

Fund Performance

Share Class (Principal series)	NAV	February 2004		2004 Year to Date		Since Inception [†]	
		Fund (%)	FT World (%)*	Fund (%)	FT World (%)*	Fund (%)	FT World (%)*
Class A – US\$	US\$110.53	+0.26	+1.93	+1.26	+3.86	+10.53	+23.42
Class B - £	£114.93	+0.42	(0.02)	+1.55	+0.19	+14.93	(2.25)
Class C - €	€112.29	+0.30	+1.90	+1.37	+5.42	+12.29	(9.52)

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

†1st October 2001

In contrast to January when most of the Absolute Fund's underlying managers found conditions to be relatively benign and returns relatively easy to extract, February proved to be a struggle. Instead of the hoped-for percentage points of performance, many had to settle for and were grateful to eke out a few basis points of return as markets became altogether more schizophrenic in nature. The 2% gain in the FT World Share Index in local currency terms (the tenth month it has advanced out of the last eleven) flatters to deceive, whilst corporate bonds as represented by the Bear Stearns High Yield Index suffered only their second losing month since their extraordinary rally began in November 2002.

Although seven out of ten sub-strategies within the Absolute Fund were profitable in February, returns were subdued across the board. A contribution of just +0.16% was sufficient to make European equity long/short the month's most lucrative strategy, endorsing our decision not to make wholesale changes to this part of the portfolio after 2003's disappointing returns. The only other strategy to yield a return of more than 10bps was US equity long/short (+0.14%). In contrast, Japanese equity long/short was February's least successful strategy, losing 0.13%. Japan's TOPIX index finished the month with a gain of about 3% but all and more of this advance occurred in the final two days of the month. In addition, high volatility in the yen/dollar exchange rate made stock selection especially difficult for the Absolute Fund's managers. Despite this, Japanese equity long/short remains our second biggest and arguably most 'aggressive' allocation within the Absolute Fund. We are willing to accept a little extra volatility in monthly returns from our allocation to Japanese long/short funds as it remains our view that Japan offers the best potential for outsize returns in the medium term.

In further evidence of the tricky market conditions, just 29 out of the Absolute Fund's 48 underlying funds were profitable in February, a much lower percentage than in January and than we are accustomed to. However, there were no big losers and the allocation to USSB3, which topped the 'Worst 3 Funds' list, is only half of the Absolute Fund's usual unit of investment. The investments in both JLS5 and JLS3 are in the process of being reduced. On the plus side, six underlying funds posted gains of more than 2%.

Biggest 5 Holdings as at 29th February 2004

Name of Fund	%	Strategy	February (%)	Year to Date (%)
ED4	3.3	Event-Driven	+0.1	+3.5
JLS6	3.1	Japanese Equity Long/Short	(0.8)	+1.5
DHY7	3.0	Distressed Securities	+1.0	+3.4
MS1	3.0	Multi-Strategy	+0.6	+2.5
JLS3	2.9	Japanese Equity Long/Short	(2.0)	(4.7)

Best 3 Funds in February

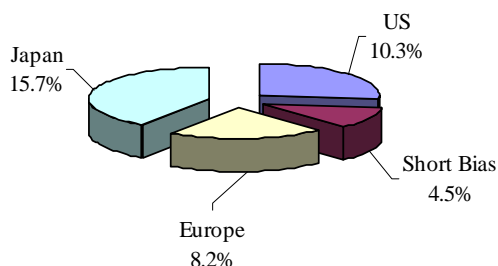
Name of Fund	Strategy	Feb.	YTD
USLS9	US Equity L/S	+2.8	+5.4
ED5	Event-Driven	+2.5	+6.7
ELS8	UK Equity L/S	+2.5	+5.1

Worst 3 Funds in February

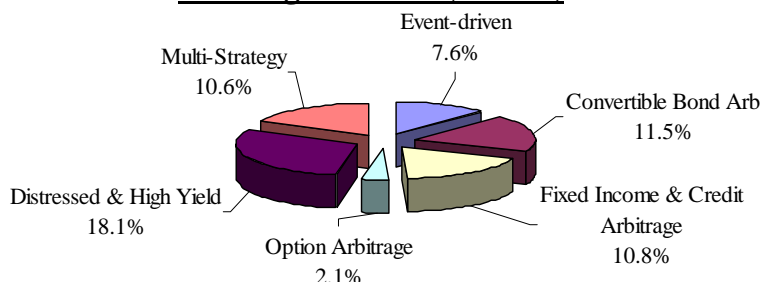
Name of Fund	Strategy	Feb.	YTD
USSB3	Short-Bias	(2.9)	(6.0)
JLS3	Japanese Equity L/S	(2.0)	(4.7)
JLS5	Japanese Equity L/S	(2.0)	(0.7)

Asset Allocation by Strategy (as at 29th February 2004)

Equity Long/ Short (38.8%)



Arbitrage & Other (60.6%)



Outlook

Although we risk being branded perpetual misanthropes (albeit misanthropes who have grown investors' capital by nearly 50% over the last five years!) we remain as sceptical as ever about the longevity of the stock market rally. We also believe that yields of many lower-quality corporate bonds have fallen to levels which provide wholly inadequate compensation for the risks involved. As we observed in December's report, the Bear Stearns High Yield Bond Index rose by even more the FT World Share Index in 2003.

Of course, companies have been quick to recognise investors' insatiable appetite for yield-enhancing investments and only too happy to provide supply. Speculative companies with weak balance sheets have been able to restructure their debts and postpone bankruptcy. Blue-chip companies have also tapped the bond market to plug gaping deficits in pension and healthcare plans and, in doing so, effectively transfer their pension liabilities to bondholders. And where are the billions of dollars which are being raised in the bond markets to prop up pension funds being invested? In the stock markets of course! Is it any wonder that stock markets are rising if some of the world's biggest companies are pouring money into equities?

Over the last twelve months we have resisted all temptation to adopt a more directional, i.e. long-biased, strategy within the Absolute Fund and our resolve remains as strong as ever. Our returns might have been a few percentage points higher but our risk of loss would also have increased substantially. Our strategy will remain one which tolerates strictly limited net exposure to stock or bond markets overall and which eschews riskier and racier hedge fund strategies. Indeed, we are monitoring the net exposures within our underlying funds especially closely at the moment in case any of our managers lose discipline and succumb to the temptation to take on more directional risk.

Looking around the world, we continue to see disturbing imbalances and we find the complacency being exhibited by so many investors disconcerting. With important elections looming in many countries, we also remain cynical about some of the driving forces behind the much-lauded economic recovery. Despite higher growth in the US, we note that job creation, which is needed to help sustain consumer spending, remains elusive. Boom in 2004 to be followed by bust in 2005? We shall see.

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

Charles Hovenden & Christopher Aldous

22nd March 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
2004	1.00	0.26											1.26

Annual Rate of Return	7.79	Sharpe Ratio (@ 5% risk free)	1.08	Biggest Monthly Loss	(1.07)
Standard Deviation	2.58	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

Size of Fund:	US\$80.2m	Investment Manager:	Absolute Fund Management Ltd. 4, Arlington Street London SW1A 1RA Telephone: +44 (0) 20 7307 0000 Website: www.absolutefund.co.uk Contact: Christopher Aldous
No. of Holdings:	48	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

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