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## THE ABSOLUTE FUND

Rated AA by Standard &amp; Poor's

## Results

Share Class (Principal series)	NAV	November 2011			Year-to-date		
		Fund (%)	Cash (%)*	FT World†	Fund (%)	Cash (%)*	FT World†
Class A - US\$	US\$135.70	(0.01)	+0.02	(2.78)	(0.04)	+0.22	(6.31)
Class B - £	£147.56	+0.00	+0.07	(0.23)	+0.24	+0.66	(6.74)
Class C - Euro	Eur132.56	+0.09	+0.11	+0.73	+0.64	+1.04	(6.36)

\*Citigroup 3-Month Eurodeposits – Source: Citigroup

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

## Treating the Symptoms, not the Illness

November was yet another extraordinary month in what is turning out to be the most fiendishly difficult year for investors to navigate since we launched the Absolute Fund more than ten years ago. Corporate bond and stock markets may have suffered much bigger losses in 2002 (technology bubble and corporate frauds/bankruptcies) and 2008 (bank crisis) but at least roadmaps were quickly established which gave investors bases on which they could make informed investment decisions. In contrast, no-one knows how the sovereign debt crisis in Europe (and, although it has not received anywhere near as much as attention.....yet, in the US) will be resolved. The result has been a prolonged and morale-sapping period of whipsawing but ultimately trendless volatility in which record levels of bond or share price correlations have made company-picking skills largely redundant.

Just three days before month-end, stock markets were heading for another month of big falls with the local currency FT World Share Index down by almost 8%. However, high hopes for yet another European Union summit and the unexpected announcement that six of the world's major Central Banks were taking action to boost liquidity (and specifically the supply of dollars in Europe) in the financial system sparked a remarkable and convenient rally which saw the FT index cut its loss in November to just over 1%. Starved of good news and desperately searching for a silver lining in every cloud, we are not surprised that investors cheered the action of Central Banks. However, the fact that the Central Banks felt it necessary to intervene in the money markets betrays the parlous state of many European banks, further evidence of which is clear in the soaring level of overnight deposits being placed with the European Central Bank. Such is the fear and distrust amongst European banks that they prefer to place funds with the ECB at negligible rates of interest than to place them with one another. We will not

be remotely surprised if all the figures we have seen so far of the amount of new capital needed to bolster euro-zone banks prove to be too low. Meanwhile, the burst of optimism which followed the latest euro-zone summit has quickly faded. Indeed, the half-lives of the rallies which follow each summit seem to be getting shorter and shorter. We note that Italian government bond yields, which had plunged to less than 6% in the immediate aftermath of the latest summit, already seem to be heading back to 7%, a level which is widely regarded as unsustainable.

It seems obvious to us that the only way to save the euro is the full fiscal integration of the eurozone, with German standards of fiscal discipline. Instead, the latest summit presented investors with a rehash of the old and widely flouted Stability and Growth Pact, except this time members will really, really promise not to break the rules, in fear of facing 'sanctions'. But what is the point of fining, and hence adding more debt to, a country like Greece which is already bust? Making grand statements and issuing communiqués is easy but implementing the latest plan will be far harder. Even if they are successful, little has been done to address the mountain of debt which already exists and shuffling it onto the balance sheets of Central Banks does not make it go away. Debt reduction can only be achieved by repayment or writing it off and, in the case of the latter, someone will sooner or later have to bear the losses. Fiscal austerity and reduced lending by banks as they struggle to improve their capital ratios are a certainty in the euro-zone next year and this can only be a recipe for a deep recession. From an investment standpoint, this suits us just fine.

Charles Hovenden & Andrew Wheeler  
21st December 2011

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## Performance Review

As we are trying to make 0.5% per month for investors, we can hardly proclaim that we are thrilled that it looks as if the Absolute Fund is headed for a year of flat performance. Nevertheless, in a year of record-breaking volatility and correlations in which most investors have lost money (the local currency FT World Share and HFR Fund of Hedge Fund indices are down 6% and 5% respectively to the end of November) we are relatively pleased and certainly relieved to have preserved investors' capital. It's easy to make money when conditions are benign but avoiding, or at least minimising, losses when they are not is every bit as important in building wealth over the long term. Share prices of the Absolute Fund remain in striking distance of their all-time highs. When investing becomes easier and more rewarding once again, as it undoubtedly will, profits will therefore not be needed just to recover earlier losses but can instead set new peaks for the Absolute Fund.

