

Fund Performance

Share Class (Principal series)	NAV	November 2001		Since Inception [†]	
		Fund	Index*	Fund	Index*
Class A – US\$	100.63	+0.24	+6.08	+0.63	+8.62
Class B - £	100.24	+0.35	+8.18	+0.24	+11.94
Class C - €	99.98	-0.01	+6.72	-0.02	+10.48

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

†1st October 2001

In another month which was much more challenging for most hedge fund managers than the gains in stock market indices would suggest, the net asset value of the core Class A (US\$-denominated) shares increased by 0.24%. The disparity between the performances of the three share classes was again a consequence of the volatility of exchange rates around the month-end and the complexity of establishing initial currency hedges relating to substantial in-specie subscriptions into the Absolute Fund on 1st November. Almost all of the expected in-specie subscriptions into the Fund were completed this month and therefore the performances of the three share classes should henceforth be much closer.

As equity markets have rallied strongly in the two months since the Absolute Fund was launched, it is inevitable that the Fund's performance does not compare very flatteringly with the FT World Share Index. However, most investors in the Fund, and especially those who made in-specie subscriptions, know that the strategy proved most successful in protecting capital when it mattered earlier in the year and in 2000. Despite the recovery in equity market indices over the last two months, the FT World Share Index is still down by 11.5% since the beginning of 2001 in dollar terms and, against this, it is hard to be disappointed with gains of any magnitude. Rest assured, however, that our sights are set higher than monthly returns of 0.3-0.4% and we re-affirm our investment objective of providing investors in the Absolute Fund with monthly returns closer to 1%.

23 of the 34 underlying hedge funds owned by the Absolute Fund were profitable in November. In a continuation of the trend which began in October, the rally in stock markets was led by companies which had suffered the biggest falls in profits and share prices earlier in the year and in hopeful anticipation of a strong recovery in the US economy in the first half of next year. However, the Fund's equity long/short managers base their stock selection and market calls on rather more than wishful thinking. We were therefore not particularly surprised that they did not participate in this rally and contributed little to the overall performance of the Absolute Fund in November, the only notable exception being Fund USLS2 (+6.6%). The performances of Fund USLS7 and Fund ELS3 were particularly disappointing. Fund ELS3 was one of the first European hedge funds and enjoys legendary status. However, we are as wary of as we are impressed by reputation and ELS3's place in the Absolute Fund following a second consecutive appearance in the Worst 3 Funds list and generally lacklustre performance for more than a year looks increasingly vulnerable.

Top 5 Holdings as at 30th November 2001

Name of Fund	%	Strategy	November	Year to Date
Fund MM1	6.0	Multi-Strategy	+0.2	+7.1
Fund CBA4	5.5	Convertible Bond Arbitrage	+0.5	+15.4
Fund CBA5	5.3	Convertible Bond & Merger Arbitrage	+1.3	+10.0
Fund MA2	5.0	Event-driven	+0.5	+8.2
Fund MA1	4.8	Merger Arbitrage	+0.0	+7.3

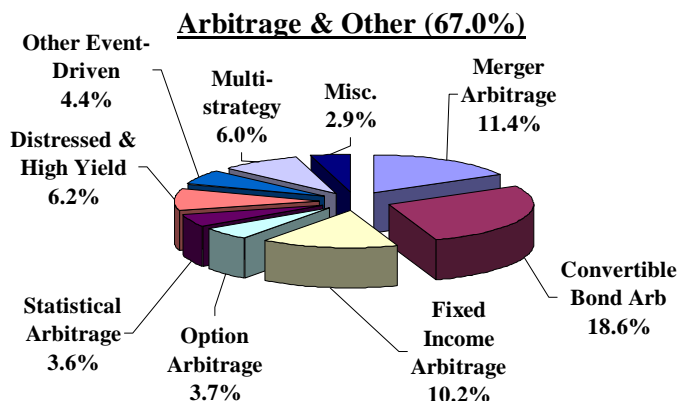
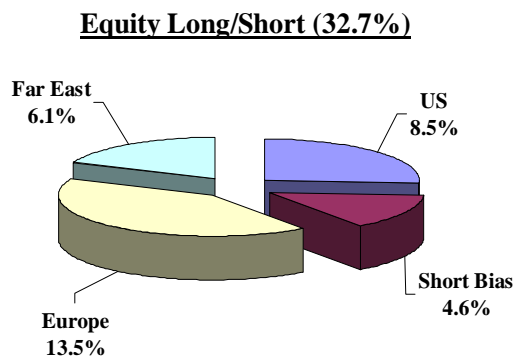
Best 3 Funds in November

