

Share Class (Principal series)	NAV	November 2006		2006 Year to Date		Since Inception <sup>†</sup>	
		Fund (%)	FT World (%)*	Fund (%)	FT World (%)*	Fund (%)	FT World (%)*
Class A - US\$	US\$126.20	+0.93	+2.72	+3.54	+18.86	+26.20	+82.53
Class B - £	£135.33	+0.89	(0.41)	+3.18	+3.73	+35.33	+36.36
Class C - €	€124.76	+0.78	(1.10)	+1.37	+5.77	+24.76	+25.41

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

†1st October 2001

After months of frustrating and confounding investment strategists everywhere, the dollar finally appeared to crack in November, falling to its lowest level against the pound for more than 14 years. Surprisingly, however, the dollar's dive provoked but a ripple in stock markets as the local currency FT World Share Index posted its tenth positive month this year and volatility remained close to 10-year lows.

Against this unexpectedly benign background, we are pleased (and relieved after our trials of the last six months) to report that the Absolute Fund delivered its biggest monthly gain since March. November's highly satisfactory result was founded on notable contributions from just two sub-strategies: US equity long/short and event-driven. Perhaps strangely, we derive more encouragement than disappointment from the muted returns of the other eight sub-strategies. To us, it simply re-affirms our belief and confidence (which was not wavering anyway) that, with a little more good fortune than we have enjoyed this year, the Absolute Fund is easily capable of consistently delivering monthly gains of 1% or more. US equity long/short has been a patchy performer for us this year but excellent performance from USLS8, USLS3 and USLS7 (see below) combined to produce the biggest return from this sub-strategy since we launched the Absolute Fund. Event-driven was even more consistent and, although none the seven constituent funds made the Top 3 Funds list, each was up by more than 1% in November.

For an unprecedented seventh time or month this year, we lost money again in Japan in November, albeit only 5bps (0.05%). Thankfully, the last few months have offered some evidence and hope that the vicious environment in which our Japanese managers have been investing this year may be close to an end. Instead, November's laggard strategies were short-bias equity and short-bias credit which deducted 9bps and 6bps respectively from overall performance. The last four months have been particularly tough for equity short-sellers as almost every failing company is rumoured to be an imminent target for cash-rich private equity funds. In contrast, highly-levered buy-outs are usually bad news for incumbent bondholders due to the dilution of claims over a company's assets and cash-flows. You wouldn't think so from the performance of corporate credit markets, however, as spreads (the difference between corporate and government bond yields) have contracted to levels which represent wholly inadequate compensation for the risks investors are assuming. Many times over the last three and a half years we have agonised about our allocations to short-bias funds and the drag they have been on performance. However, the disaster insurance such funds provide is one of the defining features of our strategy. One day the markets will remind investors once again that preserving capital when markets tumble is as important as making paper profits when times are good.

### Biggest 5 Holdings as at 30<sup>th</sup> November 2006

Name of Fund	%	Strategy	November (%)	Year to Date (%)
CBA3	4.6	Convertible Bond Arbitrage	+0.7	+14.3
DHY4	3.2	Distressed Securities	+3.2	+17.8
DHY6	3.0	Distressed Securities	+0.9	+11.9
JLS4	2.9	Japanese Equity Long/Short	+0.3	+7.0
ED2	2.9	Event-Driven	+2.6	+14.1

### Best 3 Funds November

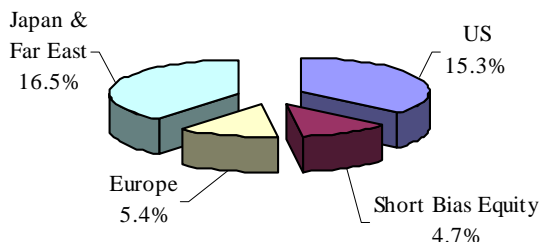
Name of Fund	%	Strategy	Nov	YTD
USLS8	1.5	US Equity L/S	+8.3	(5.2)
USLS3	2.6	US Equity L/S	+4.4	+11.3
ELS3	2.5	US Equity L/S	+4.2	+7.1

### Worst 3 Funds in November

Name of Fund	%	Strategy	Nov	YTD
SBE3	1.4	Short Bias Equity	(3.7)	(11.6)
SBC2	1.3	Short Bias Credit	(2.7)	(4.0)
JLS2	1.2	Japanese Equity L/S	(2.5)	(25.5)

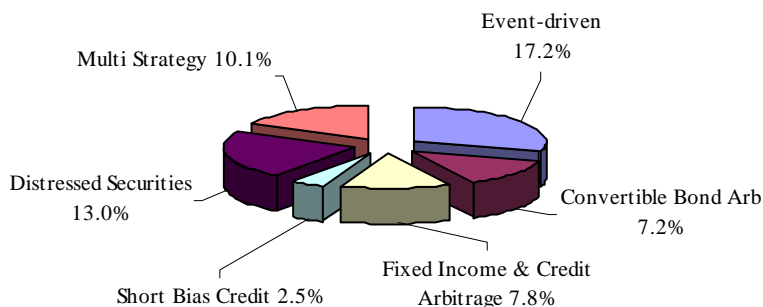
## Asset Allocation by Strategy (as at 30<sup>th</sup> November 2006)

