

Share Class (Principal series)	NAV	February 2008			2008 Year to Date		
		Fund (%)	Cash (%)*	FT World†	Fund (%)	Cash (%)*	FT World†
Class A – US\$	US\$137.55	+0.87	+0.35	+0.05	+0.32	+0.77	(7.76)
Class B - £	£148.36	+1.01	+0.47	(0.01)	+0.42	+0.99	(7.69)
Class C - €	€133.99	+0.94	+0.36	(2.42)	+0.23	+0.76	(11.16)

*Citigroup 3-Month Eurodeposits – Source: Citigroup

†Index in the currency of the respective share class – Source: FT/Bloomberg

Leverage and Illiquidity

As this bear market develops, forced sellers are having to dump securities indiscriminately in their dash for cash. In many cases shares and bonds of perfectly sound companies are bearing the brunt of the selling simply because they are liquid and can be sold and this is undoubtedly creating some genuine bargains. However, the recent demise of Peloton Partners provides a stark example of the perils of trying to catch falling knives in a market in which usually reliable investment criteria can have little bearing on price.

Peloton Partners, established in London by two former partners of Goldman Sachs, was one of 2007's big success stories, its flagship fund returning about 87% as the firm correctly positioned its funds for the meltdown in securitised (structured credit) US sub-prime mortgages. Over the last few months, however, we understand that Peloton decided that the prices of the highest-rated, most senior tranches of those securities had fallen too far and reversed its overall exposure from 'short' to 'long'. From an analytical standpoint, the bet was probably right in that there is little risk that the securities Peloton was buying would suffer actual default. However, the prices of those securities continued to fall as other investors continued to sell and, because Peloton was reputedly 4-5X levered, the US\$2bn fund imploded. We are told that investors have lost all of their money. The simple moral of this sorry tale is that, regardless of the soundness of an investment thesis, the combination of leverage and illiquidity can be toxic. The Absolute Fund had no exposure to Peloton and, indeed, we have avoided all hedge funds which invest anything other than token sums in asset-backed securities for this very reason.

Despite the sell-off in stock and corporate bond markets, the Absolute Fund will remain on a defensive footing. Financial architects have been able to binge on the easy availability of credit over the last four years and, in our opinion, there is still a lot of excess leverage which needs to be flushed out of the system. This process is likely to stretch through 2008 and into 2009 and there will certainly be more casualties along the way. However tempting it seems, however, taking bets on the direction of the share and bond prices is not our style and we will not be moving the Absolute Fund onto an outright short bias. Having said that, the changes we are making to the portfolio at the end of this month include the ejection of two event-driven funds which have a clear long bias and the addition of several new funds which are much more balanced. The net result will be to enhance the Absolute Fund's defensive characteristics still further and this is consistent with our view that the most profitable investment opportunities for the foreseeable future continue to lie on the short side. Whilst many of our peers are licking their wounds and are possibly fearful of what is to come, our conviction in the Absolute Fund's portfolio and its capability to continue to provide attractive risk-adjusted returns has possibly never been higher.

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

Best 3 Funds in February

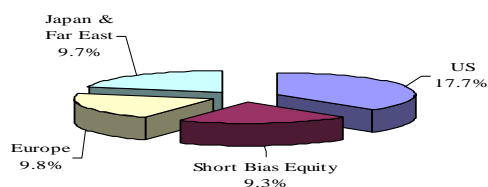
Name of Fund (Size)	Strategy	Feb	YTD
JELS2 (1.6%)	Japanese Equity L/S	+9.1	(0.5)
EELS2 (2.6%)	European Equity L/S	+6.8	+6.4
USELS1 (2.6%)	US Equity L/S	+6.0	+3.3

Worst 3 Funds in February

Name of Fund (Size)	Strategy	Feb	YTD
MS1 (1.0%)	Multi Strategy	(7.1)	(7.7)
ED2 (1.5%)	Event-driven	(5.8)	(9.3)
USELS2 (2.6%)	US Equity L/S	(3.8)	(5.4)

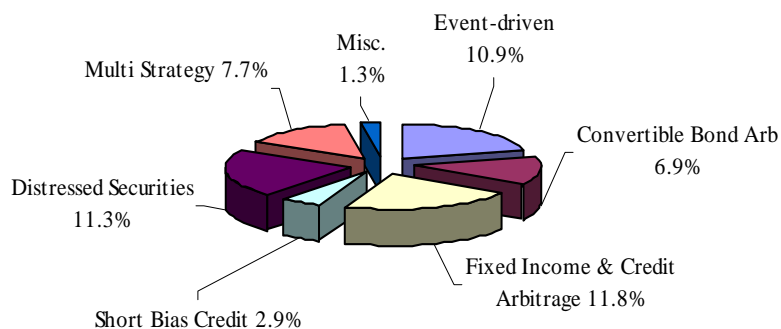
Asset Allocation by Strategy (as at 29th February 2008)

Equity Long/ Short (46.4%)



Source: Absolute Fund Management

Arbitrage & Other (52.7%)



Review of last month's performance

Although not as brutal as January, February saw further falls in corporate bond and share prices as the turmoil in credit markets showed no signs of abating and economic news from the US and elsewhere continued to disappoint. Despite the challenging market conditions the Absolute Fund performed just as it should, delivering a return of 1%. Year-to-date all three share classes of the Absolute Fund are profitable whilst equity markets have, on average, fallen by 10%. Of course, we wish that we had been able to make more money for investors over the last few months. However, there always have been and always will be times when we will settle just for preserving capital so that future profits are not needed just to recover earlier losses. This dedication to minimising losses in the worst market conditions is the cornerstone of a track record which in its nine-year lifetime is substantially better than equities, bonds or cash deposits. Over the long term, the power of compounding is compelling.

