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THE ABSOLUTE FUND

Rated AA by Standard & Poor's

Results

Share Class (Principal series)	NAV	February 2011			Year-to-date		
		Fund (%)	Cash (%) [*]	FT World [†]	Fund (%)	Cash (%) [*]	FT World [†]
Class A - US\$	US\$138.52	+1.07	+0.02	+3.01	+2.03	+0.04	+5.02
Class B - £	£150.05	+0.98	+0.05	+1.44	+1.92	+0.10	+1.08
Class C - Euro	Eur134.55	+1.10	+0.07	+2.55	+2.06	+0.14	+2.30

*Citigroup 3-Month Eurodeposits – Source: Citigroup

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

Hangovers follow Binges

Quite rightly, the focus of most investors' attention over the last few weeks has been the dreadful events in Japan and the brutal suppression of democracy movements in Libya and elsewhere. Not surprisingly, volatility in financial markets has increased considerably. Without wanting to sound callous, however, the consequences of these catastrophes in a global economic context will not be long-lasting. The humanitarian and economic consequences of the Fukushima disaster will mainly be a local matter and the ever-resilient Japanese will rebuild from the devastation of the earthquake and tsunami. Whoever is in power, the oil-producing countries of the Middle East and North Africa will continue to need to pump and sell oil. Therefore, although an increase in the price of oil due to disruption in supply will disrupt global economic growth, the effects will be temporary. We are confident that the price of oil will fall back as and when normal supply is resumed.

Away from the harrowing headlines, a much bigger threat to financial markets quietly continued to grow. During the last few weeks, differences in yield ("spreads") in euro-zone government bond markets have widened to new records. Despite EU bailouts, yields on 5-year euro-denominated bonds sold by Greece have soared to 14% and by Ireland to 10%. Portuguese bond yields have breached 7% (the level at which the Greek and Irish governments were forced to seek financial assistance from the EU) and Spanish, Belgian and Italian bond spreads (versus Germany whose 5-year bonds yield 2.5%) have all set new highs in the lifetime of the euro. Despite these ominous signs, euro-zone politicians remain in denial and continue to adopt a 'sticking plaster' approach to a problem which will only worsen if interest rates have to be increased to combat rising inflation. The guardians of the euro know that many banks in euro-land remain woefully undercapitalised and are in no state to

absorb the losses which default or restructuring of their vast holdings of euro-zone government bonds would precipitate. Prices in the market imply that restructuring is inevitable. Either that or Greek bonds are the investment steal of the decade.

Meanwhile, in the US, the great con continues. The economy is growing but it would be deeply worrying if it wasn't given the vast ongoing fiscal, financial and monetary support. Even here though, the day of reckoning cannot be postponed forever. In just over three months time, QE2, the life-support mechanism through which money continues to be pumped into the US economy through the Federal Reserve's buying of US government bonds, will end. QE3 is a possibility but its announcement would likely see the dollar plunge and could cause Treasury bond yields to rise instead of fall.

For the last two years, investors have binged on cheap and endless liquidity. However, we are far from convinced that the world is any healthier economically as a result. Reasons to be cautious are plentiful: euro-zone finances, stubbornly high unemployment, austerity and inflation, to list just a few of the main ones. I know we sound like a scratched record but the world is still awash with too much debt and there is no easy or painless way to get rid of it. We see no alternative to years of below average growth in which standards of living for many will decline. This economic backdrop will, however, ruthlessly expose the strengths and weaknesses of companies and will therefore provide an investing environment in which the Absolute Fund should be able to deliver highly competitive returns.

Charles Hovenden & Andrew Wheeler
23rd March 2011

Portfolio Review

It has taken longer than we had hoped but we are pleased to say that the share prices of the Absolute Fund's main US\$ and £ share classes are back at all-time highs. The price of the main euro-denominated share class is still 0.25% below its peak but this is solely due to changes in relative interest rates since June 2008. Being at all-time highs does not sound particularly remarkable but this achievement puts us in rare company in the investment world. Double-digit gains in 2009 and 2010 may have corrupted the memories of many investors but it is a fact that the FT World Share Index needs to rise by another 15% to recover its October 2007 high. In the UK, the FTSE 100 Index finished February at 5994, still 11% below the level at which it stood before the financial crisis. Incredibly, the FTSE's peak of 6930 was set more than more than 11 years ago. Within our peer group, the HFR Funds of Hedge Funds Index finished February 8% adrift of its 2007 high. Whilst these are, of course, observations of performance relative to indices, the fact remains that most investors have less money now than they had in 2007 whilst investors in the Absolute Fund have more. This is the only relevant benchmark of absolute return investing.

