

Fund Performance

Share Class (Principal series)	NAV	September 2003		2003 Year to Date		Since Inception [†]	
		Fund (%)	FT World (%)*	Fund (%)	FT World (%)*	Fund (%)	FT World (%)*
Class A – US\$	US\$106.65	+0.84	+0.61	+4.79	+17.21	+6.65	+4.05
Class B - £	£110.01	+0.92	(4.21)	+6.16	+13.58	+10.01	(7.95)
Class C - €	€108.09	+0.79	(5.14)	+5.33	+5.66	+8.09	(18.61)

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

†1st October 2001

The stunning rally in stock markets faltered briefly in September, the FT World Share Index suffering its first monthly decline since March, albeit a loss of just 1.5% in local currency terms. Despite this, and just as it should, the Absolute Fund continued to provide steady gains for its investors with returns of between 0.79% and 0.92% depending on share class. September marked the end of the Absolute Fund's second full year and twelve month returns were 5.4%, 7.4% and 6.4% for investors in the dollar, sterling and euro share classes respectively. Remembering just how volatile markets were in the period preceding and during the war in Iraq, we believe that performance over the last twelve months has been satisfactory, both in magnitude and profile.

Unlike August when the 14% allocation to five Japanese long/short funds accounted for a large proportion of the Absolute Fund's overall return, September's performance was contributed much more evenly. There were no outright winners or losers either by strategy or fund. 9 of the 10 strategies represented within the Absolute Fund delivered gains, contributing returns of between -0.02% and +0.24%. At the fund level, returns ranged from -4.2% to +3.5% but, more importantly and pleasingly, 39 out of 45 investments were profitable.

The pull-back in share prices was predictably accompanied by a modest increase in stock market volatility which was gratefully welcomed by practitioners of volatility-based strategies such as convertible bond arbitrage. The volatility of a share is one factor which determines the price of an associated convertible bond and rising volatility also provides arbitrageurs with more opportunities to earn profits by re-setting equity hedges in so-called "gamma trading". Lesson over! After three consecutive months of modest losses, convertible bond arbitrage as a strategy was the single biggest contributor to the Absolute Fund's performance in September. Nevertheless, we continue to harbour concerns about the longer term outlook for convertible bond arbitrage given the extent to which the universe of outstanding convertible bonds is owned by hedge funds and exposure to the strategy will be down to 10% by the end of the year.

Having virtually deified JLS3 in last month's report, it was probably inevitable that it would top the 'Worst 3 Funds' list in September! Although JLS3 is second only to JLS6 (another Japanese long/short equity fund) in year-to-date performance, we are alert to the recent increase in volatility of the fund's monthly returns and will question JLS3's manager about this during a regular visit to Tokyo next month. By virtue of its recent performance, JLS3 is the biggest investment within the Absolute Fund and we will not hesitate to reduce its size if we conclude that its potential influence on the Absolute Fund's volatility has become excessive.

Biggest 5 Holdings as at 30th September 2003

Name of Fund	%	Strategy	September (%)	Year to Date (%)
JLS3	3.6	Japanese Equity Long/Short	(4.2)	+24.0
JLS6	3.4	Japanese Equity Long/Short	+3.0	+24.2
DHY7	3.4	Distressed Securities	+2.6	+22.1
ED4	3.3	Event-driven	+1.3	+14.3
USLS11	3.2	US Equity Long/Short	+0.7	+7.1

Best 3 Funds in September

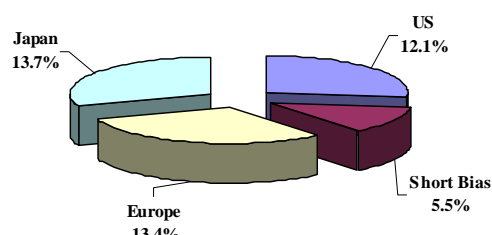
Name of Fund	Strategy	Sept.	YTD
CBA9	Conv. Bond Arbitrage	+3.9	+12.2
JLS6	Japan Equity L/S	+3.0	+24.2
ELS10	Europe Equity L/S	+2.7	+1.6

Worst 3 Funds in September

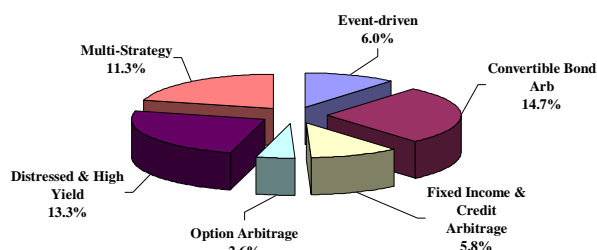
Name of Fund	Strategy	Sept.	YTD
JLS3	Japan Equity L/S	(4.2)	+24.0
USSB6	US Equity L/S	(2.0)	(11.8)
JLS7	Japan Equity L/S	(1.7)	+3.1

Asset Allocation by Strategy (as at 30th September 2003)

Equity Long/ Short (44.7%)



Arbitrage & Other (53.7%)



Outlook

The main feature of financial markets in September was neither in stock markets nor bond markets but in the currency markets. Calls at the G7 summit in Dubai for greater 'flexibility' in exchange rates prompted the value of the dollar to fall by 6%, 5% and 4% against the euro, the pound and the yen respectively. Having been subjected to massive fiscal and monetary stimulus in the form of tax rebates and negligible interest rates it now seems that the US economy is also to be subjected to currency stimulus in order to underpin its recovery. We have no doubt that growth in the US economy over the next quarter or two will appear impressive but our concerns about how sustainable this trend will prove remain. At the same time, we note that the optimism being expressed by investors in a stock market priced for perfection is not shared universally by companies.

In any case these are merely personal opinions and are virtually irrelevant in the context of the investment strategy we pursue for the Absolute Fund. Our strategy deliberately affords us the luxury of being almost completely agnostic about and indifferent to economic, bond and stock market trends. Instead, we can focus solely on ensuring that the Absolute Fund is suitably diversified by strategy first to preserve and second hopefully to enhance the capital of its investors in any market conditions and also on ensuring that it is invested in a complementary range of underlying funds which continue to be the best of their kind.

We made three new investments on 1st October. To replace the investment in DHY2 which was sold last month, we have purchased shares in DHY9, an amusingly-named 'distressed' fund which was first recommended to us by Philip Falcone, the manager of the DHY7 fund which has been owned by the Absolute Fund since the beginning of the year. In another example of the value we attach to peer recommendations, we also subscribed for shares in MFIA4 which was first brought to our attention by David Smith, a fixed income arbitrageur to whom we have entrusted investors' money since 1998. Finally, we invested in JLS8, a Japanese long/short equity fund which was set up a few months ago by one of the former managers of JLS5 and which has already closed to new investors.

We are reasonably satisfied with returns over the last twelve months. However, given the improvements we have made to the composition of the Absolute Fund during the period, we are confident that returns in the year ahead could and should be even better.

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

Charles Hovenden & Christopher Aldous

29th October 2003

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				4.79

Annual Rate of Return	7.69	Sharpe Ratio (@ 5% risk free)	1.02	Biggest Monthly Loss	(1.07)
Standard Deviation	2.64	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

Size of Fund:	US\$68.5m	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:	45	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	TBC
Class B (£)	“	ABSFNDB KY <Equity>	3093591	TBC
Class C (€)	“	ABSFNDC KY <Equity>	3093610	TBC

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