

Share Class (Principal series)	NAV	November 2007			2007 Year to Date		
		Fund (%)	Cash (%)*	FT World†	Fund (%)	Cash (%)*	FT World†
Class A – US\$	US\$137.15	(0.57)	+0.43	(4.09)	+7.41	+4.99	+12.79
Class B - £	£147.59	(0.47)	+0.51	(3.10)	+7.85	+5.31	+7.36
Class C - €	€133.82	(0.56)	+0.39	(5.46)	+6.19	+3.78	+1.32

*Citigroup 3-Month Eurodeposits – Source: Citigroup

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

Bring on 2008!

As we write this report, the world's Central Banks have had to flood the markets with cheap money to ensure that the financial system does not grind to a halt over the holiday period. This emergency action was in response to the punitive interest rates and the near-paralysis of the inter-bank lending market. Against a background of further, huge write-downs in the values of mortgage-related structured credit investments, banks have become increasingly reluctant to lend to each other because of fears of what horrors may still lurk on or off balance sheets. Our own view is that this is a theme that will stretch well into 2008 and that it is inevitable that it will have serious consequences for the global economy. At the same time, the US Federal Reserve and other Central Banks' scope to cut interest rates to boost growth is limited by growing inflationary pressures. The spectre of stagflation – stagnant economic growth coupled with inflation – therefore looms large.

Whilst corporate bond markets have begun their painful adjustment to the new economic reality, it seems to us that equity markets are still mainly in denial. We are not forecasting Armageddon, but we do think that 2008 will be a very challenging year for conventional investors and for the many hedge funds that are little more than long-only funds in disguise.

In contrast, we are very excited by the opportunity set which is being created for the Absolute Fund. Ever since we devised the Absolute Fund strategy in the wake of the LongTerm Capital Management crisis in 1998, we have adhered to our discipline of maintaining a hedged strategy and, in underlying composition, the Absolute Fund has remained close to a pound/dollar/euro short for every pound/dollar/euro it has in long exposure. For the last four years, however, the glut of liquidity has made short-selling a mainly miserable activity and consequently the Absolute Fund has been firing on only one cylinder. With the liquidity tap now turned firmly off, we have a level playing field on which investors should continue to support good, cash-generative companies but poor, cash-consuming companies will be punished. Even if equity market indices manage to advance in 2008, we will still not be surprised if short investments are the main driver of the Absolute Fund's returns in 2008. Short exposure within the Absolute Fund is provided not only by our allocations to dedicated short-selling funds in both equity and credit markets but also from our long/short managers. As part of our fund selection process, we require that all of the Absolute Fund's long/short managers can demonstrate a record of 'adding alpha', i.e. outperforming their relevant market index, on their short as well as their long investments. This skill was evident in the returns posted by our US Equity Long/Short managers in November.

In preparation for the challenges of 2008, we are making a number of changes to the Absolute Fund's portfolio of investments at year end. In total, we are redeeming from eight funds and making six new investments. We are very excited by the composition and potential of the portfolio we will have on 1st January.

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

Best 3 Funds in November

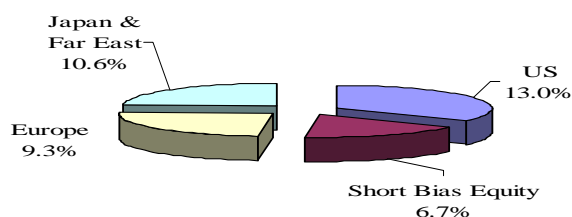
Name of Fund (Size)	Strategy	Nov	YTD
MSA1 (3.5%)	Multi-Strategy Arb	+7.8	+36.7
SBE1 (2.4%)	Short Bias Equity	+5.9	+4.6
SBE2 (2.8%)	Short Bias Equity	+5.2	+17.0

Worst 3 Funds in November

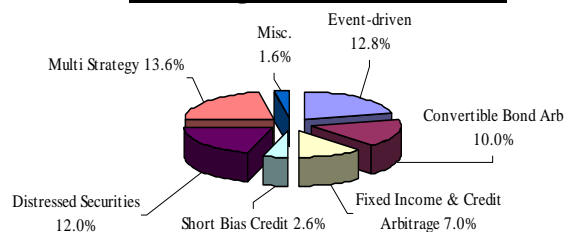
Name of Fund (Size)	Strategy	Nov	YTD
FIA1 (1.9%)	Fixed Income Arb	(15.4)	(30.3)
ED1 (2.4%)	Event-driven	(7.4)	(10.1)
EELS1 (1.2%)	European Equity L/S	(6.0)	+5.6

Asset Allocation by Strategy (as at 30th November 2007)

Equity Long/ Short (39.6%)



Arbitrage & Other (59.8%)



Source: Absolute Fund Management

The euphoria of our best month so far in October was followed by the agony of a losing month in November as the markets ensured that complacency will never be a trait of Absolute Fund Management. We have received plenty of plaudits for being down by 'only' 0.5% (sterling share class) in a month when all of the main stock market indices were down by at least 4%, corporate bonds took another pummeling and the HFR Fund of Hedge Funds Index (representative of peer group performance) lost 1.5%. However, we are not in the business of relative returns and never will be. Our objective has always been to devise a strategy which makes money for investors every month and so any monthly return which begins with a minus sign is a disappointment.

There were three main causes of our loss in November. First, all six of our Event-driven funds lost money, in aggregate costing the Absolute Fund 0.47% in performance. Event-driven managers like to say that the corporate 'events' they are exploiting help to insulate their investments from broad market trends. We have always known that this claim rings hollow when stock markets fall sharply and we were alert to the fact that our allocation to Event-driven funds is probably the main source of directional market risk within the Absolute Fund (which we seek to hedge with other investments). Second, MBA1, the municipal bond arbitrage fund which was the culprit behind August's similar-sized loss, had another awful month and its 15% decline cost 0.34% in performance. Finally, we didn't have a high enough allocation to Short-bias funds to provide offsetting profits. Whilst the third is an observation in hindsight, it is frustrating that we had already submitted redemption requests for MBA1 and for two Event-driven funds and were simply caught in the 'notice periods' ahead of redemption dates. In the case of MBA1, we made that decision after visiting the fund's manager in September as described in August's monthly report. We had also elected to reduce our allocation to Event-driven funds because the credit crunch has severely curtailed the availability of debt finance for corporate and private equity buyers of businesses, thus limiting the opportunity set for event-driven managers. If the funds which will be gone from the Absolute Fund's portfolio at the end of this month are excluded, we would have made money for investors in November.

Whilst we have written so far about what didn't go right in November, there were also plenty of encouraging features as well. Unsurprisingly, the Absolute Fund's short-sellers of equities and corporate credit prospered as prices tumbled and our Asian volatility fund MS1 had another excellent month. However, just as pleasing was the fact that our eclectic mix of four Distressed Securities were all profitable and five out of the six US Equity Long/Short funds made money despite each having a long bias. This achievement is testament to our chosen managers' stock-picking skills and obviously bodes well for the future.

Charles Hovenden and Andrew Wheeler

21st December 2007

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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)		7.85
Annual Rate of Return	7.87			Sharpe Ratio (@ 5% risk free)				1.22	Biggest Monthly Loss				(0.90)
Standard Deviation	2.36		Correlation FT World Index (Local)				0.36	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 September 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 September 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\$107.0m

No. of Holdings: 42

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

Risk Warning

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