

### Fund Performance

Share Class (Principal series)	NAV	May 2003		2003 Year to Date		Since Inception <sup>†</sup>	
		Fund (%)	FT World (%)*	Fund (%)	FT World (%)*	Fund (%)	FT World (%)*
Class A – US\$	US\$103.87	+0.61	+5.80	+2.05	+9.29	+3.87	(2.99)
Class B - £	£106.62	+0.76	+3.21	+2.91	+7.39	+6.62	(12.97)
Class C - €	€104.95	+0.62	+0.38	+2.27	(2.48)	+4.95	(24.88)

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

†1st October 2001

The 'Baghdad bounce' in equity markets was sustained principally by its own momentum in May. Fund managers who had been defensively positioned with substantial cash balances rushed to re-invest for fear of facing criticism from their clients for missing out on the rally. Accordingly, the FT World Share Index gained 4.4% in local currency terms, extending its gain since the beginning of the year to 6.4% and since its nadir on 12th March to a remarkable 19.4%.

In months like April and May we are creating a rod for our own backs by including the FT World Share Index in the table above as comparisons are certain to be unflattering. Investment returns from the Absolute Fund have been and should continue to be virtually uncorrelated with the stock market. Investors will remember, for example, that the Absolute Fund had its best month so far last December when the FT World Share Index fell by more than 6%. It would be more valid to show returns from cash deposits as this probably the most relevant benchmark but it would also be the least interesting for readers! Although we crave the 'fix' of a 1% month, and remain wholly confident that the investments within the Absolute Fund can and will collectively deliver many of them, we are quite satisfied with gains of 0.61% – 0.76% in May. After all, this is two to three times what could have been earned on cash deposit.

As can be seen in the 'rogues gallery' below, the disaster insurance provided by the Absolute Fund's allocation to short bias managers again acted as a drag on performance in May. However, the negative contribution to overall performance of 0.26% fell just about within our pain threshold given market conditions. The 2% reduction in exposure to short bias funds which we initiated after April's excessive and unacceptable cost of insurance (and which is being achieved through partial redemptions from the USSB5 and USSB1 funds) will be effective as at the end of this month. Elsewhere in the equity long/short part of the portfolio, the US and European funds contributed 0.22% and 0.15% respectively to overall performance. USLS9's excellent performance was achieved despite net long market exposure of no more than 33% and the deduction that stock markets must now at last be beginning to reward good stock picking again makes us optimistic about future returns from this half of the portfolio.

The 'Arbitrage & Other' half of the portfolio contributed an estimated 0.65% to overall performance (before fees) with 21 out of 24 funds profitable. Funds which are invested in distressed securities provided almost half of this with 4 out of 7 funds achieving gains of more than 2%. We are obviously particularly pleased with the Fund's investment in DHY7 which we made on 1st January.

### Biggest 5 Holdings as at 31<sup>st</sup> May 2003

Name of Fund	%	Strategy	May (%)	Year to Date (%)
USLS11	3.0	US Equity Long/Short	1.6	4.1
ED2	2.9	Event-driven	0.9	3.1
CBA4	2.8	Convertible Bond Arbitrage	(0.2)	7.2
CBA1	2.8	Convertible Bond Arbitrage	0.5	5.2
ELS1	2.7	European Equity Long/Short	0.2	1.4

### Best 3 Funds in May

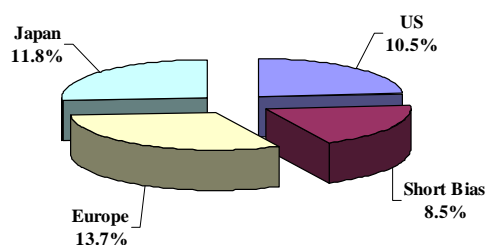
Name of Fund	Strategy	May	YTD
USLS9	US Long/Short	4.3	4.6
DHY7	Distressed	3.0	11.7
USSB4	US Long/Short	2.9	7.8

