

Fund Performance

Share Class (Principal series)	NAV	October 2002		2002 Year to Date		Since Inception [†]	
		Fund (%)	FT World (%) [*]	Fund (%)	FT World (%) [*]	Fund (%)	FT World (%) [*]
Class A – US\$	US\$100.76	(0.42)	+7.45	(0.48)	(19.46)	+0.76	(11.66)
Class B - £	£102.14	(0.23)	+8.01	+1.12	(25.07)	+2.14	(17.01)
Class C - €	€101.30	(0.27)	+7.23	+0.57	(27.58)	+1.30	(18.77)

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

†1st October 2001

It is a feature of bear markets that they are punctuated by periodic, sharp but ultimately short-lived rallies in share prices. The 7.4% rise in the FT World Share Index during October looks impressive but, in fact, was less than half of the gain recorded by the Index between 23rd July and 22nd August which the monthly indices fail to record as it was both preceded and followed by big declines. Indeed, the first nine days of October were a continuation of September's dismal trend and from trough the peak the rally measured 13.6% in just eight trading days. Unsurprisingly then, October was another month of high daily volatility with the Index moving by more than 4% on one day, by more than 3% on another day, by more than 2% on three more days (all up days so far) and by more than 1% on a further eight days (one up day and seven down days). As in July and August, there was no fundamental basis for October's rally. Admittedly, corporate results were generally in line or better than (very low) expectations but, if anything, there was evidence of deterioration in economic conditions with the main US consumer confidence indicator falling to its lowest level since 1993. October's rally in share prices must therefore be attributed principally to technical factors and was essentially no more than a reactive bounce from September's lows.

Bear market rallies which lack any fundamental basis probably represent the worst possible conditions for the Absolute Fund. We inevitably lost money on all of our short bias funds but nothing like as much money as they made for the Absolute Fund between June and September. However, the nature of the rally, which was led by big, liquid shares (for example, the S & P Composite Index rose by 8.8% but the Russell 2000 Index managed a gain of only 3.1%) and which also saw the share prices of the weakest companies which had previously fallen the furthest bounce the most, also made life difficult for our long/short managers. Most of the Absolute Fund's long/short equity managers have been chosen for the outstanding stock-picking skills (both long and short) but this quality was a liability rather than an asset in October. Despite their modest net long bias, all six of our US long/short equity funds lost money during the month (ranging from -0.3% to -1.5%) and just 6 of the Absolute Fund's 24 equity-based hedge funds were profitable. Indeed, the only strategies which made positive contributions to the Absolute Fund's performance were European long/short equity, convertible bond arbitrage and option arbitrage.

Whilst it is obviously disappointing that the Absolute Fund was slightly down in a month when most equity market indices (with the notable exception of Japan) were up significantly, the performance of the Absolute Fund continues to be far superior over any longer time period. Moreover, our failure to make money in October was not atypical within our peer group with both the CSFB Tremont Hedge Fund Index and HFR Funds of Hedge Funds Index also posting negative returns over the month.

Biggest 5 Holdings as at 31st October 2002

Name of Fund	%	Strategy	October (%)	Year to Date (%)
MS3	3.4	Multi-strategy	(0.8)	2.4
DHY2	3.4	Distressed Securities	(0.5)	1.1
CBA4	3.3	Convertible Bond Arbitrage	1.4	8.4
ED2	2.9	Event Driven	0.2	3.0
USSB3	2.8	Short Bias	(3.1)	11.2

Best 3 Funds in October

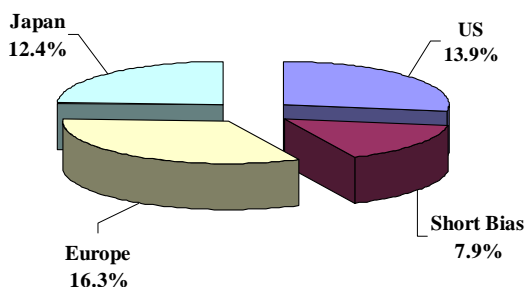
Name of Fund	Strategy	October	YTD
OA1	Option Arbitrage	15.4	4.2
JLS3	Japan L/S	4.4	6.9
ELS9	Europe L/S	3.3	8.0

