

Peer Group:
Fund-of-Hedge-Funds
Fund Manager/Adviser:
Charles Hovenden (since launch)
Location:
London
Launch Date: October 2001
Fund Size (June 2007):
US\$60m

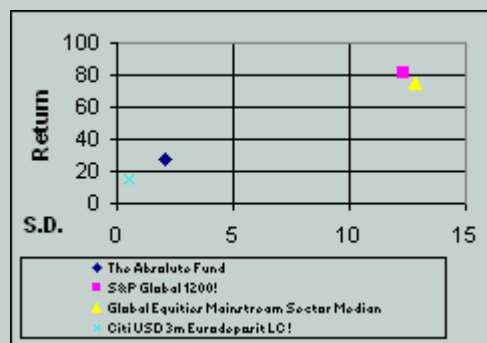
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S&P ID Number: OS208593
Share class screened:
A



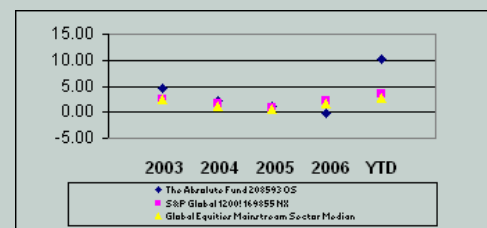
INVESTMENT STYLE

Region: Global
Strategy: Multi-Strategy

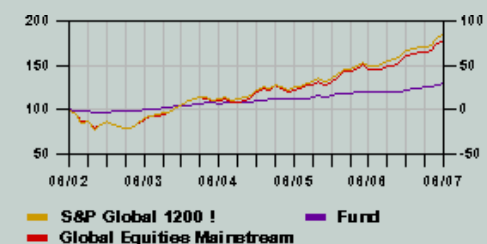
RISK RETURN OVER PAST 5 YEARS



SHARPE RATIO VS S&P GLOBAL 1200! AND SECTOR MEDIAN



CUMULATIVE PERFORMANCE



Further information on S&P's fund coverage can be found at www.funds.standardandpoors.com

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STANDARD & POOR'S OPINION (AUGUST 2007)

Absolute has experienced some change since our last review. Christopher Aldous has gone. He has been replaced by Andrew Wheeler, who joined in June 2007 as head of marketing/sales. Hovenden remains as CIO and the largest active shareholder in the group.

Wheeler joined the group with an option on over half the equity that Aldous held in the business. He is enthusiastic about the sales/marketing role, and shows little inclination to get involved in the investment management, beyond gathering information for client reporting purposes. In particular, he wants to focus on building the private client base before seeking institutional support. The net effect appears to be a reduction in investment resources; however, Aldous' primary responsibility was marketing/sales. Hovenden was and remains the only full-time investment manager on the fund.

Moreover there is no change in the investment process applied by the manager on this fund.

As a one-man investment operation, with the support of a data assistant, Absolute is stretched. However, the business is more stable now, and Hovenden is able to devote himself to investment management without the distraction of marketing issues. Helped by good performance in 2007 to date, Absolute has returned to positive net inflows. If these continue, Hovenden expects to bring in an analyst/assistant manager in about a year's time.

Hovenden is an experienced funds-of-hedge-funds manager (22 years' total investment experience) and has built a solid track record on the fund from launch in October 2001. We look forward to him having the support of an assistant manager in the future, but in the meantime his experience and successful track record support retention of the fund's S&P A rating.

FUND MANAGER & TEAM

Absolute Fund Management's London-based investment operation comprises Charles Hovenden supported by a quantitative research analyst who spends around half her time on research. Hovenden manages just two funds: The Absolute Fund and The Focus Fund. Focus is a more aggressive version of Absolute.

Charles Hovenden (CIO) is the largest active shareholder in the business. He is responsible for the group's investment management, and has the support of a data assistant.

Andrew Wheeler joined the group in June 2007 as head of marketing. He has an option over a significant portion of the equity that used to be held by Christopher Aldous, and was initially taken up by a passive shareholder in the business.

Charles Hovenden - chemistry (Oxford University), worked as a private client portfolio manager and equity analyst at Rothschild for seven years and Bank von Ernst for four years. In 1995 he joined Banque Internationale à Luxembourg as a fund-of-funds manager. He launched Absolute Fund Management in October 2001.

Fred Gardner - assistant analyst - graduate (Oxford University), has over three years' experience as an assistant funds-of-hedge-funds analyst. She is responsible for quantitative screening and due diligence checks, and the ongoing monitoring of holdings.

Andrew Wheeler - business studies (University of South Bank), started as a private client fund manager with Fleming Investment management in 1986. From 1995 to 2001 he worked as multi-fund manager with Dexia Private Bank in Jersey. He was head of marketing at Deutsche Bank Private Banking, London from 2001 to 2002. From 2003 to May 2007 he was executive director at the family investment office of Unigestion (UK) Limited. He joined Absolute in June 2007.

