THE ABSOLUTE FUND

Monthly Report – September 30th 2007

Share Class (Principal series)	NAV	September 2007			2007 Year to Date		
		Fund (%)	Cash (%)*	FT World†	Fund (%)	Cash (%)*	FT World†
Class A – US$	US$135.55	+0.90	+0.45	+5.06	+6.16	+4.06	+13.47
Class B - £	£145.38	+0.94	+0.50	+4.01	+6.23	+4.23	+8.99
Class C - €	€132.46	+0.74	+0.36	+0.70	+5.11	+2.98	+5.19

**Citigroup 3-Month Eurodeposits – Source: Citigroup*

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

Fools Rush In………

The 9% gain in the FT World Share Index since the US Federal Reserve responded to the growing credit crisis by cutting its Discount Rate (the interest rate at which it lends to commercial banks) in mid-August is clear evidence of the so-called Bernanke 'put' in full swing. Essentially, investors believe that the Federal Reserve will do whatever is necessary (i.e. cut interest rates) to prevent the US economy from falling into recession and to bail out financial institutions from the consequences of the risky loans and investments they have made. In turn, banks have been queuing up to confess to losses on sub-prime mortgage exposure, so strengthening the consensus that the worst of the credit squeeze is past. With the market for structured credit securities still paralysed, however, those write-downs have been based on assumptions and internal pricing which may yet prove to be nowhere near conservative enough. Certainly, all evidence is that the US housing market continues to deteriorate and mortgage delinquencies continue to climb. The risk therefore remains that what has so far been mainly a liquidity-based crisis in credit markets (outside the rarefied world of sub-prime mortgages) could yet evolve into a fundamental one afflicting mainstream corporate debt.

Meanwhile, the recent performance of emerging equity markets, with the MSCI Emerging Markets Index up by 25% since mid-August, is eerily reminiscent of the bubble in technology shares which followed the emergency interest rate cuts prompted by the LongTerm Capital Management crisis in 1998. As financial commentators rush to justify the surge in emerging market shares prices by reassuring us that it is different this time, we recall the 'new paradigm' which was used to justify the ascent of technology shares in 1999. Emerging market hedge funds have produced some spectacular returns over the last few years but as most are little more than long-only funds in disguise they have no place in the Absolute Fund.

We are not predicting a major fall in equity markets. However, with economic growth in many countries clearly faltering, corporate profits at if not past a cyclical peak, the dollar seemingly in freefall and the oil price possibly heading for US$100 per barrel, we are confident in predicting that investors in equities are going to have to work a lot harder for their profits than they have done in the last four years. In contrast, a set of circumstances in which security selection becomes much more important and in which a lower level of overall market exposure or risk is more appropriate suits our hedged approach just fine. After four years in which the Absolute Fund's returns have clearly lagged behind equity markets and the performance of many other funds of hedge funds which expose their investors to significant levels of directional market risk, we sense that this is just the beginning of payback time!

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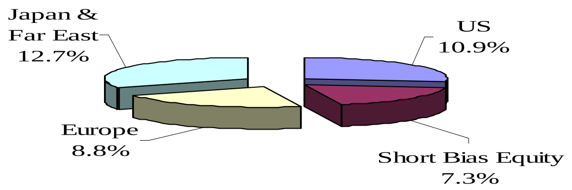
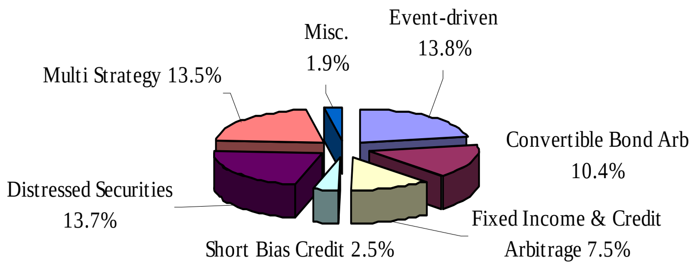
Source: Absolute Fund Management

