

Fund Performance

Share Class (Principal series)	NAV	January 2002		Since Inception [†]	
		Fund	FTWorld*	Fund	FTWorld*
Class A – US\$	US\$101.76	+0.50%	-2.84%	+1.76%	+6.78%
Class B - £	£101.71	+0.73%	+0.06%	+1.71%	+10.82%
Class C - €	€101.37	+0.65%	+0.49%	+1.37%	+12.72%

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

†1st October 2001

The FT World Share Index fell by 1.8% in local currency terms in January as hopes of economic recovery in 2002 were overwhelmed by fears about general corporate indebtedness and the possibility of widespread accounting deception in the wake of the Enron scandal. The first three months of the Absolute Fund's existence coincided with the strong rally in equity markets which followed the horrors of 11th September and January provided the first proper test of the Absolute Fund's investment strategy in falling markets. We are therefore pleased to report that the net asset values of US\$, £- and €denominated share classes increased by 0.50%, 0.73% and 0.65% respectively over the month.

Returns in January would, however, have been approximately 0.15% better but for the dismal performance of Fund USLS7, the price of which fell by 7.3%. Although USLS7 had featured in our rogues gallery of 'worst' funds in both October and November, the losses in those months (of 2.2% and 2.5% respectively) were not exceptional in the context of the fund's long and excellent track record. USLS7 had, however, been struggling to generate and preserve returns since February last year. All managers go through barren periods of performance and, under such circumstances, we would hope and expect them to maintain fairly low total and net exposures until confidence and conviction return. Unfortunately, and perhaps in frustration at the lacklustre performance achieved in 2001 (+0.2%), the managers at USLS7 chose to increase both the fund's leverage and net exposure at exactly the wrong time and paid a heavy price. At the start of this year we began to operate a general policy that any individual hedge fund which suffers a monthly loss of 6% or more must lack adequate risk controls and, as such, be an inappropriate investment for the Absolute Fund. USLS7 has become the first casualty of that policy.

Of the other 42 underlying hedge funds owned within the Absolute Fund in January, 34 were profitable and just 8 were unprofitable. We are particularly encouraged that three of the four most profitable hedge funds in January were recent purchases: Fund CBA8, Fund JLS3 and Fund ELS6.

Top 5 Holdings as at 31st January 2002

Name of Fund	%	Strategy	January	2001
Fund DHY2	4.2	Distressed Securities	+1.8	+15.1
Fund MM1	4.0	Multi-Strategy	+0.8	+7.1
Fund CBA5	3.6	Convertible Bond & Merger Arbitrage	+1.1	+12.0
Fund CBA4	3.6	Convertible Bond Arbitrage	+1.7	+16.2
Fund MA2	3.3	Event-driven	+0.4	+9.3

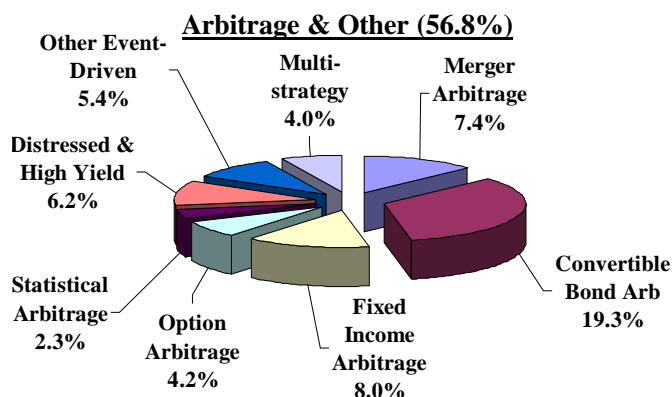
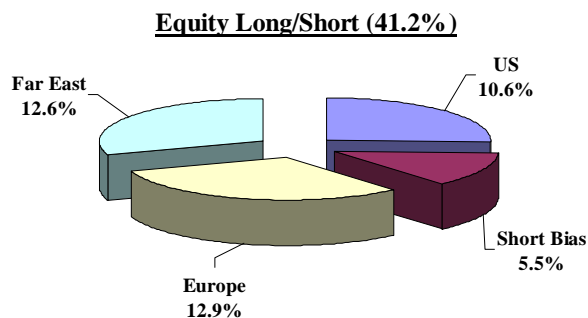
Best 3 Funds in January

Name of Fund	Strategy	Jan	2001
Fund CBA8	Conv. Bond Arbitrage	+3.5	+18.3
Fund ELS3	European Equity L/S	+2.3	+1.6
Fund JLS3	Japanese Equity L/S	+2.2	+19.5

Worst 3 Funds in January

Name of Fund	Strategy	Jan	2001
Fund USLS7	US Equity L/S	-7.3	+0.2
Fund USLS2	US Equity L/S	-1.6	+21.4
Fund USSB2	Short-bias Equity	-1.5	+16.0

Asset Allocation by Strategy (as at 31st January 2002)



Outlook

Although below our target of 1-2% per month we believe that the performance of the Absolute Fund in January was very respectable in difficult circumstances. Indeed, it remains our view that any returns in or near double digits could prove to be highly competitive again in 2002. It may prove to be a false dawn but economic conditions seem to have stabilised or even improved a little in the US. However, the kind of recovery in corporate profits needed to justify current share prices and valuations seems as remote as ever. Furthermore, the Enron affair has induced a new scepticism amongst investors towards reported corporate profits.

Although we have no intention of abandoning our stated performance target, we would like to reassure fellow investors in the Absolute Fund that we will not raise the overall risk profile of the Absolute Fund in pursuit of higher returns (and performance-related fees!) by making investments in racier and more volatile hedge funds. In the prevailing climate of economic and corporate uncertainty capital preservation is our first objective.

At a practical level, the most exciting development in the evolution of the Absolute Fund in January was the long-awaited investment by our joint venture partner, which swelled the size of the Fund to almost US\$50m. This inflow enabled us to initiate investments in 8 new funds. In the equity long/short portion of the portfolio, we made new investments in Fund USLS4, a US equity market-neutral fund which employs a quantitative investment strategy, and in Fund USSB3, whose manager specialises in the short-selling of US stocks. In addition, we made investments in Fund ELS6, which also adopts a quantitative approach, and in two classic Japanese equity long/short fund managed by JLS5 and JLS4. For the arbitrage part of the portfolio, we made new investments in Fund OED2, which principally engages in corporate capital structure arbitrage, in Fund CBA8, a convertible bond arbitrage fund which draws in particular on its manager's credit assessment skills, and in Fund CBA7, which exploits pricing anomalies in Asia. We also added to 8 existing investments. As a result of these changes, the Absolute Fund's exposure to equity long/short strategies has increased from 35% to 41%.

We would like to thank all of the investors who have backed us and enabled us to grow the Absolute Fund to US\$50m just four months after launch. As always, we welcome your questions and comments.

Charles Hovenden & Christopher Aldous – 21st February 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												0.50

Annual Rate of Return	10.4	Sharpe Ratio (@ 5% risk free)	1.99	Biggest Monthly Loss	(0.32)
Standard Deviation	2.70	Correlation with FT World Index (Local)	0.31	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\$48.6m
No. of Holdings:	43
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 Details:	Cayman Islands domicile with Irish Stock Exchange listing
Price Information:	Listed in the Financial Times under Offshore & Overseas Funds – Cayman Islands (Regulated)

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Risk Warning

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