

Fund Performance

Share Class (Principal series)	NAV	March 2002		2002 Year to Date		Since Inception [†]	
		Fund	FTWorld*	Fund	FTWorld*	Fund	FTWorld*
Class A – US\$	US\$102.58	+0.82%	+4.48%	+1.31%	+0.55%	+2.58%	+10.28%
Class B - £	£102.85	+0.95%	+3.77%	+1.86%	+2.76%	+2.85%	+13.81%
Class C - €	€102.46	+0.96%	+3.59%	+1.73%	+2.63%	+2.46%	+15.11%

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

†1st October 2001

The optimism about impending economic recovery which had taken hold in the second half of February carried over into March, propelling equity market indices to their highest levels since July last year. The Absolute Fund is deliberately constructed to have negligible beta (i.e. minimal dependence on the direction of stock markets) and so it is unsurprising that its performance in March was inferior to the market indices. Indeed, it would have been a source of considerable concern to us if performance had matched the indices as this would have implied significant directional risk within the composition of the Fund. Even though gains of 0.82%, 0.95% and 0.96% for the US\$, £ and €share classes are perfectly respectable in absolute terms, we will nonetheless admit to some disappointment that performance in March did not exceed 1% because the Fund benefited from a clutch of fine individual fund returns and suffered no horrors.

On closer examination of the Fund in a performance attribution analysis, however, it is evident that there were parts of the Absolute Fund's portfolio of investments which made only modest contributions to performance and thus diluted the overall return. Most notably, our Japanese long/short equity managers continued to struggle as the stock market remained twitchy and nervous about the possibility of further government intervention after the introduction of measures to discourage short-selling and before the end of the Japanese fiscal year end in March.

The only part of the Absolute Fund which actually lost money in March was the allocation to short bias managers but this is a vital component of the Absolute Fund's investment strategy. Specifically, short bias funds represent the major part of our insurance policy to protect investors' capital in times of market turmoil. Given the magnitude of the rise in stock markets, we are therefore not unduly concerned that short bias funds occupied the top two places on our list of 'Worst 3 Funds in March'. However, Fund USSB3 and Fund USSB1 both exhibit the asymmetric profile of returns we seek, making more money in falling markets than they lose in rising markets. Elsewhere, we are encouraged that a loss of only 0.3% was sufficient to earn a place on our Worst Funds list for Fund MFIA2.

40 out of the Absolute Fund's 45 underlying hedge funds were profitable in March and 8 provided gains of more than 2%. Fund ELS7 maintained the tradition of funds featuring on the Best 3 Funds list in their first month of ownership whilst Fund USLS5, a US equity long/short fund in which we invested in February, heads the rankings for the year with a gain of 7.7%.

Top 5 Holdings as at 31st March 2002

Name of Fund	%	Strategy	March	2002 YTD
Fund DHY2	3.9	Distressed Securities	+0.3	+2.7
Fund MM!	3.6	Multi-Strategy	+0.9	+1.5
Fund CBA5	3.3	Convertible Bond & Merger Arbitrage	+1.1	+2.3
Fund CBA4	3.3	Convertible Bond Arbitrage	+1.4	+3.5
Fund USLS5	3.0	US Equity L/S	+3.6	+7.7

