

Fund Performance

Share Class (Principal series)	NAV	June 2003		2003 Year to Date		Since Inception [†]	
		Fund (%)	FT World (%)*	Fund (%)	FT World (%)*	Fund (%)	FT World (%)*
Class A – US\$	US\$104.49	+0.60	+1.98	+2.66	+11.45	+4.49	(1.07)
Class B - £	£107.39	+0.72	+1.25	+3.63	+8.73	+7.39	(11.88)
Class C - €	€105.67	+0.69	+4.46	+2.97	+1.87	+5.67	(21.53)

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

†1st October 2001

Having lasted much longer and extended much further than we had expected, the rally in equity markets inspired principally by events in Iraq finally exhausted its supply of momentum in June. Appreciably higher mid-month, the FT World Share Index finally settled 2.3% higher in local currency terms for a three month gain of 15.5% and an advance of 8.8% in the first half of the year.

The abrupt reversal in stock markets and in a number of other financial trends such as the euro/dollar exchange rate and certain bond markets in June wrong-footed and led to losses for practitioners of some hedge fund strategies such as trend-following CTAs. However, the Absolute Fund continued its steady upward progress, delivering gains to investors of between 0.60% and 0.72% (the variation being entirely due to interest rate differentials which are captured by the systematic hedging of all currency exposure within the different share classes). At the halfway stage of the year, all three share classes have provided investors with gains which are almost certain to exceed cash deposit rates over the whole year and we look forward to the second half of the year with considerable optimism.

In what we hope and expect could be the beginning of a new trend, the equity long/short funds fully justified our perseverance and their inclusion in the Absolute Fund, contributing approximately half of June's overall return. The Japanese funds were particularly successful, all six providing profits and the excellent JLS3 fund making its third appearance in four months in the 'Best 3 Funds' list. This result simply endorses our view that the Japanese stock market is disproportionately rich in pricing anomalies which can be harvested by skilled hedge fund managers. The time we invested to deal with the formerly troublesome area of US equity hedge fund selection was also rewarded with a full house of positive returns.

As the 'Rogues Gallery' below reveals, the usually dependable strategy of convertible bond arbitrage had a tough month. Convertible bond valuations, which admittedly had been expensive for some time, finally gave way under a deluge of new issues and falling stock market volatility (please call if you would like us to explain this inter-relationship!). However, losses in convertible bond arbitrage cost only 0.15% and were overwhelmed by profits from the remainder of the 'Arbitrage & Other' half of the portfolio. Distressed securities continues to be an extremely profitable strategy for us. Although it topped the list of winners in June, we are in the process of redeeming the Absolute Fund's DHY2 shares. The fund has grown very large and we are no longer able to secure the closeness of relationship we require of all the managers with whom we invest our investors' money.

Biggest 5 Holdings as at 30th June 2003

Name of Fund	%	Strategy	June (%)	Year to Date (%)
USLS	3.2	US Equity Long/Short	0.5	4.6
JLS3	3.2	Japanese Equity Long/Short	4.2	9.5
ED4	3.1	Event-driven	1.3	8.0
DHY7	3.1	Distressed Securities	2.0	13.9
MS2	3.1	Multi-Strategy	0.8	5.4

Best 3 Funds in June

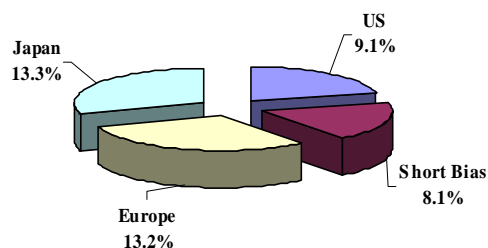
Name of Fund	Strategy	June	YTD
DHY2	Distressed	4.3	13.5
JLS3	Japan Long/Short	4.2	9.5
JLS6	Japan Long/Short	3.6	13.9

Worst 3 Funds in June

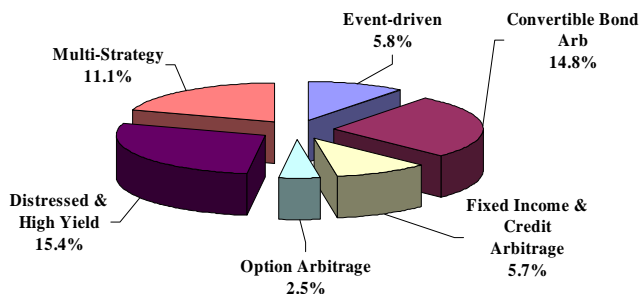
Name of Fund	Strategy	June	YTD
CBA10	Convertible Bond Arb	(2.6)	8.7
CBA8	Convertible Bond Arb	(2.4)	5.0
CBA9	Convertible Bond Arb	(2.2)	1.1

Asset Allocation by Strategy (as at 30th June 2003)

Equity Long/ Short (43.8%)



Arbitrage & Other (55.3%)



Outlook

Inflation and interest rates are at multi-decade lows and economic and corporate profits growth is anaemic to say the least. In such circumstances, the FT World Share Index's gain of nearly 9% should be enough to satisfy investors for a full year, not just six months. However, we fear that many traditional investors believe that the gains of the last few months are just the beginning of the payback for the three years of misery and substantial losses that they have suffered. In contrast, our psychology and recognition of what constitutes an attractive rate of return is derived from the comfort (but certainly not the complacency!) of knowing that all investments in the Absolute Fund and its predecessor portfolios are at all-time highs. As the extended track record below shows, over the last four and a half years the strategy has delivered a net return of nearly 8% per annum with extremely low volatility and only minor drawdowns. If we can repeat this over the next four and a half years, we suspect that we will be judged to have done a good job. However, we still believe absolutely that a gain of 10% p.a. should be attainable given the improvements we have made and will continue to make to the strategy and our fund selection.

After their recent gains, equity and corporate bond markets are 'priced for perfection' and could look very exposed if the widely-heralded economic recovery fails to materialise in the second half of the year. We also observe that in the last few months there seems to have been an inverse relationship between share price performance and corporate profitability. As always, we remain almost wholly agnostic as to the direction of financial markets within the construction of the Absolute Fund. However, we are confident that short-selling of selected stocks and bonds will be considerably more lucrative in the second half of the year than it has been over the last few months and will be an essential skill for successful equity hedge fund managers.

With financial markets now finally free of the distortions if the Iraq conflict, we look forward to the second half of the year with considerable relish. We detect the greatest opportunities and expect overall performance to be driven by long/short strategies in equities and corporate bonds.

We look forward to welcoming you to our new office in Arlington Street and, as always, we welcome any comments, questions and suggestions.

Charles Hovenden & Christopher Aldous

23rd July 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							2.66

Annual Rate of Return	7.64	Sharpe Ratio (@ 5% risk free)	0.97	Biggest Monthly Loss	(1.07)
Standard Deviation	2.71	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\$67.2m	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:	46	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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