

Share Class (Principal series)	NAV	October 2004		2004 Year to Date		Since Inception <sup>†</sup>	
		Fund (%)	FT World (%)*	Fund (%)	FT World (%)*	Fund (%)	FT World (%)*
Class A – US\$	US\$112.85	+0.22	+2.46	+3.41	+5.92	+12.85	+25.87
Class B - £	£119.59	+0.45	+1.20	+5.67	+3.48	+19.59	+0.96
Class C - €	€115.28	+0.24	+0.03	+4.06	+4.99	+15.28	(9.89)

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

†1st October 2001

The looming Presidential election which seemed too close to call and an oil price which for much of the month looked to be climbing relentlessly towards US\$60 a barrel ensured that October was another month of subdued activity in financial markets. Partial retracement of the oil price late in the month helped the FT World Share post a modest gain of 1.2% in local currency terms. Similarly, the Citigroup World Government Bond Index limped to a total return of 0.6%. More importantly and frustratingly for us, however, the listless trend extended to individual bonds and stocks. Opportunities for our managers to extract significant profits were therefore sparse. The result for the Absolute Fund's investors was a month of lacklustre performance, the only consolation being that it was better than cash.

Six of the ten hedge fund strategies represented within the Absolute Fund were profitable in October but, unsurprisingly given market conditions, none stood out. Indeed, the only sub-strategy to contribute more than 10bps (0.1%) to overall performance was Distressed Securities (+0.12%) in which we maintain the Fund's largest allocation. On a capital-weighted basis, the most successful sub-strategy was Event-driven where our 6% allocation provided a return of 9bp. Fortunately, losses from the four unprofitable sub-strategies were even smaller in magnitude, the worst deducting just 3bp from performance. However, the cost in terms of missed opportunity was somewhat greater as the offender was Japanese Equity Long/Short, which is the second biggest allocation within the Absolute Fund. We are acutely aware that the last month when we were adequately rewarded for what is certainly the most aggressive asset allocation within the Absolute Fund was June. Since then, Japanese shares, which have always been especially sensitive to the yen/dollar exchange rate (because of the importance of exports to Japan's economy) and the price of oil (because Japan has no oil of its own), have been in the doldrums. Indeed, the TOPIX Index has fallen in each of the last four months by a cumulative total of 8.8%, making it a challenging time for any manager who has not been net short. Despite this, we continue to believe that idiosyncratic inefficiencies make Japan potentially the most lucrative of the major stock markets for hedge funds and we therefore intend to maintain a high allocation.

33 out of 47 underlying funds were profitable in October which is a slightly disappointing ratio. Despite its excellent returns this year, USSB2 is destined to remain a half-size investment because its manager, who we have known for many years, possesses a decidedly maverick streak! Even though much tighter risk management controls were introduced after May's big loss, JLS3 continues to disappoint and is now definitely in 'the last chance saloon'.

### Biggest 5 Holdings as at 31<sup>st</sup> October 2004

Name of Fund	%	Strategy	October (%)	Year to Date (%)
JLS10	3.1	Japanese Equity L/S	(0.4)	N/A
DHY7	3.1	Distressed Securities	(0.9)	+5.4
JLS6	3.0	Japanese Equity L/S	+0.1	+20.2
USLS6	2.8	US Equity L/S	+0.2	+3.2
USLS11	2.8	US Equity L/S	+0.5	+3.7

### Best 3 Funds in October

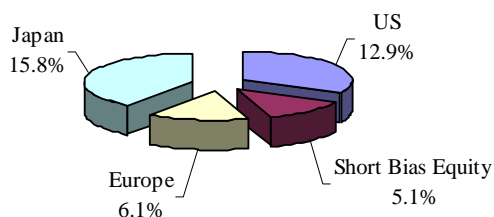
Name of Fund	Strategy	October	YTD
USSB2	Short Bias Equity	+5.6	+15.7
DHY4	Asian Distressed	+2.4	+14.0
ED6	Event-driven	+2.2	N/A