### Worst 3 Funds in May

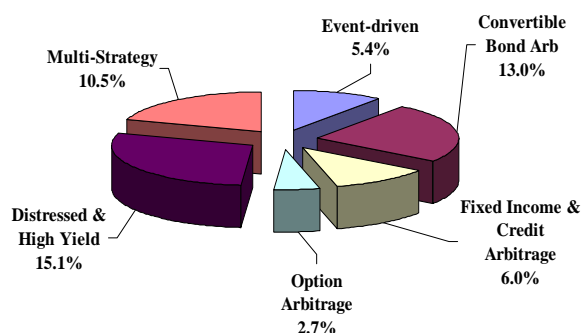
Name of Fund	Strategy	May	YTD
USSB5	Short Bias	(5.0)	(10.9)
USSB1	Short Bias	(3.3)	(9.7)
USSB3	Short Bias	(2.9)	(7.2)

## Asset Allocation by Strategy (as at 31<sup>st</sup> May 2003)

### Equity Long/ Short (44.4%)



### Arbitrage & Other (52.7%)



## Outlook

Much of the press and many (of course impartial) experts would have investors believe that the bear market ended on 12th March. Although stock markets always overshoot and the magnitude of the market's Iraq-related decline was exaggerated, we are surprised by both the longevity and durability of the current rally. We do not believe that it can be justified or sustained without a hard evidence of improvement in economic conditions and corporate profits and therefore advise caution. Share prices may not re-test their March lows but the bear market may be far from over.

Optimism about economic recovery in the US in the second half of the year abounds but we find it hard to identify what the driver of this recovery will be. Consumers are already heavily indebted, opportunities for equity withdrawal from housing have diminished and the unemployment rate stands at more than 6%. The recent strength of the technology-rich NASDAQ Index (up by more than 20% year-to-date) is discounting a surge in capital expenditure by companies but we do not think this is likely at current levels of profitability and against a background of spiralling pension and healthcare costs. Elsewhere, Germany seems to be headed for Japanese-style deflation. The breathtaking rally in the euro may be a cause of national pride in Euroland but is in fact just about the worst thing for its economy.

We acknowledge that first quarter corporate profits in the US were ahead of expectations but expectations had been carefully managed to ensure this outcome. In many ways, the quarterly 'confessional season' when companies are permitted to give guidance of current trading has superseded in importance actual announcements of corporate profits. In any case, any improvement that there has been in corporate profits can be attributed almost entirely to cost cutting. Share prices are ultimately determined by corporate profits and we do not believe a new bull market can begin until companies can achieve top-line growth though higher volumes or prices. Ominously and tellingly we note a big increase in directors' share sales in recent weeks.

The rally in stock markets will not cause us to change our investment strategy and we will certainly resist any temptation to introduce market directionality into the Absolute Fund. Unless you believe that the 20%+ equity market gains of the late 1990s are about to be repeated, returns from the Absolute Fund should continue to be competitive and considerably less risky.

As always, we welcome any comments, questions and suggestions.

Charles Hovenden & Christopher Aldous

20th June 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								2.05

Annual Rate of Return	7.64	Sharpe Ratio (@ 5% risk free)	0.97	Biggest Monthly Loss	(1.07)
Standard Deviation	2.74	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

<b>Size of Fund:</b>	US\$62.2m	<b>Investment Manager:</b>	Absolute Fund Management Ltd. 33, St. James's Square London SW1Y 4JS Telephone: +44 (0) 20 7661 9342 Website: <a href="http://www.absolutefund.co.uk">www.absolutefund.co.uk</a> <b>Contact: Christopher Aldous</b>
<b>No. of Holdings:</b>	46	<b>Administrator:</b>	International Fund Managers (Ireland) Ltd. IFSC House International Financial Services Centre Dublin 1 Telephone: +353 1 670 0660 <b>Contact: Andrew Martin</b>
<b>Share Classes:</b>	US\$, £, €		
<b>Basic Fee:</b>	1%		
<b>Incentive Fee:</b>	15% of gains between 6% and 24% p.a.		
<b>High Water Mark:</b>	Yes		
<b>Dealing:</b>	Monthly (with 35 days notice for redemptions)		
<b>Min. Investment:</b>	US\$100,000		
<b>Fund Domicile:</b>	Cayman Islands		
<b>Listing:</b>	Irish Stock Exchange		

## Price Information

	Financial Times	Bloomberg	SEDOL	ISIN
<b>Class A (US\$)</b>	under The Absolute Fund Ltd	ABSFNDA KY <Equity>	3093568	TBC
<b>Class B (£)</b>	"	ABSFNDB KY <Equity>	3093591	TBC
<b>Class C (€)</b>	"	ABSFNDC KY <Equity>	3093610	TBC

## Risk Warning

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