

Share Class (Principal series)	NAV	November 2004		2004 Year to Date		Since Inception [†]	
		Fund (%)	FT World (%)*	Fund (%)	FT World (%)*	Fund (%)	FT World (%)*
Class A – US\$	US\$114.14	+1.14	+5.50	+4.59	+11.74	+14.14	+32.80
Class B - £	£121.21	+1.35	+1.11	+7.10	+4.63	+21.21	+2.09
Class C - €	€16.56	+1.11	+0.98	+5.22	+6.02	+16.56	(9.00)

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

†1st October 2001

November was a bittersweet month. Whilst it is obviously churlish to grumble too loudly about the biggest monthly return since last October, we must admit that we are disappointed that we did not make more for the Absolute Fund's investors. We warned in last month's report that comparisons of performance with many other funds of hedge funds in November would be unflattering. This is not surprising as it was a good month for directional strategies such as macro, CTA and emerging markets, all of which we regard as being too speculative and unpredictable for the Absolute Fund. Despite this stance (which gives the Absolute Fund a much lower risk profile than most of its rivals), we are confident that performance remains comfortably in the top quartile of our peer group in 2004. More importantly, November's gains virtually ensure that absolute returns for investors over the whole of 2004 will again be highly respectable.

The source of any disappointment with last month's performance is the returns of two of the Absolute Fund's ten sub-strategies. We would always expect to lose money on our short-bias insurance in a month like November but the 0.3% expended on premium was about three times the figure we regard as acceptable. We are perplexed by the bad run of returns (and specifically 'negative alpha') from the historically excellent SBE3 and SBE5 funds and will be visiting both equity short-sellers in January. However, the really unwelcome surprise was short-bias credit fund SBC1 which, despite being only a 'half-unit' of investment, was responsible for half of the loss. Needless to say, we have had extensive dialogue with SBC1's manager. We have concluded, and SBC1's manager has agreed, that the risk controls which the fund was using were flawed and that the actual exposure and hence risk within the fund was greater than both they and we believed. There are very few funds which maintain a short bias in corporate bond markets, a strategy which we believe is not only a sensible hedge within the Absolute Fund but which could also produce outside profits in its own right in the not-too-distant future. As the risk management controls within SBC1 have now been refined and tightened, we have decided to retain the Absolute Fund's shares. However, we will obviously monitor this investment especially closely.

The other disappointing sub-strategy was Japanese Equity Long/Short but the cost here was one of opportunity as the Absolute Fund's eight underlying funds made a collective contribution to performance of -0.01%. The Japanese equity market has been exceptionally difficult to navigate since July and our Japanese managers, who were responsible for more than a third of the Absolute Fund's return in the first half of the year, have struggled accordingly. However, we continue to be attracted by the inefficiencies and anomalies which characterise this market and are confident that we should persevere with what is certainly the most aggressive allocation in the Absolute Fund.

Biggest 5 Holdings as at 30th November 2004

Name of Fund	%	Strategy	November (%)	Year to Date (%)
ED6	3.2	Event-driven	+5.3	N/A
DHY7	3.1	Distressed Securities	+3.1	+8.7
USLS13	3.1	US Equity Long/Short	+2.0	+5.1
JLS10	3.0	Japanese Equity Long/Short	+0.1	N/A
JLS6	2.9	Japanese Equity Long/Short	(0.1)	+20.1

Best 3 Funds in November

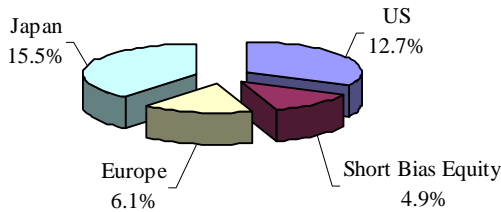
Name of Fund	Strategy	November	YTD
ED5	Event-driven	+7.0	+19.2
FICA5	Credit Arbitrage	+5.6	+15.5
ED6	Event-driven	+5.3	N/A

Worst 3 Funds in November

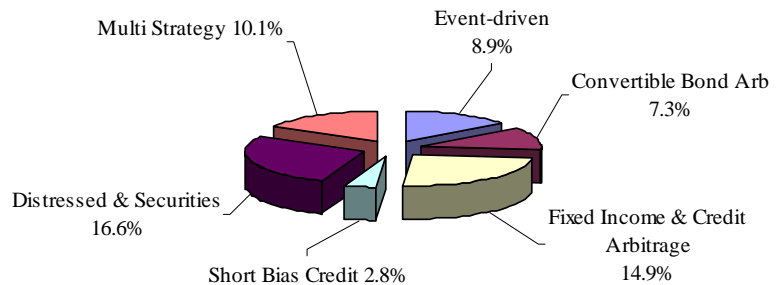
Name of Fund	Strategy	November	YTD
SBC1	Short Bias Credit	(10.6)	(10.9)
SBE5	Short Bias Equity	(5.4)	(10.9)
SBE3	Short Bias Equity	(4.6)	(14.0)

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

Equity Long/ Short (39.2%)



Arbitrage & Other (60.6%)



Outlook

Whilst most of the commentary on the previous page is about what went wrong in November, much more, of course, went right and we enjoyed some outstanding returns particularly in Event-driven, Distressed and Bond Arbitrage funds. We often hear others complaining that all the 'best' funds are closed (to new subscriptions). However, we believe that we have unearthed some terrific funds in 2004 and are convinced that the current composition of the Absolute Fund is substantially better than it was at the beginning of the year. Although some investors will undoubtedly be unable to resist a wry smile at this next statement, the improvements we have made to the Absolute Fund this year give us the confidence to re-affirm our target of delivering a double-digit return in 2005. As co-investors in the Absolute Fund, this is the return we want to make on our own money!

The feature of financial markets which currently strikes us most is the almost universal complacency amongst investors, manifested in one way by stock market volatility which has fallen to levels last seen in 1995. Forecasts of 10% returns from stock markets in 2005 abound, yet it seems to us that risks are mainly skewed to the downside. At the macro level, we wonder what will sustain the US economy now that the stimuli from ultra-low interest rates, mortgage re-financing and tax rebates is coming to an end. America's twin deficits may also yet prompt a dollar crisis which could have grave economic consequences for other countries. At the micro level, the percentage of the US economy represented by corporate profits has never been higher and corporate default rates and credit spreads simply cannot fall much further. Finally, we believe that the threat posed to financial markets and investor sentiment by geopolitical risks remains high. We are well aware that the Absolute Fund's returns over the last two years would have been greater without our allocation to short bias and other defensive funds. However, this is and will remain a feature of the Absolute Fund. Preserving capital may not be a vogue concept at present but we have proved its worth in the past and will do again in the future.

We are proud to announce that the size of the Absolute Fund now exceeds US\$100m and we would like to thank all investors for their support and trust in making this possible. We are excited about growing the Fund further in the months and years ahead, but in a controlled way which jeopardises neither returns nor the quality of the investor relationships we value so much.

We would like to wish all readers a Happy Christmas and as healthy, prosperous and peaceful New Year.

Charles Hovenden & Christopher Aldous

23rd December 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	0.01	0.04	0.45	0.22	1.14		4.59
Annual Rate of Return	7.35	Sharpe Ratio (@ 5% risk free)						0.94	Biggest Monthly Loss				(1.07)
Standard Deviation	2.51	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

Size of Fund:	US\$102.8m	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:	46	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 (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	KYG0060S1241
Class B (£)	“	ABSFNDB KY <Equity>	3093591	KYG0060S1324
Class C (€)	“	ABSFNDC KY <Equity>	3093610	KYG0060S1407

Risk Warning

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