

Fund Performance

Share Class (Principal series)	NAV	June 2002		2002 Year to Date		Since Inception [†]	
		Fund	FTWorld*	Fund	FT World*	Fund	FT World*
Class A – US\$	US\$103.13	-0.52%	-6.05%	+1.85%	-8.34%	+3.13%	+0.53%
Class B - £	£103.85	-0.36%	-9.82%	+2.85%	-12.48%	+3.85%	-3.06%
Class C - €	€103.06	-0.70%	-11.13%	+2.32%	-17.36%	+3.06%	-7.31%

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

†1st October 2001

We are genuinely apologetic to have to report declines of 0.52%, 0.36% and 0.70% in the US\$, £ and € share classes respectively for the month of June. As the comparative figures for the FT World Share Index reveal, June was a torrid month for equity markets (and for corporate bond markets too). However, we are not in the business of relative returns and regard any performance number which is preceded by a minus sign as unsatisfactory.

Even though we think that it would have been close to impossible to have achieved a gain in June, we are disappointed that we were not able to preserve capital. Looking at the components of the CSFB Tremont Hedge Fund Index (which itself was down by 0.84% in June), the only strategies which delivered positive returns were short-bias, fixed income arbitrage, macro and CTA (commodity trading advisor) funds. As the Fund's investors and regular readers of this report are aware, allocations to short-bias funds are an important strand of the investment strategy we adopt for the Absolute Fund. We also have limited exposure to fixed income arbitrage despite the high levels of leverage that this strategy usually requires. However, we shun CTAs (whose managers mostly seek to identify and profit from trends by investing in futures and other derivatives) and macro funds because returns are unpredictable and often volatile and investing in them also generally requires a blind leap of faith. In our opinion, allocations to CTAs and macro funds would increase rather than reduce risk within the Absolute Fund. Nevertheless, we acknowledge that plunging stock markets and the plunging dollar did provide two clear trends from which the managers of such funds could profit in June.

As further evidence of the difficult conditions, just 22 of the Absolute Fund's underlying 44 hedge funds were profitable in June, the lowest ratio we have ever experienced by a wide margin. June saw indiscriminate selling of shares of both fundamentally good and bad companies and so almost the only way to invest profitably was to have been net short. Not surprisingly, our two most successful funds in June were therefore short-bias funds. Elsewhere, further revelations about the fraud at Adelphia Communications and the discovery of brazenly false accounting at Worldcom continued to undermine corporate bond markets, robbing strategies such as convertible bond arbitrage of some of the defensive characteristics they usually exhibit in troubled times.

Amongst individual funds, we are heartened that 3 of our 5 US equity long/short funds made money in June. However, Fund USLS2, the last remaining US equity long/short fund in which shares were acquired through in-specie subscriptions, lost 5.6%. This took Fund USLS2's cumulative loss since April to more than 10% and triggered our stop-loss limit. We also gave notice to redeem Fund USSB4, a 'short-bias' fund which unforgivably lost 3.1% in June.

Top 5 Holdings as at 30th June 2002

Name of Fund	%	Strategy	June	Year to Date
Fund DHY2	3.6	Distressed Securities	-0.6%	+2.8%
Fund MM1	3.5	Multi-strategy	-0.4%	+2.8%
Fund CBA5	3.2	Convertible Bond & Merger Arbitrage	+0.1%	+2.9%
Fund CBA4	3.2	Convertible Bond Arbitrage	+0.9%	+6.7%
Fund MA2	2.9	Event Driven	-1.0%	+1.8%

Best 3 Funds in June

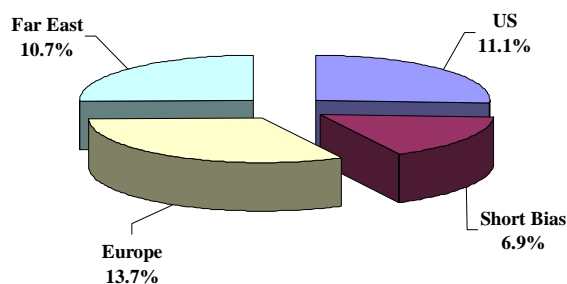
Name of Fund	Strategy	June	YTD
Fund USSB3	Short Bias Equity	+3.8%	+4.6%
Fund USSB2	Short Bias Equity	+3.0%	+3.6%
Fund USLS6	US Equity L/S	+1.6%	+7.7%

