

Share Class (Principal series)	NAV	August 2005		2005 Year to Date		Since Inception [†]	
		Fund (%)	FT World (%)*	Fund (%)	FT World (%)*	Fund (%)	FT World (%)*
Class A - US\$	US\$118.04	+0.70	+0.71	+2.37	+4.65	+18.04	+44.36
Class B - £	£126.89	+0.73	(1.42)	+3.52	+11.70	+26.89	+17.95
Class C - €	€19.73	+0.57	(0.54)	+1.76	+15.65	+19.73	+6.89

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

†1st October 2001

From an investment perspective, August is not our favourite month. This is because corporate executives whose decisions provide the Absolute Fund's underlying managers with the basic raw material of investment opportunities are mostly to be found on the beach rather than in their offices! In last August's soporific market conditions we eked a return of just 0.04% in dollar terms and, in this context, we are very pleased with gains of +0.57% to +0.73% last month. Displacement has also lifted 12-month rolling returns to 5.3%, 7.3% and 4.6% for the US\$, £ and € share classes respectively.

Whilst corporate decision-takers may have been dormant, August was an eventful month both economically and politically, prompting a modest but welcome rise in stock market volatility which benefited some of our managers. Economically, the focus of attention was the relentless rise in the oil price which is up by more than 50% (even pre-Katrina) in US\$ terms since the beginning of the year and by more when expressed in yen, pounds and euros. Snap elections were called in Japan and Germany, the former producing the result the stock market wanted and latter the result it did not. Despite this, however, most stock market indices finished the month hardly changed and the FT World Share Index increased by just 0.1%. The one exception was Japan where the TOPIX rose by 5.5%, anticipating the re-election of Prime Minister Koizumi with a strengthened mandate to accelerate the process of economic reform. Whilst we do not allocate to managers who maintain significant net long exposure, the Absolute Fund's seven underlying Japanese long/short funds do collectively have a long bias. Unsurprisingly, therefore, Japanese Equity Long/Short was the Absolute Fund's most profitable strategy in August, albeit only providing a contribution of 0.22% to overall performance. Eight of the other nine hedge fund strategies represented in the Absolute Fund also made positive contributions to performance and the only disappointment and losing strategy was US Equity Long/Short which lost 0.03%.

At the underlying fund level, 36 out of 46 were profitable which is obviously a satisfactory ratio. There were no stand-out winners (or losers) but the distribution of individual fund returns exhibited the desired asymmetric profile, ranging from +3.9% to -1.5%. Our patience and belief in the strategy pursued by Frontpoint Japan's manager was at last rewarded. Conversely, it seems unduly harsh to 'name and shame' SBE2 in the Worst 3 Funds list for a monthly loss of just 1.3%.

Biggest 5 Holdings as at 31st August 2005

Name of Fund	%	Strategy	August (%)	Year to Date (%)
JLS5	3.0	Japanese Equity Long/Short	(1.0)	+11.3
DHY11	2.9	Asian Distressed Securities	+0.4	+8.7
ED6	2.9	Event-Driven	+1.0	+6.1
CBA4	2.9	Convertible Bond Arbitrage	+0.0	+0.4
ED5	2.9	Event-Driven	+2.2	+12.9

Best 3 Funds in August

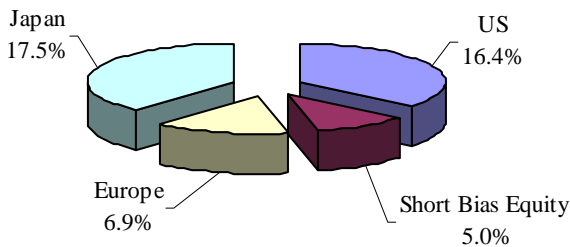
Name of Fund	%	Strategy	Aug	YTD
JLS10	2.7	Japanese Equity L/S	+3.9	+7.1
ED7	2.4	Event-Driven	+3.0	+11.2
JLS12	1.8	Japanese Equity L/S	+2.9	+3.3

