

| Share Class<br>(Principal series) | NAV        | September 2004 |               | 2004 Year to Date |               | Since Inception <sup>†</sup> |               |
|-----------------------------------|------------|----------------|---------------|-------------------|---------------|------------------------------|---------------|
|                                   |            | Fund (%)       | FT World (%)* | Fund (%)          | FT World (%)* | Fund (%)                     | FT World (%)* |
| Class A – US\$                    | US\$112.61 | +0.45          | +2.06         | +3.18             | +3.37         | +12.61                       | +22.85        |
| Class B - £                       | £119.05    | +0.69          | +1.45         | +5.20             | +2.25         | +19.05                       | (0.23)        |
| Class C - €                       | €115.00    | +0.48          | (0.12)        | +3.81             | +4.96         | +15.00                       | (9.91)        |

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

†1st October 2001

After the torpor of the previous two months, September disappointingly saw only a modest pick-up in investor interest and corporate activity and stock market volatility fell even further to levels last seen in 1996. Nevertheless, there were sufficient opportunities in bond and stock markets for the Absolute Fund to eke out a respectable return and this was certainly welcome after July and August's flat performance. September also marked the end of the Absolute Fund's third full year of operation and net returns over the last twelve months were 5.6%, 8.2% and 6.4% for investors in the US\$, £ and €share classes respectively. The last three years have been the most challenging we have encountered in our careers (so far!) and we are proud that all investments in the Absolute Fund and its precursor portfolios stand at all time highs. In contrast, the FT World Share Index still languishes 23% below its September 2000 peak in local currency terms.

With the addition of two Short Bias Credit funds on 1st September there are now ten hedge fund strategies represented within the Absolute Fund and seven of these made positive contributions to overall performance last month. Unsurprisingly, no single strategy stood out but allocations to Fixed Income and Credit (aka Bond) Arbitrage, Distressed Securities and US Equity Long/Short each provided more than 10bps of performance. The three losing strategies were Short Bias Credit (-5bps), Short Bias Equity (-2bps) and Japanese Equity Long/Short (-2bps). The first two of these constitute a major part of the Absolute Fund's insurance policy and the amount of premium paid for this in September was not excessive. Our Japanese managers struggled as the stock market fell sharply in the second half of the month before staging a partial recovery in the final two days.

Of the underlying funds, 37 out of 47 were profitable in September which is obviously a good result. However, only six funds made more than 2% and a further ten more than 1%. Amongst the losers, USSB5 had another disappointing month, falling by more than the US stock market was up, and is increasingly vulnerable if we can identify a suitable replacement in this treacherously difficult discipline. As both USSB5 and JLS9 are only half-size allocations, the most 'expensive' investment in September was MS4. Its managers have positioned the fund, perhaps over-aggressively, to benefit from an increase in Asian stock market volatility which has yet to materialise.

### Biggest 5 Holdings as at 30<sup>th</sup> September 2004

| Name of Fund | %   | Strategy                   | September (%) | Year to Date (%) |
|--------------|-----|----------------------------|---------------|------------------|
| DHY7         | 3.1 | Distressed Securities      | +1.2          | +6.3             |
| JLS6         | 3.0 | Japanese Equity Long/Short | +0.7          | +20.2            |
| USLS6        | 2.8 | US Equity Long/Short       | +1.7          | +3.0             |
| USLS11       | 2.8 | US Equity Long/Short       | +0.6          | +3.2             |
| DHY10        | 2.8 | Distressed Securities      | +0.2          | +7.6             |

### Best 3 Funds in September

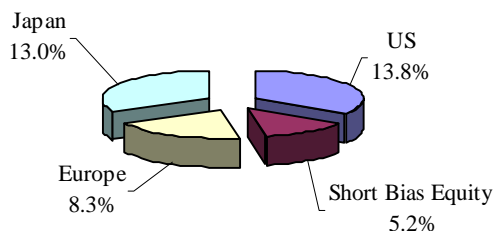
| Name of Fund | Strategy          | Sept. | YTD  |
|--------------|-------------------|-------|------|
| FICA5        | Credit Arbitrage  | +3.2  | +8.4 |
| CBA9         | Conv. Bond Arb.   | +2.9  | +9.4 |
| USSB2        | Short Bias Equity | +2.8  | +9.6 |