Worst 3 Funds in June

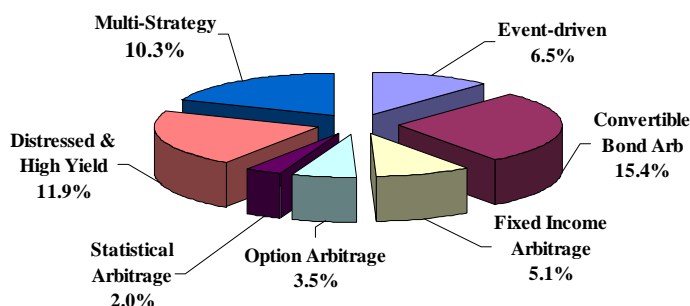
Name of Fund	Strategy	June	YTD
Fund USLS2	US Equity L/S	-5.8%	-11.8%
Fund JLS1	Japanese Equity L/S	-4.1%	+1.0%
Fund USSB4	Short Bias Equity	-3.1%	-2.2%

Asset Allocation by Strategy (as at 30th June 2002)

Equity Long/Short (42.3%)



Arbitrage & Other (54.7%)



Outlook

As we write, July seems like June, only worse, and the FT World Share Index is down a further 11.7% in local currency terms. The stream of accounting scandals, profits warnings, downgrades to credit ratings from investment grade to junk and the falling dollar has undermined investor confidence close to the point of non-existence. At a time when an unfounded rumour or vague association (even by just being in a similar business) with a rogue company can send a share price into a tailspin, fundamental analysis seems pointless and obsolete as stock and corporate bond markets are driven solely by emotion.

We have no doubt that there will be further Enrons and Worldcoms. The 1990s was a decade of corporate greed, manifested by obscene share option packages which only encouraged dubious accounting practices and seemingly rewarded executives to build corporate empires with mountains of debt they will never be able to repay. Despite this, it is wrong to conclude that the whole of the corporate world is rotten to the core.

At present, we and the managers of the hedge funds in which the Absolute Fund has invested are battling just to preserve capital. However, the dislocation we are witnessing in financial markets will ultimately produce as many opportunities as pitfalls. When financial markets eventually stabilise, as surely they will, and investors once again begin to discriminate between good businesses and bad businesses, pickings will be rich for the best hedge fund managers. We would then expect and hope that the Absolute Fund will deliver a series of monthly returns in excess of 1% for its investors. This statement should not be confused with a forecast of a new bull market in equities as rising share prices are not a pre-requisite for an investment in the Absolute Fund to be profitable. Indeed, we suspect that the hangover which followed the binge of the 1990s will persist for a while longer. The Absolute Fund's underlying hedge fund managers simply need credit and stock markets to become more rational again.

In the meantime, we will continue, as always, to maintain a diversified and sensible asset allocation and to strive to have the best possible combination of underlying funds. We are convinced that the composition of the Absolute Fund is getting better with every change we make and are wholeheartedly optimistic about the outlook for returns in the months and years ahead.

As always, we welcome your comments, suggestions and questions

Charles Hovenden & Christopher Aldous – 22nd July 2002

Manager's Track Record & Summary Statistics

	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)							1.85

Annual Rate of Return	9.52	Sharpe Ratio (@ 5% risk free)	1.69	Biggest Monthly Loss	(0.52)
Standard Deviation	2.68	Correlation with FT World Index (Local)	0.36	Biggest Peak-to-Trough Drawdown	(0.52)

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\$58.1m	Investment Manager: Absolute Fund Management Ltd. 33, St. James's Square London SW1Y 4JS Telephone: +44 (0) 20 7661 9342 Website: www.absolutefund.co.uk Contact: Christopher Aldous
No. of Holdings: 44	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 (35 days notice for redemptions)	
Min. Investment: US\$100,000	
Fund Domicile: Cayman Islands	
Listing: Irish Stock Exchange	
Price Information: Financial Times under The Absolute Fund Ltd.	

Risk Warning

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