

Fund Performance

Share Class (Principal series)	NAV	July 2003		2003 Year to Date		Since Inception [†]	
		Fund (%)	FT World (%)*	Fund (%)	FT World (%)*	Fund (%)	FT World (%)*
Class A – US\$	US\$104.86	+0.36	+2.21	+3.03	+13.91	+4.89	+1.12
Class B - £	£107.99	+0.56	+4.93	+4.21	+14.06	+7.99	(7.54)
Class C - €	€106.20	+0.50	+4.29	+3.49	+6.24	+6.20	(18.16)

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

†1st October 2001

Generally benign economic data and mostly supportive anecdotal evidence during July fuelled the growing conviction amongst investors that the second half of the year will bring economic recovery. Accordingly, the FT World Share Index continued its ascent, albeit not wholly convincingly, adding just over 3% in local currency terms to extend the rebound from its March 12th trough to a staggering 26% and its gain since the beginning of the year to 12%. Any euphoria to which traditional investors in equity markets may be inclined should, however, be tempered by the harsh reality that even from here the Index still needs to rise by 51% to regain its September 2000 peak.

The main feature in financial markets in July was not, however, the durability of the stock market rally but the abrupt reversal in bond markets with US Treasury bonds suffering their biggest falls for 16 years. Investors in 10-year Treasuries lost more than 6% of their capital, so who says that government bonds are always a safe investment?! The sell-off presented a major challenge to managers of bond-based hedge fund strategies such as fixed income and convertible bond arbitrage as well as many macro and CTA funds. Many of those positioned wrongly or with inadequate interest rate hedges were left nursing hefty losses.

Thanks to its extensive diversification and our reluctance to invest in directional (aka more speculative) funds, the Absolute Fund successfully weathered the storm in bond markets. Returns of between 0.40% and 0.55% (depending on share class) were a little below their recent averages but compare very favourably, we hear, with most of our competitors.

Despite the adverse conditions, the 'Arbitrage & Other' half of the portfolio, which consists predominantly of funds which invest in bond markets, was marginally profitable. We regard our range of funds which invest in distressed securities as one of the jewels of the Absolute Fund and our conviction in them was only increased as they delivered sufficient profits to outweigh losses principally in convertible bond arbitrage. Almost all of July's return therefore came from the 'Equity Long/Short' half of the portfolio. As in June, Japan proved particularly lucrative with JLS3 extending its rich vein of form with a truly exceptional month. The Absolute Fund also made money from its allocations to equity long short managers in the US (with newcomer USLS12 opening its account with a creditable return of 1.9%) and in Europe. The shrinking of the Fund's investment in USSB5 to a 'half unit' at the end of June proved timely and helped limit the cost of the still-important disaster insurance provided by short bias funds to less than 0.1% in terms of overall performance.

Biggest 5 Holdings as at 31st July 2003

Name of Fund	%	Strategy	July (%)	Year to Date (%)
JLS3	3.4	Japanese Equity Long/Short	+8.4	+18.7
DHY7	3.3	Distressed Securities	+3.1	+17.7
USLS11	3.2	US Equity Long/Short	+1.1	+5.7
JLS6	3.2	Japanese Equity Long/Short	+2.6	+16.8
ED4	3.2	Event-driven	+0.8	+8.8

Best 3 Funds in July

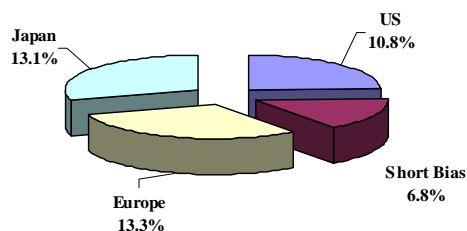
Name of Fund	Strategy	July	YTD
JLS3	Japan Long/Short	+8.4	+18.7
OA2	Option Arbitrage	+4.0	+6.0
JLS5	Japan Long/Short	+3.2	+8.3

Worst 3 Funds in July

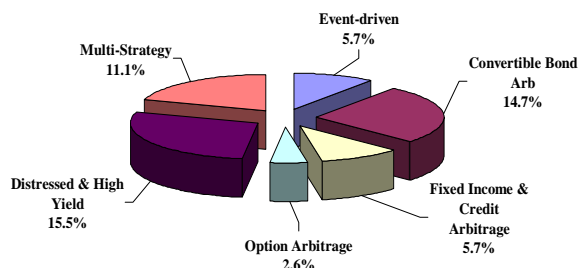
Name of Fund	Strategy	July	YTD
USSB5	Short Bias	(5.5)	(16.4)
ELS9	European Long/Short	(3.2)	(4.1)
CBA6	Conv. Bond Arbitrage	(3.0)	+9.3

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

Equity Long/ Short (43.9%)



Arbitrage & Other (55.5%)



Outlook

One of the main attractions of investing in, and indeed managing, the Absolute Fund is that the strategy does not depend on us predicting economic trends or gambling on whether stock and bond market indices will rise or fall. More than 40 years collective experience in this business has taught us that attempting to do so is a 'mug's game' and no-one can consistently and successfully buy at the bottom and sell at the top. Instead, our strategy depends mainly on the ability of the managers we select to identify and profit from mispricing of individual securities within different asset classes whilst remaining broadly neutral to and immune from market swings. We believe that consistent and attractive returns can be earned in this way with minimal overall risk to capital and this is why an overwhelming proportion of our own families' liquid capital is invested in the Fund.

But what qualifies as an attractive return at the moment? During the 55-month lifetime of our track record, the strategy has delivered a net annualised return of 7.6% p.a. which far exceeds the rates of return provided by equities, bonds or cash. The Absolute Fund shares characteristics with cash deposits (gains for UK investors are taxed just like interest, only returns are much higher!) and government bonds (almost identical volatility or risk) and can therefore, in our opinion, be considered as a compelling substitute for either. However, it is inevitable that many investors will compare performance most closely with equity markets. As many readers of this report will know, our investment objective is to provide investors with 'sustainable equity-like returns with bond-like risk' and we remain confident that this is achievable. With inflation and interest rates in low single digits and share prices already discounting a strong rebound in corporate profits despite the absence of conclusive evidence of economic recovery and spiralling pension and healthcare deficits, we simply do not believe that equity market returns of 12% per annum, let alone over seven months, are sustainable. Our view is clearly shared by owners and directors of quoted companies in the US whose sales of shares are now running at levels last seen in the first quarter of 2000.

We will therefore resist any temptation to jump on to the bandwagon. Instead we continue as always to seek improvements to the Absolute Fund's strategy allocations to reflect opportunities in different sectors of financial markets and to our fund selection. There are at least three new funds we wish to add to the Absolute Fund following a research trip to the US last month and the challenge we have is how to fit them in and what to sell to make room. It's a nice problem to have!

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

Charles Hovenden & Christopher Aldous

21st August 2003

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						3.03

Annual Rate of Return	7.58	Sharpe Ratio (@ 5% risk free)	0.96	Biggest Monthly Loss	(1.07)
Standard Deviation	2.69	Correlation with FT World Index (Local)	0.33	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\$66.6m	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:	47	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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