

### Fund Performance

Share Class (Principal series)	NAV	October 2002		2002 Year to Date		Since Inception <sup>†</sup>	
		Fund (%)	FT World (%)*	Fund (%)	FT World (%)*	Fund (%)	FT World (%)*
Class A – US\$	US\$100.95	+0.18	+5.54	(0.30)	(14.99)	+0.95	(6.76)
Class B - £	£102.51	+0.36	+6.12	+1.48	(20.48)	+2.51	(11.93)
Class C - €	€101.61	+0.31	+5.07	+0.88	(23.91)	+1.61	(14.65)

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

†1st October 2001

The rebound of stock market indices from five-year lows reached in the first week of October persisted through November. The FT World Share Index rose by 5.5% in local currency terms for a two-month gain of 13.3% but is still down by 17.9% since the beginning of the year and by 37.2% since its all-time peak on 4th September 2000.

As we wrote last month, rallies in bear markets which lack any fundamental basis probably represent the most challenging and adverse market conditions for the Absolute Fund. Such rallies are typically led by shares whose prices have quite justifiably and previously fallen the most and create their own momentum as hedge fund managers are forced to cover their short positions (i.e. buy back shares which they had sold short) and as conventional fund managers jump onto the bandwagon of rising prices.

As in October, we necessarily lost money in all of our short bias funds although, with the exception of Fund USSB2, our managers did well to limit losses. The Absolute Fund's allocation to short bias managers remains a vital component of our investment strategy and has proved invaluable during 2002. Although share price volatility declined in November it still remains unsustainably high by historical standards and this continued to pose problems for the Absolute Fund's other equity hedge fund managers. Our European equity long/short managers have been one of the Fund's big success stories so far but even they succumbed to irrational share price movements in November, making a negative contribution to performance for the first time. After a very disappointing October, however, the Fund's US equity long/short managers, who have collectively been a source of considerable frustration to us throughout the year, finally came good, providing a positive contribution to performance for the first time since May.

However, the loss on the equity part of the portfolio (we estimate about 0.35%) was annulled and more by gains from the Absolute Fund's 'Arbitrage & Other' managers. This half of the portfolio comprises 22 funds, of which all but two were profitable in November. Convertible bond arbitrage was particularly successful as managers continued to harvest the volatility of underlying share prices whilst also benefiting from the rally in corporate bond markets. The only losers were Fund DHY1 (which represents just 0.8% of the Absolute Fund) and Fund DHY5, both of which include short positions in corporate bonds as part of their strategies.

### Biggest 5 Holdings as at 30th November 2002

Name of Fund	%	Strategy	November (%)	Year to Date (%)
DHY2	3.5	Distressed Securities	2.2	3.4
MS3	3.5	Multi-strategy	0.6	3.0
CBA4	3.4	Convertible Bond Arbitrage	2.2	10.8
ED2	2.9	Event-driven	1.1	4.1
ELS1	2.8	European Equity L/S	0.6	6.2

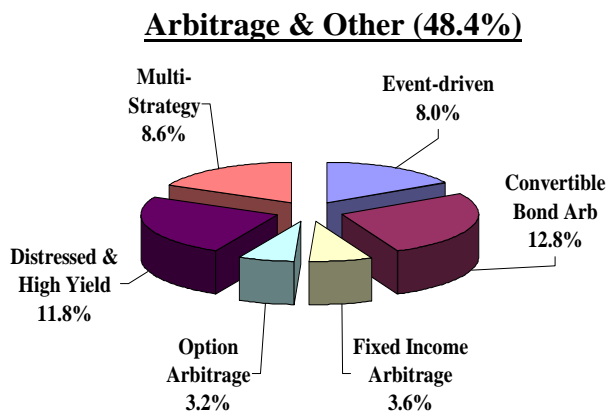
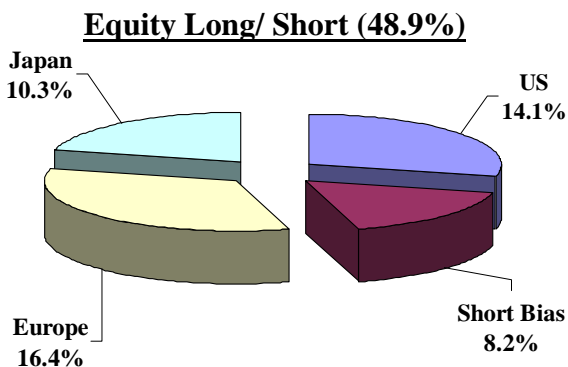
### Best 3 Funds in November