Asset Allocation by Strategy (as at 30th September 2007)

<u>Equity Long/ Short (39.7%)</u>



<u>Arbitrage & Other (63.1%)</u>



Source: Absolute Fund Management

The Absolute Fund resumed normal service in September with a solid gain. In a testing quarter which featured a 10% peak-to-trough decline in the FT World Share Index and the worst month for hedge fund performance in more than seven years, we are proud that the Absolute Fund continued to provide steady profits with minimal volatility. September also marked the end of the Absolute Fund's sixth year of operation and we are, as ever, very grateful to all of the Fund's investors for their support and trust. Over the past twelve months, the Absolute Fund had only one losing month (-0.55% in August) and has delivered net returns of just under 9% in the sterling and dollar share classes and approximately 7.5% in the euro share class. All in all, we believe that this represents a satisfactory performance profile for an investment which is deliberately positioned at the low end of the risk spectrum.

Equity and corporate bond markets were buoyant in September as the US Federal Reserve duly delivered the 0.5% cut in dollar interest rates that investors were hoping for. Not surprisingly, therefore, the two sub-strategies in the Absolute Fund which lost money last month were Short-bias Credit (-0.09%) and Short-bias Equity (-0.07%). As we continue to believe that the downside risks in equity and corporate bond markets exceed their upside potential and that the turning off of the liquidity tap greatly improves the playing field for short-sellers, aggregate exposure to short-bias funds remains at a historically high level of approximately 10%. All eight other sub-strategies yielded profits in September and contributions to total performance were pleasingly well-spread. The disparate sectors of Distressed Securities, US Equity Long/Short and Fixed Income Arbitrage provided profits of 0.29%, 0.26% and 0.24% respectively.

At underlying fund level, 36 out of 43 investments were profitable, which is obviously a very satisfactory ratio. As we expected it would, municipal bond arbitrage fund FICA4 bounced back after last month's steep loss as other investors spotted that municipal bonds had become ridiculously cheap. However, this does not restore our confidence in the basis of the arbitrage which FICA4 is seeking to exploit and we will still exit the fund on the next dealing date. The US$11bn DHY4 Distressed Fund features on the Top 3 Funds list for a remarkable sixth time this year, its performance this month coming mainly from long investments instead of the short sub-prime mortgage exposure which drove returns over the previous few months. With its third monthly return in excess of 5%, USLS7 has now become the Absolute Fund's second best performing fund year-to-date. More important to us, though, is that USLS7's manager has demonstrated outstanding stock selection skills in both rising and falling markets. Despite the fact that net market exposure within the fund has remained close to 50% all year, USLS7's best month this year was in July when the main S&P Composite Index was down by 3% and the smaller company Russell 2000 Index fell by 7%. Not surprisingly, short-bias funds filled the Worst 3 Fund list in September and no underlying fund in any other sub-strategy lost more than 1%.

Charles Hovenden and Andrew Wheeler

25th October 2007

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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				6.23

Annual Rate of Return	7.84	Sharpe Ratio (@ 5% risk free)	1.23	Biggest Monthly Loss	(0.90)
Standard Deviation	2.31	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$110.5m

No. of Holdings: 43

Share Classes: US$, £, €

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)

Investment Manager:
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London SW1Y 6NY
Telephone: +44 (0) 20 7925 8078
Website: www.absolutefund.co.uk
Contact: Andrew Wheeler

Administrator:
Northern Trust International Fund Administration Services (Ireland) Ltd.
George's Quay House
43 Townsend Street
Dublin 2
Telephone: +353 1 670 0660

Contact: Terry Fernandes

Price Information

	Financial Times	Bloomberg	SEDOL	ISIN
Class A (US$)	under The Absolute Fund Ltd	ABSFNDA KY <Equity>	3093568	KYG0060S1241
Class B (£)	"	ABSFNDB KY <Equity>	3093591	KYG0060S1324
Class C (€)	"	ABSFNDC KY <Equity>	3093610	KYG0060S1407

Risk Warning

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www.absolutefund.co.uk

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