### Worst 3 Funds in September

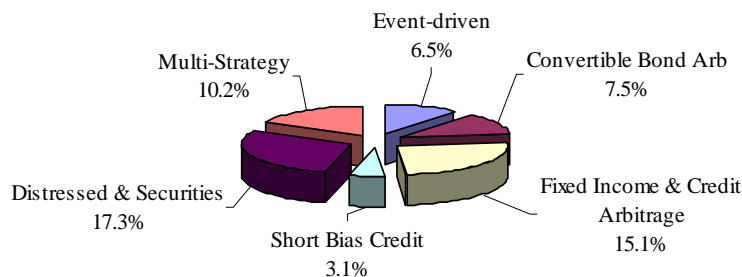
| Name of Fund | Strategy            | Sept. | YTD   |
|--------------|---------------------|-------|-------|
| USSB5        | Short Bias Equity   | (3.1) | (7.9) |
| MS4          | Multi-Strategy      | (1.9) | +0.5  |
| JLS9         | Japanese Equity L/S | (1.8) | (7.9) |

# Asset Allocation by Strategy (as at 30<sup>th</sup> September 2004)

## Equity Long/ Short (40.3%)



## Arbitrage & Other (59.6%)



## Outlook

Although the Absolute Fund's returns have been better than most alternatives, we are acutely aware that we have not delivered on our tertiary investment objective (the first two being to preserve capital and to beat cash) of providing investors with double-digit performance for the third year running. We wish that we could promise to achieve this target in the Absolute Fund's fourth year but of course we cannot. All we can do is to offer our absolute conviction that the current composition of the Absolute Fund is quite capable of producing returns of 10% or more under a host of different circumstances and with little directional or net exposure to stock or credit markets. At the same time, however, we would like to reassure investors that we will not take on additional risk or deviate from our stated investment policies in pursuit of higher returns. We note with appropriate measures of cynicism and scepticism the large number of hedge funds which miraculously seem to have become experts overnight in oil and other commodity markets!

Although we can obviously be accused of talking our own book, we believe that the outlooks for global economic growth and financial markets are highly uncertain and are more likely to disappoint than provide pleasant surprises. At the moment stock markets are hostage to next week's US Presidential Election and daily swings in the oil price. We would not be surprised to see a rally once the Election is past or if the oil price falls back below US\$50 per barrel. However, it must be cause for concern amongst policymakers in the US that the economy already appears to be losing steam before interest rates have even reached 2%. This simply supports the suspicions we have previously voiced that this year's boom was founded principally on excessively cheap money and tax cuts. Elsewhere, recent economic data in Japan has also been disappointing, the Eurozone remains burdened with structural inefficiencies and doubts are being raised about the sustainability of China's rapid growth. Add in the increasingly precarious value of the dollar due to the ever-burgeoning US current account deficit, the possibility that demand and further disruption to supply could sustain the high price of oil, high levels of government and consumer borrowing as well as the seemingly chronic geopolitical and terrorist risks and it is hard not to be cautious. Despite this, multi-year lows in market volatility are indicative of a high level of investor complacency.

Of course, we have been investing long enough to know that it would be foolhardy to set the Absolute Fund up with an overtly directional bias. After all, our opinions about economies and markets might be wrong and if they are we still want to be able to make money for investors. However, we take considerable comfort from the fact that the Absolute Fund is packed full of defensive features which should not only preserve but also grow capital if we are proved right.

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

Charles Hovenden & Christopher Aldous

28<sup>th</sup> October 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                                   |        |        |      | 3.18   |
| <b>Annual Rate of Return</b> | 7.32 |        | <b>Sharpe Ratio (@ 5% risk free)</b>           |        |        |        |        | 0.92   | <b>Biggest Monthly Loss</b>            |        |        |      | (1.07) |
| <b>Standard Deviation</b>    | 2.54 |        | <b>Correlation with FT World Index (Local)</b> |        |        |        |        | 0.34   | <b>Biggest Peak-to-Trough Drawdown</b> |        |        |      | (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\$96.2m                                     | <b>Investment Manager:</b> | Absolute Fund Management Ltd.<br>4, Arlington Street<br>London SW1A 1RA<br>Telephone: +44 (0) 20 7307 0000<br>Website: <a href="http://www.absolutefund.co.uk">www.absolutefund.co.uk</a><br><b>Contact: Christopher Aldous</b> |
| <b>No. of Holdings:</b> | 47  | <b>Administrator:</b>      | International Fund Managers (Ireland) Ltd.<br>IFSC House<br>International Financial Services Centre<br>Dublin 1<br>Telephone: +353 1 670 0660<br><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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