Performance attribution in February was very similar to that in January with equity long/short and credit/arbitrage investments providing almost equal contributions to performance. Once again, the clear winner amongst the nine sub-strategies in which we invest was US Equity Long/Short which contributed 0.36% to overall performance. As in January, USLS6 (+5.5% in February, +11.8% year-to-date) and USLS7 (+3.5% in February, +8.9% year-to-date) were the sub-strategy's top performers but they are very different funds. San Francisco-based USLS6 is a classic hedge(d) fund with maintains low net market exposure. Returns

can therefore be attributed almost entirely to stock selection which is widely diversified. In contrast, Dallas-based USLS7 has a long bias and the long part of its portfolio is concentrated in relatively few stocks. Even though USLS7 was profitable in 2008 (+6.7%), it is, in our assessment, a riskier investment than USLS6 and is sized accordingly.

In aggregate, 30 of the Absolute Fund's 38 investments made money in February and the only one to lose more than 1% was short-bias equity fund SBE1 which we are selling at the end of this month. Ironically, SBE1 is currently on track to be the Absolute Fund's most profitable investment in March as stock markets have retreated. Despite this, we will not be revoking our decision to redeem because months like March do not compensate for the bleeding of premium and basis points of performance at other times when share prices are rising. Investors should not be concerned, however, that we are stripping the Absolute Fund of its capability to preserve capital in falling markets. The majority of the Absolute Fund's equity long/short managers navigated 2008 profitably and we have concluded that funds which are not restricted to a short bias have a more attractive return profile overall.

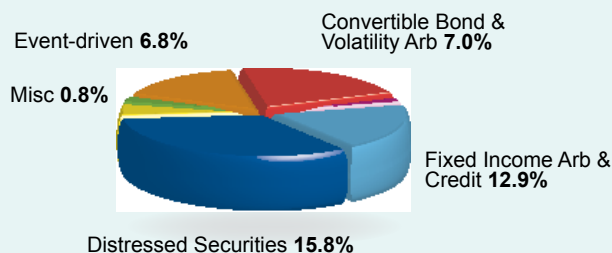
I have just returned from my second trip to the US in the last six weeks during which I have met with the managers of 22 of the Absolute Fund's underlying funds. We are also pleased to say that our exhaustive search for a merger arbitrage fund (which will take advantage of the likely boom in corporate takeovers) is over. Subject to the completion of our last few due diligence checks, we intend to fill this gap in the Absolute Fund's portfolio on 1st April.

Asset Allocation by Strategy (as at 28th February 2011)

Equity Long/ Short (54.3%)



Arbitrage & Other (43.4%)



Biggest 5 Holdings as at 28th February 2011

Name of Fund	Size %	Strategy	February (%)	Year-to-date (%)
CBA1	4.5	Convertible Bond Arbitrage	+0.8	+2.1
JELS1	4.1	Japanese Equity Long/Short	+1.8	+2.0
USLS6	3.0	US Equity Long/Short	+5.5	+11.8
DS5	2.9	Distressed Securities	+1.4	+3.8
ED1	2.8	Event-driven	+1.6	+4.1

Best 3 Funds in February

Name of Fund (size)	Strategy	February %	YTD %
ED2 (1.6%)	Event-driven	+6.4	+6.1
USLS6 (3.0%)	US Equity L/S	+5.5	+11.8
USLS7 (1.6%)	US Equity L/S	+3.5	+8.9

Worst 3 Funds in February

Name of Fund (size)	Strategy	February %	YTD %
SBE1 (1.6%)	Short-bias Equity	(4.1)	(5.6)
USLS4 (2.0%)	US Equity L/S	(1.0)	(1.5)
USLS9 (2.4%)	US Equity L/S	(0.9)	+1.1

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

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	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	(0.25)	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	(1.07)	0.43	1.10	0.54	(0.57)	(0.38)	(2.69)	(6.45)	0.55	(0.90)	(8.87)
2009	1.37	0.37	(0.31)	(0.02)	1.69	0.69	0.61	0.87	0.62	(0.01)	0.18	1.17	7.45
2010	0.75	(0.08)	0.91	0.92	(1.83)	(1.04)	0.37	0.00	0.42	0.50	0.37	0.47	1.74
2011	0.94	0.98											1.92
Annual Rate of Return	5.85		Sharpe Ratio (@ 3% risk free)				0.87		Biggest Monthly Loss				(6.45)
Standard Deviation	3.30		Correlation FT World Index (Local)				0.48		Biggest Peak-to-Trough Drawdown				(10.15)

*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. Source: Absolute Fund Managers LLP

General Information

Description: Multi-strategy fund of hedge funds
Firm AuM: US\$88.7m/£54.6m
No. of Holdings: 38
Share Classes: US\$, £, Euro
Basic Fee: 1% p.a.
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 or currency equivalent
Fund Domicile: Cayman Islands
Listing: Channel Islands Stock Exchange (CISX)

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Price Information

	Bloomberg	SEDOL	ISIN
Class A (US\$)	ABSFNDA KY <Equity>	3111556	KYG0060S1241
Class B (£)	ABSFNDB KY <Equity>	3111523	KYG0060S1324
Class C (Euro)	ABSFNDC KY <Equity>	3111534	KYG0060S1407

Risk Warning

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