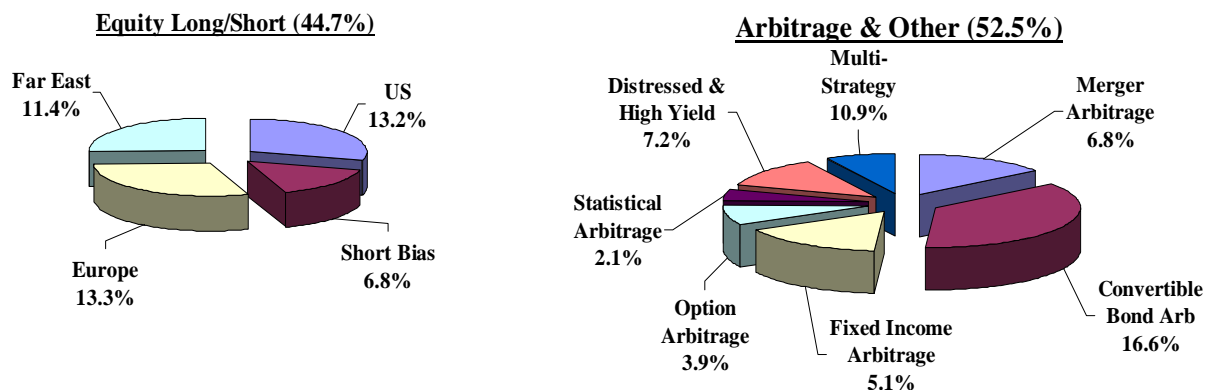
Best 3 Funds in March

Name of Fund	Strategy	Mar	YTD
Fund USLS2	US Equity L/S	+5.1	-1.4
Fund DHY1	Distressed	+4.7	+5.0
Fund ELS7	European Equity L/S	+3.9	+2.6

Worst 3 Funds in March

Name of Fund	Strategy	Mar	YTD
Fund USSB3	Short Bias Equity	-2.1	-2.2
Fund USSB1	Short Bias Equity	-0.9	-1.1
Fund MFIA2	Fixed Income Arb.	-0.3	+1.2

Asset Allocation by Strategy (as at 31st March 2002)



Outlook

But for our unerring belief in the integrity of financial markets, we might be inclined to express some cynicism about the rally in share prices in March. This was sufficient to negate the losses of January and February and ensure gains in the market indices during the first quarter of the year. However, very little has changed and the structural deficiencies and imbalances in the world's largest economies persist. In our opinion, the rally was based more on optimism than hard evidence of a sustainable economic recovery and, interestingly, Central Banks seem in no rush to reverse some of the cuts in interest rates they made in the final quarter of last year when the economic outlook was bleak. Indeed many of the wisest commentators are already beginning to question the durability of the so-called recovery.

Even if they are wrong, we believe that a significant improvement in corporate profitability is needed even to justify current share prices let alone underpin further meaningful gains. We stick by our prediction that double digit returns could prove to be an outstanding achievement in 2002.

As always, our first investment objective is to preserve investors' capital at all times. In respect of our second objective ("to achieve consistent returns of 1-2% per month"), we admit that the higher figure is a bit fanciful in the current environment! As we have stated before, we will not attempt to 'force' the return of the Absolute Fund higher by accepting greater risk by investing in racier or more leveraged funds. On the basis of the success of many of our more recent fund selections, however, we continue to believe that a double-digit return is still achievable in 2002.

At the beginning of March, we made new investments in Fund USSB4 (a short-bias fund which provided a gain last month), in Fund DHY4 (an Asian distressed fund) and in the aforementioned Fund ELS7. We continue to find no shortage of outstanding candidate funds with strong track records and remain entirely dispassionate about displacing any existing investment in the Absolute Fund regardless of the reverence in which it is held by other investors.

As always we welcome your comments, questions and suggestions.

Charles Hovenden & Christopher Aldous – 23rd April 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	0.50	(0.01)	0.82										1.31

Annual Rate of Return	10.1	Sharpe Ratio (@ 5% risk free)	1.9	Biggest Monthly Loss	(0.32)
Standard Deviation	2.7	Correlation with FT World Index (Local)	0.3	Biggest Peak-to-Trough Drawdown	(0.42)

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\$53.4m	Investment Manager:	Absolute Fund Management Ltd. 33, St. James's Square London SW1Y 4JS Telephone: +44 (0) 20 7661 9342
No. of Holdings:	45	Contact: Christopher Aldous	
Share Classes:	US\$, £, €	Administrator:	International Fund Managers (Ireland) Ltd. IFSC House International Financial Services Centre Dublin 1 Telephone: +353 (1) 670 0660
Basic Fee:	1%	Contact: Andrew Martin	
Incentive Fee:	15% of gains between 6% and 24% p.a.		
High Water Mark:	Yes		
Dealing:	Monthly (35 days notice for redemptions)		
Minimum Investment:	US\$100,000		
Fund Domicile:	Cayman Islands		
Listing:	Irish Stock Exchange		
Price Information:	Financial Times under AFM Funds Ltd or The Absolute Fund Ltd.		

Risk Warning

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