+1.28	(2.71)	+4.96	(21.15)
Class C - €	€103.65	+0.34	(2.27)	+1.00	(7.31)	+3.65	(28.61)

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

†1st October 2001

February was characterised by increasingly thin and erratic trading in financial markets as the countdown to war in Iraq caused many investors to withdraw to the sidelines. In such circumstances, and even though the FT World Share Index ended the month down by only 1.8% in local currency terms, we are relieved and even quite pleased that the Absolute Fund provided cash-plus returns for its investors.

Yet again, and hardly surprisingly in circumstances in which corporate news was relegated to a sideshow and share price movements exhibited a high degree of correlation, the Fund's equity long/short managers struggled to invest profitably. Just 13 of the 24 managers in this half of the portfolio made money in February and a fairly modest gain of 1.8% was sufficient to make ELS8 the best of the bunch. The most profitable region was Japan where 4 of our 5 managers delivered gains and the US was again the worst with 6 of our 9 managers losing money, albeit not very much in aggregate. We wrote in last month's report that a major restructuring of the US equity long/short component of the portfolio is underway which will result in a reduction in exposure and the retention of only our 'highest conviction' funds. We do not feel compelled that the US should represent the largest part of the Fund's equity long/short simply because it is the world's biggest equity market and are determined to halt the slippage of basis points of performance from this source. In addition, our fund selection in Europe and Japan has been demonstrably more successful.

20 of the 21 funds which comprise the 'arbitrage & other' half of the portfolio were profitable in February, the only blemish being OA2. As in January, the two biggest contributors to performance in terms of strategies were convertible bond arbitrage and distressed securities. 2002 was, of course, almost as bad a year for investors in corporate bonds as it was for investors in equities following a string of high profile bankruptcies and frauds. However, there is mounting evidence that, in terms of performance, the two asset classes have now decoupled. Consequently, although opportunities for convertible bond arbitrageurs to harvest the stock market's volatility may decline after the war in Iraq, both they and investors in distressed securities should still be able to benefit from stable and improving conditions in credit markets.

In February we topped up holdings in USLS6, USLS11 (both US equity long/short), DHY7 (distressed) and CBA8 (convertible bond arbitrage). We trimmed the portfolio's investments in DHY2 (distressed) and MS3 (multi-strategy).

Biggest 5 Holdings as at 28th February 2003

Name of Fund	%	Strategy	February (%)	Year to Date (%)
ED2	3.0	Event -driven	0.6	1.4
CBA4	2.9	Convertible Bond Arbitrage	0.9	4.1
CBA1	3.9	Convertible Bond Arbitrage	1.5	3.4
ELS1	2.8	European Equity Long/Short	(0.0)	0.2
MS2	2.8	Multi-strategy	0.3	2.3

Best 3 Funds in February

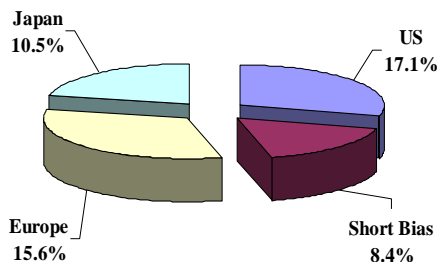
Name of Fund	Strategy	February	YTD
CBA4	Conv. Bond Arb.	2.1	6.7
DHY7	Distressed	1.9	4.0
ELS8	UK Long/Short	1.8	1.1

Worst 3 Funds in February

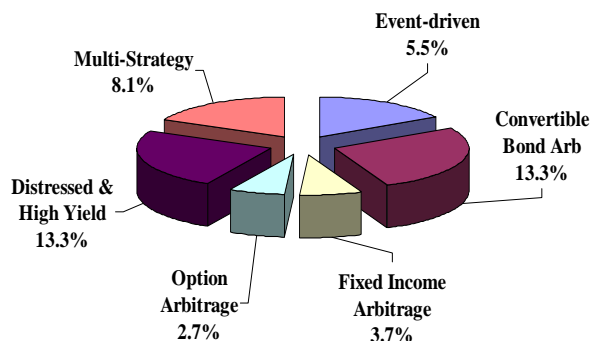
Name of Fund	Strategy	February	YTD
ELS6	European L/S	(3.3)	(3.4)
USSB6	US Long/short	(3.1)	(3.7)
OA2	Option Arbitrage	(2.0)	(2.3)

