

Fund Performance

Share Class (Principal series)	NAV	January 2004		2003		Since Inception [†]	
		Fund (%)	FT World (%)*	Fund (%)	FT World (%)*	Fund (%)	FT World (%)*
Class A – US\$	US\$110.24	+1.00	+1.89	+7.24	+33.88	+10.24	+21.09
Class B - £	£114.45	+1.13	+0.21	+9.21	+20.39	+14.45	(5.19)
Class C - €	€111.95	+1.07	+3.45	+7.94	+11.43	+11.95	(11.21)

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

†1st October 2001

The Absolute Fund posted a solid and satisfactory start to the year. Gains of 1.00%, 1.13% and 1.07% lifted 12-month rolling returns to 7.59%, 9.52% and 8.38% for investors in the dollar, sterling and euro share classes respectively. The FT World Share Index also finished the month up (by 2% in local currency terms), extending its rise from the low in March last year to an extraordinary 44%. However, the pullback in stock market indices after the US Federal Reserve removed the words ‘for a considerable period’ (in reference to its policy of keeping interest rates low) after its latest meeting and the lacklustre reaction of share prices to a spate of excellent corporate results suggest that this unprecedented rally may finally be running out of steam. Even at the end of January, the Index still stands 25% below its September 2000 peak.

Returns within the Absolute Fund in January were broadly spread with 8 out of 10 sub-strategies profitable. The Fund’s largest allocation to managers of funds invested in Distressed Securities delivered the biggest contribution (+0.38%) but the most successful strategy on a capital-weighted basis was Event-driven (+0.21%). European Equity Long/Short (at last!) and US Equity Long/Short strategies each contributed 0.17% to the overall return. The two losing strategies were Short Bias (-0.08%) and Option Arbitrage (-0.01%). One of the factors which determines the price of an option is the price-volatility of its underlying entity (be it a share, index or whatever). As volatility necessarily rises in times of crisis the small allocation to option arbitrage funds has therefore been maintained principally as an additional defensive component of the Absolute Fund. In practise, however, our option arbitrage funds have not performed in line with the theory and returns have not only been generally disappointing in magnitude but also unpredictable in timing. At the same time, we are becoming more and more concerned about the exponential growth in the value of ‘open’ option positions and their increasing complexity. It is salutary to remember that every option contract requires two counterparties. For these reasons, we have decided to reduce further the Absolute Fund’s involvement in derivative-based strategies by eliminating its exposure to option arbitrage funds.

40 out of the 47 underlying funds were profitable in January. As can be seen from the ‘Best 3 Funds’ list below, there were no stand-out winners and, indeed, no less than 11 funds delivered gains of 2% or more and a further 18 funds appreciated by at least 1%. Encouragingly, all three funds on the ‘Best 3 Funds’ list are relatively new additions to the portfolio.

Biggest 5 Holdings as at 31st January 2004

Name of Fund	%	Strategy	January (%)	2003 (%)
ED4	3.3	Event-Driven	+3.3	+29.4
JLS6	3.1	Japanese Equity Long/Short	+2.3	+31.2
DHY7	3.0	Distressed	+2.5	+27.2
MS1	3.0	Multi-Strategy	+1.9	+21.3
JLS3	3.0	Japanese Equity Long/Short	(2.8)	+24.9

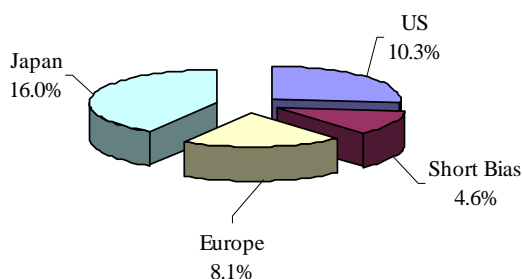
Best 3 Funds in January

Worst 3 Funds in January

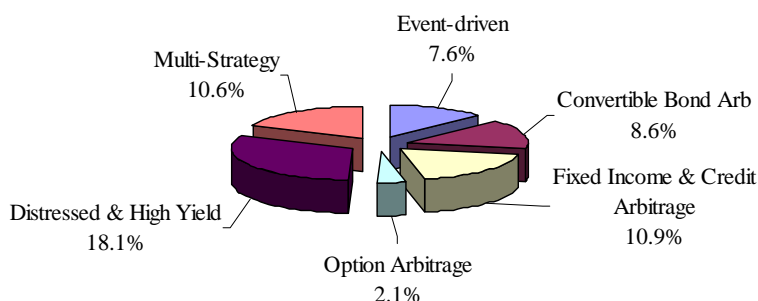
Name of Fund	Strategy	Jan.	2003	Name of Fund	Strategy	Jan.	2003
USLS12	US Equity L/S	+4.2	+28.7	USSB3	Short-Bias	(3.2)	(24.1)
ED5	Event-Driven	+4.1	+46.1	JLS3	Japanese Equity L/S	(2.8)	+24.9
DHY10	Distressed	+3.4	+17.5	JLS9	Japanese Equity L/S	(2.5)	+46.8

Asset Allocation by Strategy (as at 31st January 2004)

Equity Long/ Short (39.0%)



Arbitrage & Other (57.9%)



Outlook

Instead of our usual comments warning of the general perils of conventional investment and extolling the virtues of the Absolute Fund, we thought it would be more helpful and interesting this month to write about which sub-strategies we believe will be main drivers of performance in 2004. However, the dominant factors which determine the construction of the Absolute Fund will always continue to be balance and diversification. Our opinions and preferences will therefore be reflected more in subtle tilts to the portfolio than in wholesale changes to strategy and asset allocation.

Stock selection has been a broadly redundant skill over the last few years as share prices have been determined mainly by macro factors which have swayed investor sentiment towards shares in general. Being a soundly-financed and growing company offered scant protection as shares were mercilessly de-rated in 2001 and 2002 whilst it was the shares of the weakest and most speculative companies which rose the most in 2003. We hope for and expect stock markets to 'normalise' in 2004, rewarding good stock selection and thus affording Equity Long/Short managers opportunities to make money simultaneously on both the long and short components of their portfolios.

In the 'Arbitrage & Other' half of the portfolio, the strategies we are most enthusiastic about are Event-driven and Fixed Income Arbitrage. Economic recovery, no matter how flakily-based, and higher stock markets should lead to increased levels of corporate activity from which many event-driven managers feed. Supply is also the keyword for fixed income arbitrageurs who seek to profit from tiny discrepancies in the prices of government bonds. Efforts to reflate economies have swollen budget deficits and these debts had to be financed in the bond markets, increasing the number and magnitude of pricing anomalies. Elsewhere, the 'easy money' was undoubtedly made last year in corporate bond markets as credit spreads narrowed dramatically. However, our requirement that all of our credit-oriented (including distressed) managers combine long and short positions within their funds should still ensure an adequate opportunity set for low double-digit returns this year.

We look forward to 2004 with considerable optimism and, as always, we thank the Fund's investors for their trust. We also welcome any comments, questions and suggestions.

Charles Hovenden & Christopher Aldous

23rd February 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												1.00

Annual Rate of Return	7.87	Sharpe Ratio (@ 5% risk free)	1.10	Biggest Monthly Loss	(1.07)
Standard Deviation	2.60	Correlation with FT World Index (Local)	0.35	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\$79.2m
No. of Holdings:	47
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. 4, Arlington Street London SW1A 1RA Telephone: +44 (0) 20 7307 0000 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

Risk Warning

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