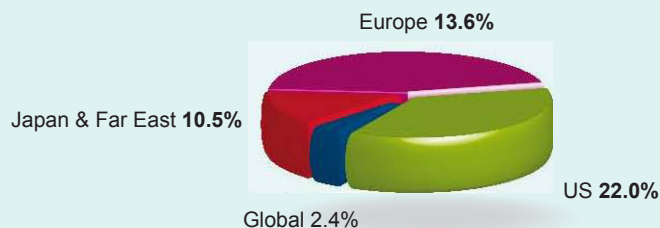
Despite the extremely challenging conditions, we have had some notable successes in 2011. Our three most profitable investments have all been US equity long/short funds. USLS4 (+41.5%) has had a stunning year thanks to inspired stock-picking and ruthless risk management. Our decision to restore USLS2 (+23.6%) to a full-sized investment (after our level of conviction wavered in early 2010) also looks justified. Finally, USLS1 (+13.4%) has bounced back from 2010's mild disappointment (-2.0%) in some style and, in our judgement, this continues to be the best hedge fund we have ever found. At the end of November two other funds had achieved double-digit year-to-date returns: Distressed Securities fund DIS2 (+12.0%) and European Equity Long/Short fund EELS2 (+10.1%). Just as importantly, we have not had any big losers in a year which has seen a number of celebrated hedge

fund managers lose 20% or more. The worst performer has been the liquidating investment in DIS3 (-15.5%) but this has cost the Absolute Fund less than 0.25% in overall performance as distributions have steadily shrunk its size. The next biggest loser is European long/short fund EELS1 (-8.3%). Regardless of how difficult market conditions have been, however, we have had too many investments which have lost more than 5%. In almost all cases, we have either redeemed completely or halved the size of our investment. Fortunately, our fund research work continues to unearth new investments which are compelling additions to the Absolute Fund's portfolio and this, without doubt, has been the most satisfying aspect of our work in 2011. On 1st December, we invested in government bond arbitrage fund and event-driven fund ED6, taking the number of new investments this year to eight.

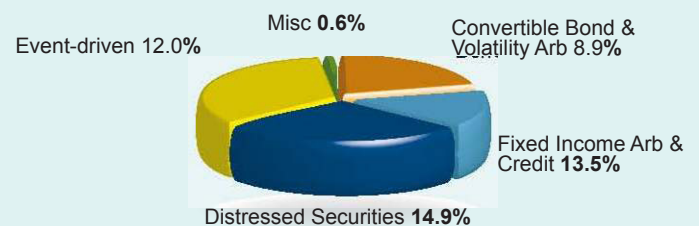
What we really want for Christmas is an end to the euro-zone uncertainty which is keeping volatility and correlations so high. However, although there may currently be very little dispersion in bond and share prices, there continues to be considerable dispersion in corporate performance and profitability. The time will come when the resulting anomalies in valuation become so extreme that they are no longer sustainable. Correlations must and will therefore eventually decline towards historical averages and as they do we are utterly confident that our managers will reap big profits. Even though the opportunity set is getting richer and richer, the one thing we can't predict is when we will be able to profit from it. We are genuinely optimistic about the return potential within the Absolute Fund in the medium term but in the very short term our priority is not to lose money.

## Asset Allocation by Strategy (as at 30th November 2011)

### Equity Long/ Short (48.5%)



### Arbitrage & Other (49.9%)



### Biggest 5 Holdings as at 30th November 2011

Name of Fund	Size %	Strategy	November (%)	Year-to-date (%)
JELS1	4.3	Japanese Equity Long/Short	(0.8)	(1.2)
USLS4	4.1	US Equity Long/Short	(0.1)	+41.5
CBA1	3.4	Convertible Bond Arbitrage	+0.8	+1.2
USLS1	3.2	US Equity Long/Short	+3.0	+13.4
FIA1	3.1	Fixed Income Arbitrage	(1.2)	+2.5

### Best 3 Funds in November

Name of Fund (size)	Strategy	November %	YTD %
EELS6 (1.4%)	European Equity L/S	+5.3	(2.9)
USLS5 (1.4%)	US Equity L/S	+5.3	+8.1
USLS1 (3.2%)	US Equity L/S	+3.0	+13.4

### Worst 3 Funds in November

Name of Fund (size)	Strategy	November %	YTD %
EELS5 (1.4%)	US Equity L/S	(2.2)	(1.2)
DIS3 (1.5%)	Distressed Secs	(2.0)	(15.5)
EELS1 (1.4%)	Japanese Equity L/S	(2.0)	(8.3)

## 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	<b>15.05</b>
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	<b>12.77</b>
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	<b>3.72*</b>
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	<b>2.57</b>
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	<b>9.21</b>
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	<b>8.29</b>
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	<b>6.99</b>
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	<b>4.33</b>
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	<b>7.95</b>
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)	<b>(8.87)</b>
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	<b>7.45</b>
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	<b>1.74</b>
2011	0.94	0.98	0.18	0.13	(0.13)	(0.38)	0.19	(1.38)	(0.52)	0.25	0.00		<b>0.24</b>
<b>Annual Rate of Return</b>	<b>5.37</b>			<b>Sharpe Ratio (@ 3% risk free)</b>				<b>0.72</b>	<b>Biggest Monthly Loss</b>				<b>(6.45)</b>
<b>Standard Deviation</b>	<b>3.27</b>			<b>Correlation FT World Index (Local)</b>				<b>0.48</b>	<b>Biggest Peak-to-Trough Drawdown</b>				<b>(10.15)</b>

\*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\$79.6m/£50.6m  
**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
<b>Class A (US\$)</b>	ABSFNDA KY <Equity>	3111556	KYG0060S1241
<b>Class B (£)</b>	ABSFNDB KY <Equity>	3111523	KYG0060S1324
<b>Class C (Euro)</b>	ABSFNDC KY <Equity>	3111534	KYG0060S1407

## Risk Warning

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