PORTFOLIO CHARACTERISTICS

Turnover ratio (%)	25
No. of holdings	47
% in top 10	30.9

KEY HOLDINGS (01/06/07)

	%
Aristeia *	4.7
Harbinger	3.6
JANA Piranha	3.4
Rockhampton	3.2
Costa Brava *	2.9
Rockview	2.7
Atlas	2.6
Eagle Lake	2.6
Fairfield	2.6
Foxhill	2.6

* In key holdings a year ago

ALLOCATION BREAKDOWN (01/06/07)

	Fund %
Cash/Net liabilities	-
Convertible Arbitrage	10
Distressed	13
Equity market neutral	-
Fixed income arbitrage	8
Long only	-
Long-short equity	38
Macro	-
Managed futures	-
Merger arbitrage	-
Special situations	-
Others	31

PERFORMANCE STATISTICS

	3 Years	5 Years
Fund	5.6	5.0
Sector Median‡	16.6	11.9
Index**	17.8	12.6
Interest Rate [^]	3.8	2.8
Fund Rank	1522/1534	1328/1348
R-Squared vs Index	0.3	0.2
Beta vs Index	0.2	0.1
Information Ratio vs Index	-1.6	-0.6

[^] US T-Bill 90 Day Index!

**S&P Global 1200!

‡Global Equities Mainstream Sector Median

OVER PAST 5 YEARS - FUND VS GLOBAL EQUITIES MAINSTREAM SECTOR MEDIAN

	Fund %	Sector %
Standard deviation	2.0	12.9
Downside deviation	1.0	9.1
Maximum drawdown	-2.8	-23.3
Gaining months	76.7	70.0
Sharpe ratio	1.1	0.7
Sortino ratio	2.1	1.0

Units III permits net fund exposure to be less or greater than 100%.

THE ABSOLUTE FUND



MANAGEMENT STYLE

- The fund aims primarily to preserve capital in all market conditions and, over time, to achieve an annualised return of cash plus 4-6%. It focuses principally on long-short equities and arbitrage strategies, excluding CTAs and global macro funds because the team believes that these strategies are difficult to analyse.

- While equity long-short is a significant allocation within the fund, directionality is limited by only investing in funds that are no more than 30% net long and by always including an allocation to short-biased equity hedge and short biased credit.

- The process combines top-down allocation with quantitative and qualitative fund selection. The team determines the macroeconomic view with input from hedge fund managers, external articles and sell side research. If defensive, the allocation to managers with a short bias will increase. Typically the portfolio will have underlying net market exposure of +/-5%, with the team seeking added value from funds rather than market returns.

- Fund selection starts with a quantitative screening. Attribution analysis is then undertaken to ensure that managers add

value from shorting investments as well as from going long. New ideas come from databases, prime brokers, third-party marketers and from the managers of existing holdings.

- On-site interviews of key team members are carried out by Hovenden and the track record is verified with the administrators or prime brokers. Start-ups are typically avoided and there is a preference for medium-sized hedge funds to ensure that access can be gained with the manager rather than the investor relations team.

- The portfolio is diversified, with a target of around 40 equally weighted funds. A maximum of 5% is permitted in any one fund but in practice exposure rarely exceeds 3%.

- There is ongoing monitoring of holdings including visiting at least annually. Fund managers are also telephoned between visits if there is exceptional performance or style drift. Sell disciplines include unexplained exceptional returns, lack of access to the manager and potentially better ideas.

- The fund has a 35-day notice period. Barings provides a credit line to meet redemptions.

PORTFOLIO & PERFORMANCE ANALYSIS (JUNE 2007)

The fund's 4.7% return in 2006 appears slightly disappointing compared with the peer group of fund of hedge funds. Returns last year were impacted by the fund's exposure to Japanese equity long-short managers, by both total exposure and the managers' strategy of being long mid-and small-caps while shorting larger companies. Japanese equity long-short has contributed to performance during the first six months of 2007, vindicating the decision to stick with the strategy, albeit with a slightly reduced allocation.

In recent years the fund's holdings of short-biased managers have been a drag on returns. However, they provided protection during the difficult July and August 2007

period. Going forward, Hovenden is going to be more selective on them, reducing the number of holdings but taking full-sized bets on each individual holding (about 2.5% each). Carpathia, which has contributed to performance this year, will be one of the first to be increased to a full unit. Hovenden considered that volatility was attractively priced when we met with him at the end of July (this has certainly proved to be true in August) and he was looking to add to convertible arbitrage. On the other hand he was finding it difficult to identify suitable European equity long-short managers because most of them were running higher net long positions than he was comfortable with (he does not like to see more than 60%).

DISCRETE PERFORMANCE (CALENDAR YEARS)

Fund	2003		2004		2005		2006		YTD 30/05/2007	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	7.2	1437/1438	5.6	1445/1523	5.7	1141/1576	4.7	1635/1643	4.8	1642/1701
Index**	32.9		14.9		10.2		21.5		10.3	
Median‡	32.2		13.3		8.6		20.5		9.3	

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