Worst 3 Funds in October

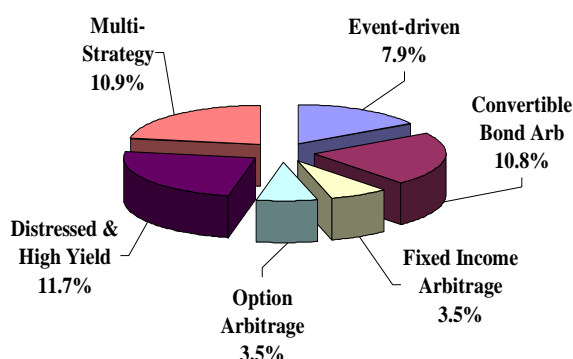
Name of Fund	Strategy	October	YTD
MFIA1	Mortgage Arbitrage	(15.7)	(57.4)
USSB2	Short Bias	(9.2)	(5.3)
USSB6	Short Bias	(6.7)	N/A

Asset Allocation by Strategy (as at 31st October 2002)

Equity Long/ Short (50.5%)



Arbitrage & Other (48.4%)



Outlook

Not least as investors in the Absolute Fund ourselves, we are acutely aware that we have not made any money for five months, the longest period of barren performance we have suffered since we devised the strategy adopted for the Absolute Fund almost four years ago. We were able to invest profitably and consistently in 2000, 2001 and the first five months of 2002, periods when the FT World Share Index fell by 7.7%, 13.5% and 4.2% respectively in local currency terms, so why have we struggled since June? The truth is that the behaviour of financial markets over the last five months has been the most extraordinary we have seen not only over the last four years but in our entire near twenty-year careers. The problem has not been the fact that the FT World Share Index has fallen by 18.2% (as we have proved that we can make money in a falling market) but the extreme volatility which has accompanied it. As intimated on the previous page, share prices currently seem to have de-coupled from individual company fundamentals and instead are hostage to sudden shifts in market sentiment, liquidity and momentum.

This period of volatility is without precedent both in its intensity and duration and, in our view, can be only a temporary phenomenon. We acknowledge that investors are concerned about the possibility of a US invasion of Iraq and the threat of further terrorist acts but, in the long term, share prices are determined principally by the economic climate and prospects for individual companies. The stock markets' roller-coaster ride has left a host of anomalies which will provide rich pickings for the Absolute Fund's equity-based managers (both long- and short-bias) when overall market volatility falls and investors become more discerning again. Encouragingly, we note that the OEX Volatility Index (which is probably the most closely-watched measure of market volatility in the US) has fallen significantly since the beginning of November and is back down to levels not seen since June.

The performance of the Absolute Fund would certainly have been a little better over the last few months if we had retained a much greater proportion of it in convertible bond and other arbitrage-based strategies. However, having weathered the storm with relatively little damage, we think that it would be wholly wrong for us now to be reactive in our investment strategy by re-building exposure to arbitrage funds at the expense of equity-based funds. Although we will always looking for better funds, will continue to operate a process of displacement and will be merciless in weeding out incumbent funds which breach our stop-loss limits, we intend to persevere with the 50:50 split between arbitrage and equity-based hedge funds. We believe that equity-based hedge funds provide us with the best opportunities for double-digit returns which most arbitrage-based funds can only access by employing levels of financial leverage with which we are uncomfortable. Paradoxically, even though we are currently enduring our worst ever period of performance, our conviction in our asset allocation and fund selection has never been greater.

Charles Hovenden & Christopher Aldous – 27th November 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)			(0.49)

Annual Rate of Return	8.00	Sharpe Ratio (@ 5% risk free)	1.03	Biggest Monthly Loss	(1.07)
Standard Deviation	2.90	Correlation with FT World Index (Local)	0.40	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\$ 60.0 m	Investment Manager:	Absolute Fund Management Ltd. 33, St. James's Square London SW1Y 4JS Telephone: +44 (0) 20 7661 9342 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 (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	TBC
Class B (£)	"	ABSFNDB KY <Equity>	3093591	TBC
Class C (€)	"	ABSFNDC KY <Equity>	3093610	TBC

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AFM is regulated by the FSA

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