

Share Class (Principal series)	NAV	July 2004		2004 Year to Date		Since Inception [†]	
		Fund (%)	FT World (%)*	Fund (%)	FT World (%)*	Fund (%)	FT World (%)*
Class A – US\$	US\$112.07	+0.01	(3.17)	+2.68	+0.57	+12.07	+19.52
Class B - £	£117.83	+0.20	(3.43)	+4.12	(1.00)	+17.83	(3.43)
Class C - €	€114.29	+0.05	(2.15)	+3.17	+5.34	+14.29	(9.59)

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

†1st October 2001

July continued the tiresome sequence of recent months in which we have felt that we have had to battle hard for every basis point (0.01%) of return. As we are trying to make 50-75bps every month, it is clearly disappointing to us to be flat in dollar terms and only marginally positive in sterling and euro terms. However, the declines of (0.53%) in the HFR Funds of Hedge Funds Index and (0.31%) in the CSFB Tremont Hedge Fund Index are testament to how difficult it was just to preserve capital last month. Despite July's lacklustre result, the Absolute Fund's 12-month rolling returns remain respectable at 6.9%, 9.1% and 7.6% net of all costs for the US\$, £ and € share classes respectively. Year-to-date returns may appear resistible but they are significantly better than almost all alternatives. This obviously includes cash which is the most important benchmark of all and defines the opportunity cost of investing in the Absolute Fund.

As can be inferred from the figures above for the FT World Share Index (which suffered its biggest monthly decline since January 2003), it was a tough month for investors in equity markets and, indeed, it could have been even worse but for a timely rally in the final week of July. As most regular readers of our Monthly Investment Reports will be aware, we systematically avoid funds which maintain significant net long exposure and so, with a couple of exceptions, the general trend in stock markets was not the main problem for our equity long/short managers. Instead, it was the poor liquidity typical of the summer months which punished individual stock selection errors, especially in smaller companies, through exaggerated share price movements. In aggregate we lost 0.31% in our allocations to US, European and Japanese equity long/short managers with just 6 out of 17 funds profitable. Of course, our short bias managers revelled in July's conditions, once again proving their worth in the portfolio when it matters. The Absolute Fund's 5% allocation to 4 short bias managers contributed 0.16% to July's performance and it is no surprise that short bias funds occupy all places in July's Best 3 Funds list.

As it is supposed to, the 'Arbitrage and Other' half of the Absolute Fund provided steady and consistent performance in July, with 21 out of 26 funds profitable. However, as a consequence of the summer lull in corporate activity and many traders being on the beach, returns were muted. Indeed, DHY10 (Distressed Securities) and ED4 (Event-driven) were the only two funds to post gains of more than 1%. Conversely, the only fund to suffer a non-trivial loss was ED5 which, despite losing 3.3%, is still up by 7.2% so far this year. We classify ED5 as an event-driven fund but, unlike ED4, it is composed almost entirely of equities and could arguably be included in the US Equity Long/Short category of the Absolute Fund's portfolio.

Biggest 5 Holdings as at 31st July 2004

Name of Fund	%	Strategy	July (%)	Year to Date (%)
DHY7	3.2	Distressed Securities	+0.0	+4.1
JLS6	3.1	Japanese Equity Long/Short	+1.1	+18.7
MS4	3.0	Multi-Strategy	+0.3	+4.3
USLS6	3.0	US Equity Long/Short	(2.4)	+2.1
ED4	2.9	Event-Driven	+1.0	+4.5

Best 3 Funds in July

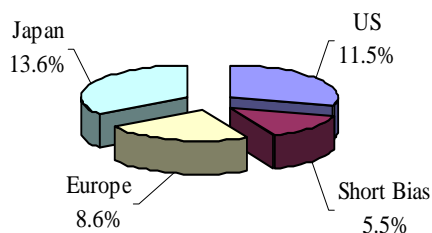
Name of Fund	Strategy	July	YTD
USSB2	Short-Bias	+4.0	+5.8
USSB3	Short-Bias	+3.1	(5.3)
USSB1	Short-Bias	+2.7	+5.7

Worst 3 Funds in July

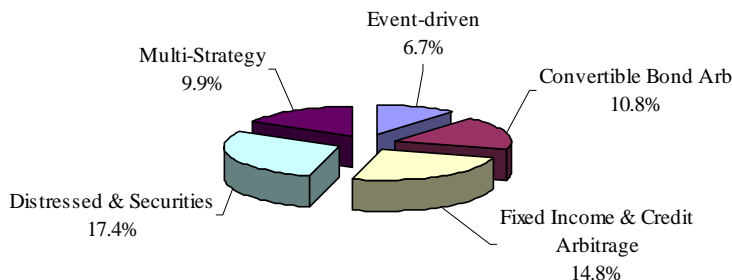
Name of Fund	Strategy	July	YTD
JLS3	Japanese Equity L/S	(3.3)	(14.8)
ED5	Event-Driven	(3.3)	+7.2
ELS11	European Equity L/S	(3.0)	+0.4

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

Equity Long/ Short (39.3%)



Arbitrage & Other (59.6%)



Outlook

Given the negative contribution of the equity long/short funds to the Absolute Fund's overall performance in July, we thought it would be worthwhile to recap on why we not only persevere with them in the portfolio but also intend to increase exposure by adding to their number. We acknowledge that there is almost certainly a proportional relationship between exposure to equity long/short funds and the volatility of the Absolute Fund's monthly returns. However, our monthly volatility is one of the lowest amongst all funds of hedge funds and we do not think that a small increase would compromise either our risk management principles or our dedication to preserving capital at all times.

Whilst arbitrage and other debt-oriented funds should continue to provide the foundation of the Absolute Fund's steady performance, we doubt if they can collectively provide us with the 10% annual return which remains our investment objective. Arbitrage returns have necessarily been squeezed by the sheer amount of money which has flowed into hedge funds and it could be argued that some asset classes such as convertible bonds (to which we have reduced exposure substantially) are now worryingly dependent on hedge fund ownership. In addition, the 'easy' money which could be made from falling interest rates, bond yields and credit spreads has been exhausted. Consequently, we believe that it is unrealistic to expect annualised returns from the arbitrage part of the portfolio currently to be much more than 6%. In contrast, whilst hedge funds account for an increasing amount of the daily trading volume in shares, they still constitute a relatively small proportion of share ownership. Moreover, the 'available alpha', i.e. the potential for profit (and admittedly loss), from owning or short-selling the equity of a company is much greater than in arbitrage. The challenge for us therefore is to identify and combine the right set of managers who will collectively give us the asymmetric reward and risk profile we desire. We are confident that the roster of equity long/short managers currently in the portfolio, particularly in the US and Japan, is the best it has ever been and earlier this month in the US we completed our due diligence on several other outstanding managers who we are keen to include in the portfolio.

We would like to reassure investors that we have no intention of increasing equity long/short exposure to more than 50% of the Absolute Fund and our aversion to losing money in any month remains as strong as ever. However, the inclusion of more equity/long short funds should materially improve the return potential of the Absolute Fund. At the same time, we believe that the accompanying incremental increase in risk will be both wholly manageable and acceptable.

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

Charles Hovenden & Christopher Aldous

19th August 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	0.87	0.51	(0.74)	0.75	0.01						2.68
Annual Rate of Return	7.45	Sharpe Ratio (@ 5% risk free)						0.96	Biggest Monthly Loss				(1.07)
Standard Deviation	2.56	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\$91.3	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

Risk Warning

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