Name of Fund	Strategy	Nov	YTD
Fund USLS2	US Equity L/S	+6.6	+16.5
Fund DHY3	Asian Distressed	+2.6	-10.5
Fund OED1	Event-driven	+2.3	+10.6

Worst 3 Funds in November

Name of Fund	Strategy	Nov	YTD
Fund ELS3	European Equity L/S	-3.2	+0.6
Fund OVA1	Option Arbitrage	-2.6	N/A
Fund USLS7	US Equity L/S	-2.5	-2.4

Asset Allocation by Strategy (as at 30th November 2001)



Outlook

Fuelled in part by the 20% rise in the Dow Jones Index from its September low, optimism that the Federal Reserve's eleven cuts in interest rates in 2001 will secure a strong economic recovery in the US in the first half of next year is now widespread. However, October's surge in US retail sales can almost certainly be attributed mainly to the zero-percent finance deals offered by beleaguered car manufacturers and record levels of home re-mortgaging. Indeed, rather than heralding the beginning of new economic upswing, October's spending binge may represent a final act of denial by indebted consumers and may even postpone the real recovery. We are nervously watching the US unemployment rate which is already at its highest level for six years and climbing ominously. Meanwhile, equity valuations can hardly be described as cheap because corporate profits have fallen as fast as share prices.

In our opinion there is plenty of scope for disappointment both economically and corporately. We would therefore not be surprised if 2002 produces another rollercoaster ride for investors in equity markets and we suspect that the Absolute Fund's target return of 12-15% could once again prove to be highly attractive and competitive.

November was a busy month in AFM's continuous programme of hedge fund research and due diligence and included a visit to Tokyo and Hong Kong. In total, we had private meetings with or attended presentations by 22 different managers.

We initiated new investments on 1st November in two funds: Fund JLS2 and Fund OVA2. The former is a classic long/short equity fund and the latter uses arbitrage techniques to profit from 'mispriced' equity and index options in Japan, Hong Kong and Korea. We intend to increase further the Absolute Fund's exposure further to Japanese and Asian hedge funds in the months ahead. Our visit to the region confirmed our earlier suspicions that financial markets in Japan and the rest of Asia are less efficient than those in the US and Europe and there are also fewer hedge funds seeking to take advantage of the plentiful anomalies.

We would like to take this opportunity to wish investors and other readers a Happy Christmas and a peaceful and prosperous New Year.

Charles Hovenden & Christopher Aldous – 20th December 2001

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		3.37

Annual Rate of Return	10.6	Sharpe Ratio (@ 5% risk free)	2.02	Biggest Monthly Loss	(0.32)
Standard Deviation	2.77	Correlation with FT World Index (Local)	0.31	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. The returns prior to October 2001 have been adjusted to reflect the Absolute Fund's schedule of fees. Figures from October 2001 onwards are for the Class A (Principal series) of the Absolute Fund.

General Information

Size of Fund:	US\$27.1m	Investment Manager:	Absolute Fund Management Ltd. 33, St. James's Square London SW1Y 4JS Telephone: +44 (0) 20 7661 9342 Contact: Christopher Aldous
No. of Holdings:	34	Administrator:	International Fund Mgrs. (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% & 24% p.a.,		
High Water Mark:	Yes		
Dealing:	Monthly (35 days notice for redemptions)		
Min. Investment:	US\$100,000		
Fund Details:	Cayman Islands domicile with Irish Stock Exchange listing		
Price Information	Listed in the Financial Times under Offshore & Overseas Funds – Cayman Islands (Regulated).		

Risk Warning

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