

Share Class (Principal series)	NAV	October 2007			2007 Year to Date		
		Fund (%)	Cash (%)*	FT World†	Fund (%)	Cash (%)*	FT World†
Class A – US\$	US\$137.73	+1.76	+0.46	+3.64	+8.03	+4.54	+17.60
Class B - £	£148.29	+2.00	+0.53	+1.65	+8.36	+4.78	+10.79
Class C - €	€134.57	+1.59	+0.39	+1.88	+6.78	+3.38	+7.17

*Citigroup 3-Month Eurodeposits – Source: Citigroup

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

Reality Strikes!

In last month's commentary entitled 'Fools rush in...' we expressed doubts that the worst of the banks' credit-related problems was past and questioned if the 10% surge in the FT World Share Index since the Federal Reserve rode to the rescue of financial markets in mid-August was sustainable. With the FT World Share Index down by more than 8% month-to-date in November and banks announcing further write-downs on their mortgage investments and other loans on an almost daily basis, it seems that our concerns were justified.

Within a three week period last month, Merrill Lynch almost doubled the write-down on its mortgage-backed structured credit portfolio from US\$4.5bn to 7.9bn. The truth is that no-one knows what some of these investments are actually worth and, as there are no buyers, they cannot be marked to market and continue to be marked to make-believe. With the US housing market still in decline and, perhaps, tens of thousands of US mortgages still to reset from initial 'teaser' rates, we forecast that write-downs of mortgage 'assets' will continue well into 2008. Furthermore, mortgages are just one category of consumer loans which have been subjected to the asset-backed securitisation process and we are now beginning to see banks making provisions against structured credit investments based on credit card and other personal loans. Ultimately, the statistical alchemy by which something of investment grade quality can be magically created by pooling of lots of low quality loans was always gravely flawed and the fallout has the potential to rival the US Savings & Loans crisis of the 1980s or the Japanese banking crisis of the 1990s.

This is bad news for the US economy, and for other economies which are linked to it through exports, as banks which are reluctant to lend will cause companies to fail and jobs to be lost. At the same time, the Federal Reserve's scope to cut interest rates is limited by the inflationary consequences of a currency which is in freefall. We believe that there is therefore a high probability that the US economy will fall into recession next year and hopes that other economies will fill the void are fantasy. It is widely believed and cited, for example, that the emergence of China has allowed Asian economies to decouple (from Western economic cycles) but the hard statistical evidence suggests that Asian countries are more dependent on exports than ever.

Although we would not be surprised to see stock markets perform their traditional year-end rally, we believe that 2008 is set to be a difficult year for conventional investors and the multitude of hedge funds which are little more than long-only funds in disguise. However, for investors who are properly hedged and who are as skilled at making money from short-selling as they are from making long investments, 2008 promises to be rich in opportunity. This is an environment in which the Absolute Fund can thrive and we are genuinely looking forward to the New Year.

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

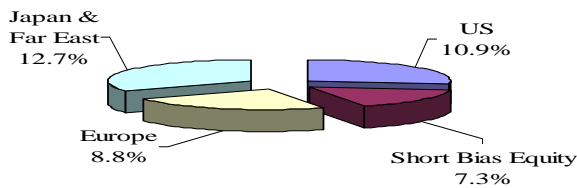
Best 3 Funds in October

Name of Fund (Size)	Strategy	Oct	YTD
DS1 (3.5%)	Distressed Securities	+21.4	+100.6
AELS1 (1.5%)	Asian Equity L/S	+6.3	+22.4
MSA1 (3.2%)	Multi-Strategy Arb	+5.9	+26.8