Seven out of ten sub-strategies provided profits for the Absolute Fund in February, including all four equity long/short classifications. Not surprisingly, the Absolute Fund's roster of short-sellers found conditions very much to their liking and Short-bias equity was comfortably the most profitable strategy (+32bps), especially on a capital-weighted basis. Our requirement that all of the long/short equity managers to whom we allocate also have proven short-selling skills was wholly vindicated as three quarters of them (12 out of 16) overcame the headwind of being net long in a falling market to record profits. With the credit markets in disarray, our bond-based managers found life challenging to say the least, although those operating in the credit-untainted government bonds markets or with a short bias contributed usefully to the Absolute Fund's overall performance.

At underlying fund level, 28 out of 39 funds were profitable. Helped in part by the strong recovery in Asian stock markets (in itself evidence that investors have not yet reached the point of capitulation that will probably mark the bottom of this bear market), JELS2 bounced back after last month's big loss. However, we are still inclined to redeem because monthly returns are simply too volatile. Both EELS2 and USELS1 are new additions to the portfolio and demonstrate the effectiveness of the changes we made at the beginning of the year in anticipation of more difficult market conditions in 2008. When our conviction in a fund begins to waver, we should sell it all, not just half. Such a salutary lesson was provided by MS1 in which we retained a half-sized 'unit' of investment until the end of last month. A lack of defensive characteristics has also been exposed in activist fund ED2 which has now breached our 'stop-loss' limit and is being sold. Finally, the managers of USELS2 were too slow to reduce the fund's net long exposure as investor sentiment turned. Although exposure has now been reduced to a level we consider more appropriate in current market conditions, we will need to see a substantial improvement in performance over the next few months in order to convince us to retain this investment.

Charles Hovenden and Andrew Wheeler

20th March 2008

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ABSOLUTE
FUND MANAGEMENT

Manager's Track Record & Summary Statistics (for Class B £ shares)

Source: Absolute Fund Management

	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)	(0.11)	0.35	0.73	3.72*
2002	0.73	0.15	0.95	0.77	0.56	(0.36)	(0.59)	(0.05)	(0.90)	(0.23)	0.36	1.07	2.57
2003	0.84	0.44	0.20	0.64	0.74	0.72	0.56	0.94	0.92	1.57	0.24	1.04	9.21
2004	1.13	0.42	1.09	0.73	(0.50)	0.99	0.20	0.34	0.69	0.45	1.35	1.12	8.29
2005	0.39	0.92	0.50	(0.30)	(0.35)	0.57	1.02	0.73	1.15	(0.18)	0.72	1.63	6.99
2006	1.09	0.02	1.00	0.61	(0.28)	(0.24)	(0.54)	0.44	(0.18)	0.41	0.89	1.12	4.33
2007	0.86	0.93	0.78	0.67	1.42	0.60	0.42	(0.54)	0.94	2.00	(0.47)	0.09	7.95
2008	(0.58)	1.01											0.42
Annual Rate of Return			7.71	Sharpe Ratio (@ 5% risk free)				1.14	Biggest Monthly Loss				(0.90)
Standard Deviation			2.37	Correlation FT World Index (Local)				0.39	Biggest Peak-to-Trough Drawdown				(2.02)

* The Manager's Record above consists of actual performance data for the sterling share class of The Absolute Fund from 1st October 2001 onwards. For January 1999 to October 2001 returns have been taken from the Manager's prior and verifiable track record in US dollars (restated to reflect the fee scale of the Absolute Fund). The differential in performance between the US dollar and sterling share classes of the Absolute Fund is a consequence of the differential between US dollar and sterling interest rates. US dollar and sterling interest rates were broadly similar between January 1999 and October 2001 and Absolute Fund Management Limited believes that returns in sterling in the first period would therefore have been broadly the same as in US dollars.

General Information

Size of Fund: US\$102.7 m

No. of Holdings: 39

Share Classes: US\$, £, €

Basic Fee: 1%

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\$50,000

Fund Domicile: Cayman Islands

Listing: Channel Islands Stock Exchange (CISX)

Investment Manager: Absolute Fund Management Ltd.

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Price Information

	Bloomberg	SEDOL	ISIN
Class A (US\$)	ABSFNDA KY <Equity>	3093568	KYG0060S1241
Class B (£)	ABSFNDB KY <Equity>	3093591	KYG0060S1324
Class C (€)	ABSFNDC KY <Equity>	3093610	KYG0060S1407

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