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THE ABSOLUTE FUND

Monthly Report – January 31st 2003

Fund Performance

Share Class (Principal series)	NAV	January 2003		2002		Since Inception [†]	
		Fund (%)	FT World (%)*	Fund (%)	FT World (%)*	Fund (%)	FT World (%)*
Class A – US\$	US\$102.47	+0.67	(2.99)	+0.53	(19.06)	+2.47	(13.88)
Class B - £	£104.50	+0.84	(4.99)	+2.57	(26.83)	+4.50	(23.00)
Class C - €	€103.29	+0.66	(5.16)	+1.88	(31.33)	+3.29	(26.95)

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

†1st October 2001

In a month in which the FT World Share Index fell by 3.0%, 5.0% and 5.2% in dollar, sterling and euro terms respectively, we can hardly be disappointed with gains for investors in the Absolute Fund of between 0.66% and 0.84% (depending on share class). However, we must admit to mixed emotions because all of the profit and more was contributed by the arbitrage and debt-related half of the portfolio whilst the other half of the portfolio which is invested in equity long/short funds frustratingly made a negative contribution to overall performance once again.

19 of the 21 funds in the ‘arbitrage & other’ half of the portfolio were profitable in January and the two funds which were down lost less than 0.5%. The two most successful strategies were distressed securities and convertible bond arbitrage, both benefiting from the solid performance of corporate bond markets in January and the latter also from stock market volatility which remains high by historic standards. Mindful that traditional ‘long only’ investment in distressed securities can give rise to lumpy and volatile returns, we favour managers who, at the same time, also take short positions in the debt of other companies which they expect to experience financial difficulties. Alternatively, they may simultaneously take long and short positions in different parts of the capital structure of the same company, a practice sometimes affectionately known as ‘garbitrage’.

Whilst helpful for convertible bond arbitrageurs, the trendless volatility in equity markets continued to make life difficult for equity long/short managers with just half of our 24 funds delivering profits in January. We have long regarded our combination of European equity long/short managers as one of the jewels within the Absolute Fund but, in evidence of the challenging conditions, 5 out of 7 of them lost money last month. Even our dedicated short sellers struggled to make much money in January as the 5% surge in the FT World Share Index in local currency terms in the first three days of the year triggered risk management controls prompting them to reduce exposure and therefore capture only a part of the market’s subsequent decline.

Our own risk management controls mean that time has run out for two of the Absolute Fund’s US equity long/short managers, USLS10 and USLS5, both of which have breached our internal peak-to-trough drawdown limit. Both of these managers are showing signs of being in denial, persevering with, and in the case of the former, increasing net long exposure despite their recent losses. Both may make big gains for their investors at some time in the future but there is no guarantee when this will be and their tolerance of pain is clearly greater than our own. On a more positive note, however, we are encouraged that the two new investments we made on 1st January in USLS11 (US equity long/short) and DHY7 (distressed) delivered gains of 1.4% and 2.1% respectively in their first month.

Biggest 5 Holdings as at 31st January 2003

Name of Fund	%	Strategy	January (%)	2002 (%)
DHY2	3.7	Distressed Securities	2.2	4.0
MS3	3.6	Multi-strategy	1.5	4.4
ED2	3.0	Event-driven	0.8	5.0
CBA4	2.9	Convertible Bond Arbitrage	3.2	13.2
CBA1	2.9	Convertible Bond Arbitrage	1.9	14.4

Best 3 Funds in January

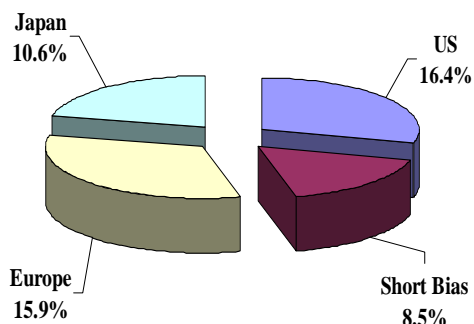
Name of Fund	Strategy	January	2002
CBA6	Conv. Bond Arb.	4.5	10.1
JSL6	Japan Long/short	4.3	10.4
MS1	Multi-strategy	3.3	4.8

Worst 3 Funds in January

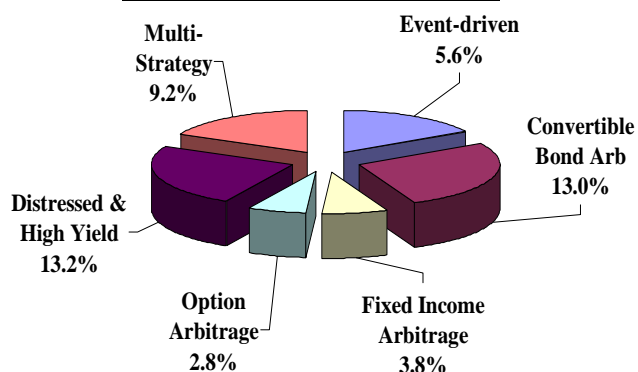
Name of Fund	Strategy	January	2002
USLS5	US Long/short	(4.3)	(2.7)
USLS10	US Long/short	(3.4)	(3.2)
ELS9	European Long/short	(3.0)	8.4

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

Equity Long/ Short (51.4%)



Arbitrage & Other (47.6%)



Outlook

The possibility of war in Iraq is being widely cited as the reason why equity markets remain in the doldrums. However, we believe that the situation in Iraq is an excuse for the poor performance of equities rather than its principal cause. Share prices may rally by 10% or more when the matter is resolved, one way or another, but this may turn out to be the catalyst for just another bear market rally which proves as short-lived as the ones in July/August and October/November. The high and rising levels of government and personal debt in the US and UK, the increasingly obvious flaws in the Fiscal Stability Pact and the folly of a one-size-fits-all monetary policy in Euroland and Japan's seemingly never-ending banking and deflationary crises are home-grown problems which will not be cured in the Middle East. They also have potentially long-lasting economic consequences.

Share prices are ultimately determined by corporate profits. Notwithstanding the uncertain economic background, recovery and growth in corporate profits is also being restrained by the general absence of pricing power, the squeeze on margins caused by rising commodity prices and the weakening dollar. As we have said before, we would not be surprised if equity market indices are little changed from current levels in five years time. With interest rates and bond yields also at forty-year lows, we therefore believe that the Absolute Fund potentially offers a compelling profile of return and risk.

It is now just up to us to make sure that we deliver on that potential! As most of the Fund's investors and other regular readers of our monthly reports are aware, the Fund's allocation to equity long/short managers, with the notable exception of our short-sellers, has so far yielded disappointing results and, indeed, been a drag on overall performance. Of course, 2002 was a year without precedent in equity markets, not so much in terms of the magnitude of their declines but the magnitude and duration of the volatility. Equity markets do not need to be in an upward trend for our equity long/short managers to make money but they do need share prices to reflect individual companies' prospects, good or bad. A resolution to the Iraq crisis will certainly be helpful in this respect.

Arbitrage and debt-related funds will always comprise a substantial part of the Absolute Fund, hopefully providing steady but modest returns. However, it is the allocation to equity long/short funds which should enable us to meet our objective of providing a 10% annualised rate of return over the medium term without the use or risk of significant leverage. As always, we welcome any comments, questions and suggestions.

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	0.49	(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												0.67

Annual Rate of Return	7.93	Sharpe Ratio (@ 5% risk free)	1.04	Biggest Monthly Loss	(1.07)
Standard Deviation	2.82	Correlation with FT World Index (Local)	0.36	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\$58.9m
No. of Holdings:	45
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

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

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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