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THE ABSOLUTE FUND

Monthly Report – June 30th 2004

Share Class (Principal series)	NAV	June 2004		2004 Year to Date		Since Inception†	
		Fund (%)	FT World (%)*	Fund (%)	FT World(%)*	Fund (%)	FT World (%)*
Class A – US$	US$112.06	+0.75	+1.95	+2.67	+3.87	+12.06	+23.44
Class B - £	£117.59	+0.99	+3.06	+3.91	+2.52	+17.59	+0.02
Class C - €	€114.23	+0.81	+2.32	+3.12	+7.65	+14.23	(7.60)

**The FT World Share Index in the currency of the respective share class – Source: FT/Bloomberg* *†1st October 2001*

After May's disappointment, it was certainly a relief to be back in the groove with a solid return in June. Last month's performance was pleasing also because it was achieved in conditions which continued to prove difficult for a number of popular hedge fund strategies (as can be inferred from the pedestrian increases of 0.34% and 0.24% in the CSFB Tremont Hedge Fund Index and the HFR Funds of Hedge Funds Index respectively.) As most readers of this report know, we are only peripherally interested in such benchmarks because their composition and resultant risk profiles are markedly different to that of the Absolute Fund. Nevertheless, we regard it as a vindication of our strategy that the performance of the Absolute Fund so far this year compares extremely favourably with the indices and with our peer group. On a rolling twelve month basis to the end of June, the Absolute Fund has delivered returns of 7.3%, 9.5% and 8.1% net of all fees to investors in the US$, £ and € share classes respectively.

Despite the testing circumstances in June, the Absolute Fund lost money in only one of the nine sub-strategies in which it is invested. The two most profitable strategies were Distressed Securities (+0.25%) and Japanese Equity Long/Short (+0.30%), which have the largest and third largest strategy allocations within the Fund respectively. The only losing strategy was the Absolute Fund's disaster insurance policy, Short Bias Equity (-0.05%), but this is neither particularly surprising nor alarming as the local currency FT World Share Index posted a gain of nearly 2% at the end of a volatile month. June was a particularly tough month for Convertible Bond Arbitrage as a total absence of buyers caused valuations to compress and prices to fall. However, the Absolute Fund managed to break even in this strategy as huge anomalies in certain arbitrage positions within the CBA9 Fund (one of May's Worst 3 Funds) corrected, giving rise to profits which were just sufficient to cancel out losses in other investments in the sector.

At the individual fund level, 35 out of the 48 funds were profitable, which we regard as a satisfactory success ratio. The Absolute Fund benefited from full house of gains in Distressed Securities, Multi-Strategy Arbitrage and European Equity Long/Short. The only sub-strategies with more than one losing fund were Convertible Bond Arbitrage, in which 5 out of 6 funds lost money, and Short Bias Equity. As can be seen from the 'Worst 3 Funds' list, no underlying fund suffered a substantial loss.

Biggest 5 Holdings as at 30th June 2004

Name of Fund	%	Strategy	June (%)	Year to Date (%)
DHY7	3.3	Distressed Securities	+0.0	+4.1
JLS6	3.2	Japanese Equity Long/Short	+3.6	+17.4
USLS6	3.1	US Equity Long/Short	+0.8	+4.6
MS4	3.0	Multi-Strategy	+0.3	+4.0
ED4	2.9	Event-Driven	+1.2	+3.4

Best 3 Funds in June

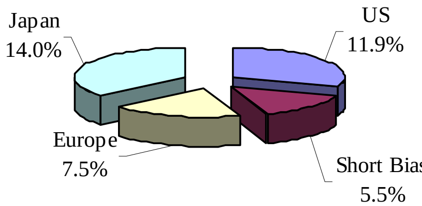
Name of Fund	Strategy	June	YTD
JLS8	Japanese Equity L/S	+3.8	+12.1
ED5	Event-Driven	+3.6	+10.9
JLS6	Japanese Equity L/S	+3.6	+17.4