### Worst 3 Funds in October

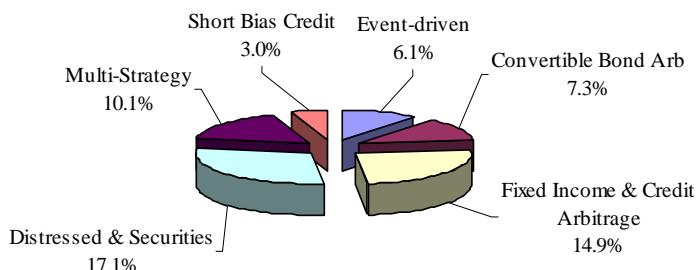
Name of Fund	Strategy	October	YTD
JLS3	Japanese Equity L/S	(4.0)	(18.9)
USSB3	Short Bias Equity	(2.2)	(9.9)
USLS13	US Equity L/S	(1.8)	+3.2

## Asset Allocation by Strategy (as at 31<sup>st</sup> October 2004)

### Equity Long/ Short (39.9%)



### Arbitrage & Other (58.5%)



## Outlook

We wrote in last month's Outlook that we would not be surprised to see stock markets rally after the US Presidential Election or if the oil price were to fall back below US\$50 per barrel and so it has proved. With the FT World Share Index up by 3.3% in local currency terms so far this month, November looks destined to be a month of unflattering performance comparisons for the Absolute Fund. In addition, we have noted in previous monthly reports that sentiment, relief and liquidity-fuelled rallies in which 'everything goes up' represent just about the worst scenario for our strategy. This is because the cost of disaster insurance as expressed by our allocation to short bias funds (both equity and credit) rises sharply, acting as a significant drag on performance. To complete our torment, the only major stock market which has not participated in this month's upswing is Japan!

What we think we are seeing, however, is a 'Hobson's Choice' rally in equity markets, prompted mainly by the even more unappealing outlooks for other asset classes such as bonds and property. 2004 was always going to be a banner year for growth in the world's largest economy thanks to artificially low interest rates and tax cuts. However, year-on-year comparisons and the economic challenges which must be faced in 2005 are formidable. High up the list of these are the US's burgeoning budget and trade deficits which make the US increasingly dependent on and vulnerable to flows of foreign capital. However, with the Bush administration committed to funding expensive occupations of Iraq and Afghanistan and tax increases off the agenda, we can only see the budget deficit expanding further. Consequently, we believe that there is growing risk of a disorderly decline in the value of the dollar sometime in 2005 and this would obviously have grave implications for financial markets.

Although we are frustrated by the pedestrian returns of the last few months, we will not be making any wholesale changes to the Absolute Fund's balanced and diversified structure. Our efforts will therefore continue to be focussed mainly on fund selection. In October, we initiated investments in three new funds: JLS10, USLS14 (US Equity L/S) and ED6 (Event-driven). The biggest of these three funds is less than US\$300m in size and this is consistent with our deliberate migration down the fund-size spectrum to where we are confident that the double-digit returns we seek are most likely to be found.

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

Charles Hovenden & Christopher Aldous

23rd November 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			3.41

Annual Rate of Return	7.25	Sharpe Ratio (@ 5% risk free)	0.89	Biggest Monthly Loss	(1.07)
Standard Deviation	2.52	Correlation with FT World Index (Local)	0.33	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\$97.4m	<b>Investment Manager:</b>	Absolute Fund Management Ltd. 4, Arlington Street London SW1A 1RA Telephone: +44 (0) 20 7307 0000 Website: <a href="http://www.absolutefund.co.uk">www.absolutefund.co.uk</a> <b>Contact: Christopher Aldous</b>
<b>No. of Holdings:</b>	47	<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	KYG0060S1241
<b>Class B (£)</b>	“	ABSFNDB KY <Equity>	3093591	KYG0060S1324
<b>Class C (€)</b>	“	ABSFNDC KY <Equity>	3093610	KYG0060S1407

## Risk Warning

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