Worst 3 Funds in August

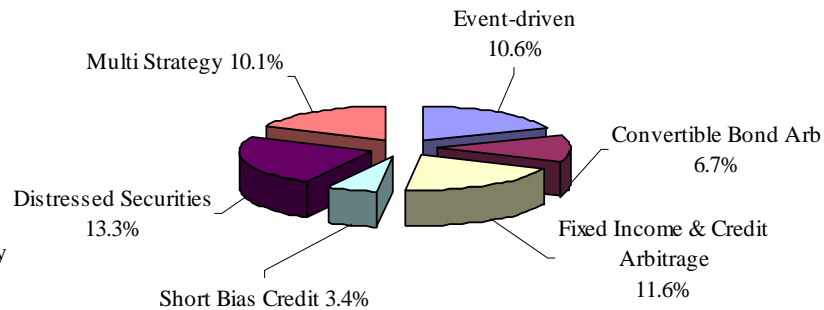
Name of Fund	%	Strategy	Aug	YTD
FICA8	2.6	Fixed Income Arb.	(1.5)	+3.6
USLS12	2.8	US Equity L/S	(1.5)	+0.9
SBE2	1.5	Short Bias Equity	(1.3)	(0.1)

Asset Allocation by Strategy (as at 31st August 2005)

Equity Long/ Short (45.7%)



Arbitrage & Other (55.7%)



Strategy & Outlook

Our remark in last month's Outlook that we are going 'to tolerate a bit more risk in our fund selection' has prompted a few of the Absolute Fund's investors to question if we are changing our investment style. The answer, unequivocally, is no! Extremely low drawdowns (=losses) in the worst market conditions, which are virtually unrivalled in our peer group or indeed in any asset class, are one of the defining characteristics of the Absolute Fund. We would be extremely foolish to put this feature at risk. The proposed changes at the margin do, however, represent an acknowledgement that returns in many hedge fund strategies are lower than they were when we first developed the Absolute Fund's investment strategy. As core returns have fallen, though, so too has the volatility of those returns. All we are therefore seeking to do is to restore the aggregate level of underlying fund volatility to what it used to be in the earlier years of our track record.

In the quest for higher returns, we read that some fund of hedge fund managers are allocating more and more capital to riskier strategies such as emerging markets and those which involve complex derivatives. We are not amongst them. The overwhelming majority of emerging market hedge funds maintain a high level of net exposure. Indeed, in some Asian countries it is even illegal to sell shares short. Of course, when markets are going up, as they have been pretty much for the last two and half years, high net exposure boosts returns. A problem only arises when markets falter because liquidity then vanishes. As one of our managers noted over the 20% plunge in the Indonesian market in August on oil-related fears, "there is as much liquidity as you like as markets rise but very little when they fall". We have been doing this long enough to remember the losses of 50% and more suffered by emerging market hedge funds during the Asian currency crisis in 1997.

Most of the Absolute Fund's investors know that we regard the exponential growth in complex financial derivatives as possibly an even bigger threat to financial markets than the near-collapse of Long Term Capital Management in 1998. Such instruments are fully exposed to counter-party risk and we believe that liquidity will evaporate in a crisis. The catalyst for this may well be a rise in corporate defaults. We prefer funds which invest in 'real' securities, i.e. securities which have a direct link to the cash-flows of the companies which issued them. Derivative-based hedge funds are anathema to us!

The last two months have clearly improved our year-to-date performance dramatically and with four months of the year to go we can still achieve a very respectable result for the whole year. Regardless of the Absolute Fund's returns in the next few months, however, we will not be making any reactive and impulsive changes to our strategy. We remain confident that if we stick to our principles and work diligently then returns will come.

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

Charles Hovenden & Christopher Aldous

21st September 2005

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ABSOLUTE
FUND MANAGEMENT

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	1.14	1.02	5.66
2005	0.18	0.79	0.34	(0.47)	(0.56)	0.44	0.94	0.70					2.37
Annual Rate of Return			7.04	Sharpe Ratio (@ 5% risk free)				0.83	Biggest Monthly Loss				(1.07)
Standard Deviation			2.46	Correlation 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\$120.0 m	Investment Manager:	Absolute Fund Management Ltd. Marquis House 67/68 Jermyn Street London SW1Y 6NY Telephone: +44 (0) 20 7925 8078 Website: www.absolutefund.co.uk
No. of Holdings:	46	Contact:	Christopher Aldous
Share Classes:	US\$, £, €	Administrator:	Intl. Fund Managers (Ireland) Ltd. IFSC House Intl. Financial Services Centre Dublin 1 Telephone: +353 1 670 0660
Basic Fee:	1%	Contact:	Andrew Martin
Incentive Fee:	15% of gains between 6% & 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	KYG0060S1241
Class B (£)	"	ABSFNDB KY <Equity>	3093591	KYG0060S1324
Class C (€)	"	ABSFNDC KY <Equity>	3093610	KYG0060S1407

Risk Warning

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www.absolutefund.co.uk

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