### Equity Long/ Short (41.9%)



Source: Absolute Fund Management

### Arbitrage & Other (57.8%)



## Strategy & Outlook

Although the year is not yet over and December looks quite promising, we would like to apologise to investors for the sub-standard returns the Absolute Fund has provided this year. 2006 has undoubtedly been the most frustrating year we have endured since we devised the Absolute Fund strategy in 1999. Although we hope we have never been afflicted by the arrogance which characterises much of the hedge fund world, we are humbled by our performance this year. However, we are certainly not demoralised. We regard the last twelve months as a temporary aberration in our track record and are absolutely determined and confident that we can return to providing investors with performance of at least 'Cash + 4%' in 2007 and beyond.

Regular readers of our Monthly Reports will not need reminding that the main source of our anguish in 2006 has been Japan. Although our Japanese investments have reduced overall performance by about 1% in actual terms, the opportunity cost given our 15-20% allocation has been at least as much again and so the total cost in performance terms has probably been as high as 2-3%. With the smaller-company JASDAQ and Mothers indices down by 35% and 55% respectively through to the end of November (compared with a decline of just 3% in the main TOPIX index), we simply do not believe that conditions in the Japanese stock market can be as irrational and brutal again next year and we fully expect our Japanese managers to make money in 2007. A stock market naturally rich in mis-pricings and the relatively small number of Japan-dedicated hedge funds makes the case as compelling to us as ever for maintaining a significant exposure to this sub-strategy. However, from a risk management viewpoint we now believe that an appropriate allocation is closer to 12.5% and we intend to trim to this level over the next few months. It will still be significantly more than most of our peers.

Similarly, with the US economy now showing clear signs of stress and even allowing for the 'wall' of unallocated private equity money, we think the investment environment for short sellers will improve in 2007. This will not only benefit the Absolute Fund's dedicated short-selling funds but also its long/short equity funds because of our preference for managers who limit their net market exposure through short investments. Elsewhere, we are enthusiastic about the prospects for convertible bond arbitrage because it provides exposure to stock market volatility, just about the only investible 'asset class' which is currently priced cheaply. Our event-driven managers should also continue to profit from private equity fund activity, from levered buyouts made possible by the easy availability of cheap debt finance and from the ego-tripping of corporate managers and their investment banking advisers. Many of these deals will provide the raw material for managers of Distressed Securities funds in years to come. Until then, however, the opportunity set for credit-based strategies is relatively unexciting and our allocations are comprised of an eclectic list of funds in which we have high conviction.

We would like to wish all readers a Happy Christmas and a peaceful New Year.

Charles Hovenden & Christopher Aldous

21<sup>st</sup> December 2006

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**ABSOLUTE**  
FUND MANAGEMENT

## Manager's Track Record & Summary Statistics (for Class A US\$ 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)	0.39	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	1.23	(0.23)	0.68	1.57	5.73
2006	1.06	0.02	1.00	0.65	(0.27)	(0.23)	(0.47)	0.54	(0.18)	0.45	0.93		3.54
Annual Rate of Return			6.80	Sharpe Ratio (@ 5% risk free)				0.74	Biggest Monthly Loss				(1.07)
Standard Deviation			2.42	Correlation FT World Index (Local)				0.34	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

<b>Size of Fund:</b>	US\$117.7m	<b>Investment Manager:</b>	Absolute Fund Management Ltd. Marquis House 67/68 Jermyn Street London SW1Y 6NY Telephone: +44 (0) 20 7925 8078 Website: www.absolutefund.co.uk
<b>No. of Holdings:</b>	47	<b>Administrator:</b>	Northern Trust International Fund Administration Services (Ireland) Ltd. George's Quay House 43 Townsend Street Dublin 2 Telephone: +353 1 670 0660
<b>Share Classes:</b>	US\$, £, €	<b>Contact:</b>	<b>Christopher Aldous</b>
<b>Basic Fee:</b>	1%		
<b>Incentive Fee:</b>	15% of gains between 6% & 24% p.a.		
<b>High Water Mark:</b>	Yes		
<b>Dealing:</b>	Monthly (with 35 days notice for redemptions)		
<b>Min. Investment:</b>	US\$50,000		
<b>Fund Domicile:</b>	Cayman Islands		
<b>Listing:</b>	Channel Islands Stock Exchange (CISX)		

### 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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[www.absolutefund.co.uk](http://www.absolutefund.co.uk)

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