Asset Allocation by Strategy (as at 28th February 2003)

Equity Long/ Short (51.6%)



Arbitrage & Other (46.5%)



Outlook

With war in Iraq underway, short term trends in financial markets are impossible to predict. The consensus is that equity markets are set to rally strongly now that this cause of investor uncertainty is being removed and in expectation of a swift victory for the US-led forces. This may prove correct and, if so, will lead to a month or two of unflattering performance comparisons for the Absolute Fund. However, there is also the possibility that such an outcome is 'already in the price' and that anything else, such as a protracted or bloody campaign, will prompt a fresh slide in share prices. One thing that is certain is that the war in Iraq will not fix the cyclical and, in some cases, structural problems afflicting the world's major economies. Although the Absolute Fund's strategy deliberately gives us the luxury of being wholly agnostic about the direction of stock markets, we do not believe that higher or rising share prices can be sustained unless corporate profits are growing, a prospect we see as remote in the prevailing economic climate.

The removal of uncertainty as to how the Iraqi crisis will be resolved should, however, prompt a fall in overall stock market volatility and allow investors to focus again on the merits and flaws of individual companies. Consequently, the stock selection skills of our long/short managers should at last be of practical use and value again. We anticipate and look forward to a substantial improvement in contribution to the Absolute Fund's overall performance from its equity long/short component.

Earlier this month we made one of our regular due diligence visits to Asia where we spent time with the managers of all five of the funds currently owned by the Absolute Fund and met with the managers of a number of other funds which we have been monitoring. Compared with the US and Europe, Asia is still sparsely populated with hedge funds and this is an attractive feature as there are therefore fewer participants exploiting the plentiful anomalies. We will be adding one new Japanese equity long/short fund to the portfolio next month but are even more excited about opportunities in the rest of Asia and particularly in the region's debt markets. In contrast to the US and Europe where the tide of bankruptcies and restructurings is a relatively new phenomenon, the rehabilitation of corporate Asia has been underway since the region's economic crisis in 1997. The risks of investing in Asian debt markets are therefore substantially reduced yet the rewards remain high. Accordingly, we will be increasing the Absolute Fund's allocation to Asian markets.

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

Charles Hovenden & Christopher Aldous – 21st March 2003

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	0.49	(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											0.97

Annual Rate of Return	7.84	Sharpe Ratio (@ 5% risk free)	1.02	Biggest Monthly Loss	(1.07)
Standard Deviation	2.80	Correlation with FT World Index (Local)	0.37	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\$58.8m	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

Risk Warning

The Absolute Fund Ltd. (the "Company") is not a recognised collective investment scheme for the purposes of the Financial Services and Markets Act 2000 (the "Act"). This document is issued by Absolute Fund Management Ltd. ("AFM"), which is regulated by the Financial Services Authority and is being communicated only to persons (each a "permitted recipient") of the kind to whom both (1) the Company is permitted to communicate financial promotions pursuant to The Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (the "Order") and (2) AFM is permitted to communicate financial promotions relating to the Company or otherwise promote the Company under the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the "CIS Order"). It may not be passed on or communicated by the recipient to any other person. Such permitted recipients include existing shareholders of the Company, authorised persons and other investment professionals under Article 19 of the Order and Article 14 of the CIS Order. It does not and is not intended to constitute an offer or solicitation to purchase shares of the Company which may only be made on the basis of the latest private offering memorandum of the Company and the risk and other disclosures made therein. Persons who do not have professional experience in participating in unregulated collective investment schemes should not rely on the information contained herein. The rules made under the Act for the protection of private customers do not apply and the Financial Services Compensation Scheme will not be available for investments in the Absolute Fund. Past performance is not necessarily a guide to future performance and the value of an investment can go down as well as up. Investors may not get back the full amount originally invested. The value of overseas investments may be influenced by changes in exchange rates.

AFM is authorised and regulated by the FSA

A F M

ABSOLUTE
FUND MANAGEMENT

www.absolutefund.co.uk