Worst 3 Funds in June

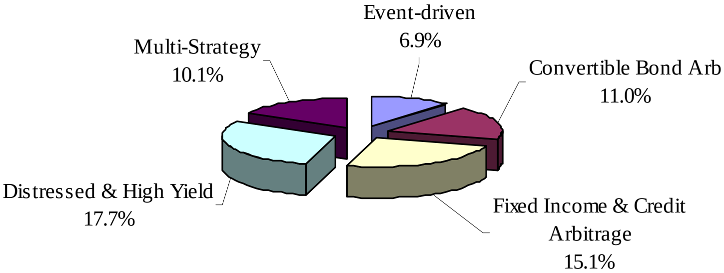
Name of Fund	Strategy	June	YTD
USSB3	Short-Bias	(2.5)	(8.2)
CBA6	Convertible Arbitrage	(2.2)	(1.7)
USSB5	Short Bias	(1.9)	(3.9)

Asset Allocation by Strategy (as at 30th June 2004)

Equity Long/ Short (38.9%)



Arbitrage & Other (60.7%)



Outlook

The reaction in financial markets to the first rise in US interest rates since May 2000 at the end of June was predictably muted as the change had been widely expected and signalled. Of greater importance to investors, however, is the extent to which interest rates will need to rise and over what timescale in order to check growth in an economy which has been bingeing on a diet of tax rebates and ultra-cheap money ahead of the Presidential election. The Federal Reserve Board will certainly need to tread carefully as levels of consumer debt and of general leverage within the financial system remain high. A response which is too heavy-handed could therefore have devastating consequences and we would not discard the boom in 2004, bust in 2005 scenario we floated in February's report.

Fortunately, the investment strategy for the Absolute Fund does not rely on us accurately predicting economic or indeed market trends. However, such trends do influence and impact on the opportunity sets across different hedge fund strategies. For example, rising interest rates and the limited scope for credit spreads (the difference between corporate and US government bond yields) to contract further are likely to make it harder for managers engaged in certain debt-related strategies, such as convertible bond arbitrage, to earn worthwhile returns. For this reason, we have submitted redemption requests which will reduce exposure to convertible bond arbitrage to just 8%, its lowest level since the Absolute Fund was launched. We are retaining investments only in those funds whose managers possess the requisite skill-sets to pursue a non-traditional approach to the strategy.

We intend to re-invest the proceeds from these sales in additional equity long/short funds, moving the balance between arbitrage & other and equity long/short funds from its current ratio of approximately 60:40 to closer to 50:50. With the exception of European sector, in which we are currently struggling to identify talent of sufficient quality, we are finding no shortage of excellent candidate funds. Indeed, what was to have been a 'care and maintenance' trip to the US in the first week of August to visit the Absolute Fund's existing managers is now devoted almost exclusively to meeting with new (to us) managers. Almost without exception, these new managers have been recommended to us by the managers of funds in which we have had long-standing investments. It amuses us to hear some of our peers bemoaning that all the 'best' hedge funds are closed to additional investments. In contrast, our pipeline of potential investments is as long and strong as we can remember. Whilst we will never indulge in change for change's sake, we believe that we can make significant improvements to the composition of the Absolute Fund.

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

Charles Hovenden & Christopher Aldous

27th July 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							2.67

Annual Rate of Return	7.57	**Sharpe Ratio (@ 5% risk free)**	1.00	**Biggest Monthly Loss**	(1.07)
Standard Deviation	2.57	**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$90.2m	**Investment Manager:**	Absolute Fund Management Ltd. 4, Arlington Street London SW1A 1RA Telephone: +44 (0) 20 7307 0000 Website: www.absolutefund.co.uk **Contact: Christopher Aldous**
No. of Holdings:	48		
Share Classes:	US$, £, €		
Basic Fee:	1%		
Incentive Fee:	15% of gains between 6% and 24% p.a.		
High Water Mark:	Yes	**Administrator:**	International Fund Managers (Ireland) Ltd. IFSC House International Financial Services Centre Dublin 1 Telephone: +353 1 670 0660 **Contact: Andrew Martin**
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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AFM is authorised and regulated by the FSA

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