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THE ABSOLUTE FUND

Rated AA by Standard & Poor's

Results

Share Class (Principal series)	NAV	March 2011			Year-to-date		
		Fund (%)	Cash (%) [*]	FT World [†]	Fund (%)	Cash (%) [*]	FT World [†]
Class A - US\$	US\$138.67	+0.11	+0.02	(0.37)	+2.14	+0.06	+4.63
Class B - £	£150.32	+0.18	+0.06	+1.10	+2.11	+0.16	+2.20
Class C - Euro	Eur134.71	+0.12	+0.07	(3.03)	+2.05	+0.21	(0.80)

*Citigroup 3-Month Eurodeposits – Source: Citigroup

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

Pavlov's Dog

The reaction of share prices to the earthquake, tsunami and nuclear crisis in Japan, as well as the worsening insurrections in the Middle East and North Africa, was entirely rational. After all, events in Japan dealt a serious blow to the world's third largest economy and a major trading partner of all-important China. At the same time, the price of oil continued to march ever higher on fears of disruption in supply. We defy anyone, however, to justify the subsequent rally in share prices in economic terms. Make no mistake, this can be attributed almost entirely to the artificial investing conditions caused by the prolonged period of near-zero interest rates. Like Pavlov's dog, investors have simply become programmed to treating any setback in share prices as a buying opportunity.

Yield-starved investors are also moving further and further up the risk curve as they seek better-than-cash returns. Evidence of this behaviour can also be seen in the corporate bond and ETF markets. For example, the average yield on corporate bonds rated 'single-B' by Standard and Poors has fallen to 7.5%, a record low. However, studies based on 40 years of data since 1971 show that more than a third of B-rated corporate bonds default within seven years of issue. High yield bonds are not also known as 'junk' bonds for nothing and the maths showing what a poor investment B-rated bonds are likely to be at current yields is startlingly simple. Meanwhile, the popularity of ETFs continues to grow exponentially. ETFs are promoted as the low cost, index-tracking alternative to traditional, and more expensive, managers who try, but often fail, to beat their index benchmarks. However, almost all ETFs also under-perform the indices which they are supposed to be tracking and, for more exotic ETFs such as those which invest in commodities, the gap can be enormous. Furthermore, ETFs miraculously appear to side-step the issues of market liquidity faced by 'real' investors. This is nonsense of course! In

more exotic strategies and asset classes, ETFs may not actually own the securities whose performance they are meant to be replicating. Investors are therefore merely replacing liquidity risk with counterparty risk and, in some cases, may be sleepwalking into substantial derivative exposure to boot. We would not be remotely surprised if certain segments of the ETF market turn out in years to come to be a mis-selling scandal to rival the wealth destruction wreaked by structured credit products and fund-of-hedge-fund investment trusts.

Back in the real world, inflationary pressures continue to build. Admittedly, inflation is concentrated in commodity prices and there has been minimal transfer to wages – at least so far. Whilst this is encouraging for politicians and central bankers, it is potentially harmful for corporate profits and share prices. Profit margins are being squeezed by spiralling raw material prices of everything from oil (up 44% over the last twelve months) to corn (up 75%) and cotton (up 161%), which manufacturers are struggling to pass on because consumer finances are additionally under siege from higher taxes and other austerity measures. Despite the many storm-clouds, however, investors are generally bullish about prospects for stock markets, just as they were at the end of 1999 and the beginning of 2007. We have fought hard to restore the share prices of the Absolute Fund back to all-time highs and are currently looking to add cost-effective, defensive features to the Absolute Fund's portfolio. We want to make sure that investors' capital is protected if the extraordinary run in stock markets over the last two years comes to an abrupt end.

Charles Hovenden & Andrew Wheeler
21st April 2011



ABSOLUTE
FUND MANAGERS LLP

Portfolio Review

History will record that global stock markets, as measured by the local currency FT World Share Index, started and finished March 2011 at almost exactly the same level. Whilst memories are still fresh, however, readers need no reminder of what a turbulent month it was in financial markets, the FT Index plunging by 6% in the first half of the month and then recovering almost completely in the second. Surprisingly resilient as the Japanese tragedy unfolded, emerging markets displayed their habitual gearing as investors re-embraced risk and the Morgan Stanley Emerging Markets Index finished the month with a gain of almost 6%. However, the UK and many other European stock markets were down by 1-2% and the Japan's TOPIX lost almost 9%, having plunged by 16% in just two days as the devastation caused by the earthquake and tsunami became clear.