Name of Fund	Strategy	November	YTD
OA1	Option Arbitrage	7.5	12.0
MS1	Event-driven	4.1	2.9
CBA1	Convert Bond Arb	2.5	11.7

### Worst 3 Funds in November

Name of Fund	Strategy	November	YTD
USSB2	US Equity L/S	(6.6)	(11.6)
DHY1	High Yield	(5.2)	(11.6)
USSB5	Short Bias	(3.2)	18.0

## Asset Allocation by Strategy (as at 30th November 2002)



## Outlook

Sadly for conventional, 'long-only' investors we believe that the rise in stock market indices in October and November was no more than a classic bear market rally, very similar to the one in July and August. The rally in the summer saw the FT World Share Index rise by 15.2% from trough to peak in local currency terms but all of this notional gain was gone a month later. The latest rally measured 18.6% from trough to peak but seems to have run out of steam in December with the Index down by just over 5% as at the date of this report.

Historically, the fourth quarter of each year is often a good one for equity markets as investors look forward optimistically to the year ahead. On this occasion, investors have no doubt also drawn encouragement from the statistical improbability of stock markets being down four years in a row. However, to us the economic outlook seems uncertain at best with the US and UK vulnerable to falling house prices and high levels of personal debt, much of Europe suffering from a slump in business and consumer confidence and Japanese politicians continuing to dilute and frustrate efforts to tackle the gargantuan problem of bad debts in the country's banking system. With pricing power elusive to all but a handful of companies, we therefore find it hard to identify factors which will promote growth in corporate profits. Without growth in profits, share valuations do not look particularly cheap to us. We are not predicting that equity markets will be down again in 2003, particularly with the opportunity cost of investing in shares now so low, but we would not be willing to bet much money against this possibility either.

Of course, the Absolute Fund's underlying investments have been deliberately assembled in such a way as to minimise the impact of general trends in stock and bond markets. The only present we really want for Christmas is for volatility to revert to more normal, pre-July levels. This will make the analysis of individual companies and stock selection worthwhile skills once more and allow the Fund's equity hedge fund managers to exploit the many opportunities, both long and short, which abound.

We are hugely excited by the quality of the managers to whom we have allocated capital and can't wait for the New Year to begin. We are single-minded in our determination to provide investors with substantially better returns than we delivered in 2002 and are confident that we now have the portfolio in place to achieve this.

Finally, we would like to thank investors in the Absolute Fund for their support and to wish all readers of this report a Happy Christmas and a peaceful and prosperous New Year.

Charles Hovenden & Christopher Aldous – 23rd December 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)	(0.78)	(0.04)	(1.07)	(0.42)	0.18		(0.31)

Annual Rate of Return	7.9	Sharpe Ratio (@ 5% risk free)	1.00	Biggest Monthly Loss	(1.07)
Standard Deviation	2.88	Correlation with FT World Index (Local)	0.38	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\$ 59.1 m
<b>No. of Holdings:</b>	45
<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

<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>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>

## 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

*The Absolute Fund Ltd. (the "Company") is not a recognised collective investment scheme for the purposes of the Financial Services and Markets Act 2000 (the "Act"). This document is issued by Absolute Fund Management Ltd. ("AFM"), which is regulated by the Financial Services Authority and is being communicated only to persons (each a "permitted recipient") of the kind to whom both (1) the Company is permitted to communicate financial promotions pursuant to The Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (the "Order") and (2) AFM is permitted to communicate financial promotions relating to the Company or otherwise promote the Company under the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the "CIS Order"). It may not be passed on or communicated by the recipient to any other person. Such permitted recipients include existing shareholders of the Company, authorised persons and other investment professionals under Article 19 of the Order and Article 14 of the CIS Order. It does not and is not intended to constitute an offer or solicitation to purchase shares of the Company which may only be made on the basis of the latest private offering memorandum of the Company and the risk and other disclosures made therein. Persons who do not have professional experience in participating in unregulated collective investment schemes should not rely on the information contained herein. The rules made under the Act for the protection of private customers do not apply and the Financial Services Compensation Scheme will not be available for investments in the Absolute Fund. Past performance is not necessarily a guide to future performance and the value of an investment can go down as well as up. Investors may not get back the full amount originally invested. The value of overseas investments may be influenced by changes in exchange rates.*

**AFM is regulated by the FSA**

A F M

**ABSOLUTE**  
FUND MANAGEMENT

[www.absolutefund.co.uk](http://www.absolutefund.co.uk)