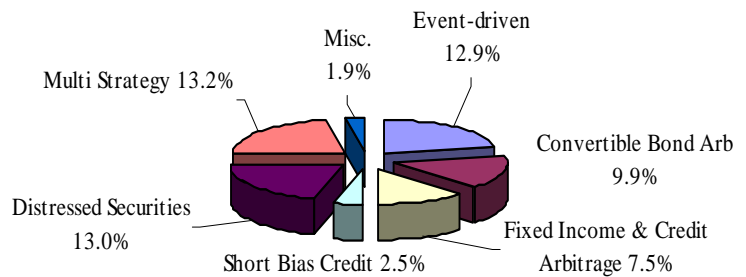
Worst 3 Funds in October

Name of Fund (Size)	Strategy	Oct	YTD
ED1(1.6%)	Event-driven	(5.8)	+18.4
FIA1 (2.2%)	Fixed Income Arb	(1.6)	(17.5)
ED2 (2.5%)	Event-driven	(0.9)	(3.0)

Equity Long/ Short (38.4%)



Arbitrage & Other (60.5%)



Source: Absolute Fund Management

We are proud to report that the Absolute Fund started its seventh year with its most profitable month so far. October's result not only puts year-to-date performance into highly satisfactory territory but also lifts the Fund's rolling twelve-month returns to more than 10% in the US\$ and £ share classes, a level of performance at which we believe we can claim to be doing a decent job for investors in our low risk investment strategy. Moreover, the big improvement in returns which the Fund has delivered over the last year has been achieved without any compromise to our risk budget. Instead, in conditions which are becoming increasingly treacherous for the legions of phoney hedge fund managers whose returns have been derived mainly from high net exposure to rising stock markets, we are being rewarded for picking managers who are actually hedged and who possess proven short as well as long stock-picking skills.

Almost as pleasing as the magnitude of October's gain was its attribution. Moderate advances by most stock and corporate bond market indices suggest that conditions were generally benign but there were also opportunities for good managers to make money through short-selling too. Accordingly, all ten sub-strategies including Short-bias Equity and Short-bias Credit contributed positively to the Absolute Fund's performance in October. The only disappointing sub-strategy was Event-driven which was only marginally profitable as three of our six managers surprisingly lost money for stock-specific reasons. The evaporation of liquidity in corporate debt markets is certainly making it much more difficult for private equity and other buyers of businesses to raise finance for deals and is thus shrinking the opportunity set for event-driven managers. After the bonanza of the last few years we are therefore cutting back on our allocation to event-driven funds, which will also cut the Absolute Fund's aggregate net market exposure still further.

We are running out of superlatives to describe the performance of the DS1 fund in 2007! The main contributor to the fund's stunning gain in October was once again its substantial short exposure to US sub-prime mortgages. It may be a surprise, therefore, that we are redeeming completely from DS1 at year-end. In July's Monthly Report, we commented on how the risk profile of the fund had increased markedly over the last year and also expressed some concern as to how DS1's manager will turn the vast paper profits the fund has on its estimated US\$8bn of short sub-prime investments, almost all of which are in the form of derivatives, into cash. In addition, as the fund has grown in size from US\$300m (when we first invested at the end of 2002) to its current size of approximately US\$13bn, the transparency of underlying investments has, perhaps understandably, been gradually withdrawn. Finally, in our last visit to New York in September, we were informed that DS1's manager was no longer willing to meet with us to discuss the portfolio, so depriving us of the relationship and insight which is critical to all the investments we hold in the Absolute Fund. For all of these reasons, we have decided to bank our profits from this exceptional fund, confident that we can repeat the experience with a new fund!

Charles Hovenden and Andrew Wheeler

22nd November 2007



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			8.36
Annual Rate of Return	8.01			Sharpe Ratio (@ 5% risk free)				1.28	Biggest Monthly Loss				(0.90)
Standard Deviation	2.34		Correlation FT World Index (Local)				0.35	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\$110.4m	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:	42	Administrator:	Northern Trust International Fund Administration Services (Ireland) Ltd. George's Court 54 -62 Townsend Street Dublin 2 Telephone: +353 1 670 0660
Share Classes:	US\$, £, €	Contact:	Andrew Wheeler
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)		

Price Information

Contact: Terry Fernandes

	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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