Clearly March was therefore a month in which the macro dominated and investors had little time or appetite for the micro analysis of individual companies. As the latter is the lifeblood of most of our managers and hence of the Absolute Fund itself, we are relieved and proud to have made money again for investors for the ninth month in succession. As you would expect in such circumstances, March's profit attribution was very uneven from both sub-strategy and underlying fund standpoints. No sub-strategy contributed a gain or loss of more than 10bps (+0.10%). Remarkably, the most profitable sub-strategy was our small allocation to Japanese and Asian equity long/short funds. It is hard to heap adequate praise on the managers of our two Japanese funds, JELS1 and JELS2, which delivered gains of 1.7% and 2.2% respectively in a month in which the Japanese stock market was so volatile and weak. The two funds are, in fact, managed by the same team, the flagship JELS1 fund requiring all investments to have near-term catalysts and JELS2 having a broader mandate.

What sets the JELS funds apart from the mediocrity of so many other equity long/short 'hedge' funds we see, however, is risk management monitoring and controls which simply set a standard to which all hedge fund managers should aspire. The Absolute Fund invested in the JELS1 fund three months after it launched in 2003 (its lead portfolio manager was previously well-known to us as a principal of another Japanese hedge fund in which we used to have an investment) and it has made money for investors every year. Two of our other 'highest conviction' investments, US equity long/short funds USLS6 and USLS1, took the plaudits/brickbats for respectively being our most profitable and unprofitable investments in March. Part of USLS1's loss was due to a short investment in a company which was bid for (an occupational hazard of short-selling) but adverse price moves in a number of other investments can be attributed to technical factors and impairments should be temporary. In mitigation, USLS1's manager was one of two sources who introduced us to USLS6 which has had a stunning first quarter (up 14.9%).

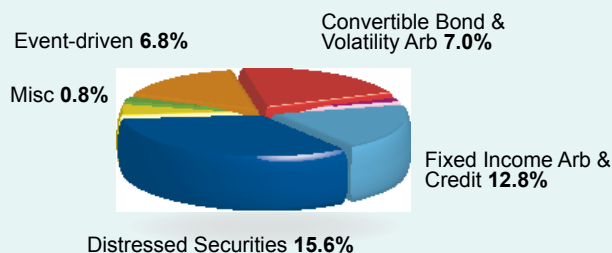
The Absolute Fund has investments in hedge funds managed in New York, Boston, Chicago, Dallas, San Francisco and Los Angeles. Our requirement to visit each fund in which we have an investment two times a year therefore involves a lot of travel to and within the US and, not surprisingly, our enthusiasm to add further cities to our itineraries is limited. However, we believe that ED4, the Fort Wayne, Indiana-based merger arbitrage fund we invested in on 1st April, is exceptional and justifies the additional time and effort. At least Fort Wayne is only a 45-minute flight from Chicago and so it should be possible to see our two Chicago-based investments and ED4 on the same day!

Asset Allocation by Strategy (as at 31st March 2011)

Equity Long/ Short (53.8%)



Arbitrage & Other (43.0%)



Biggest 5 Holdings as at 31st March 2011

Name of Fund	Size %	Strategy	March (%)	Year-to-date (%)
CBA1	4.4	Convertible Bond Arbitrage	+0.1	+2.2
JELS1	4.1	Japanese Equity Long/Short	+1.7	+3.7
USLS6	3.0	US Equity Long/Short	+2.8	+14.9
DIS5	2.9	Distressed Securities	(0.3)	+3.6
ED1	2.8	Event-driven	+1.2	+5.4

Best 3 Funds in March

Name of Fund (size)	Strategy	March %	YTD %
USLS6 (3.0%)	US Equity L/S	+2.8	+14.9
EELS2 (2.4%)	Euro Equity L/S	+2.8	+9.6
JELS2 (2.0%)	Japanese Equity L/S	+2.2	+4.0

Worst 3 Funds in March

Name of Fund (size)	Strategy	March %	YTD %
USLS1 (2.6%)	US Equity L/S	(3.7)	(0.1)
DIS3 (1.6%)	Distressed Secs	(2.3)	(1.0)
USLS5 (2.1%)	US Equity L/S	(2.3)	(2.0)

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	0.18										2.11
Annual Rate of Return	5.83		Sharpe Ratio (@ 3% risk free)				0.86		Biggest Monthly Loss				(6.45)
Standard Deviation	3.29		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\$89.2m/£55.7m
No. of Holdings: 39
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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