absolute invest

September 2007

Newsletter

General Market Review August 2007

Economic Review

The Federal Reserve cut the fed funds rate by half a percentage point to 4.75%, and the discount rate by an equivalent half a percentage point to 5.25%, in response to a weak August unemployment report and rapidly declining consumer sentiment. The August unemployment rate rose to 4.6% as the U.S. economy lost jobs for the first time in four years. Additionally, the University of Michigan Consumer Sentiment Index registered its lowest reading in a year during the month of August at 83.4. Moreover, the recent turmoil in the mortgage market represents a new and potentially more damaging phase to the housing correction. Housing starts for the month of August are likely to fall to a new cycle low.

Sources: CS Research & Analytics

Absolute Invest Ltd.

Portfolio Description

Absolute Invest is an investment company, which invests in a variety of absolute return-oriented management styles. These investment strategies are focussing on globally diversified and industrialized financial markets. The investment company was established to respond to investors who desire an attractive, well-diversified portfolio of alternative investments in US Dollar values, which can be actively allocated across different investment styles and strategies throughout the universe of alternative investments.

Investment Performance as of August 31, 2007

		Monthly Return	Year to Date Return	Inception*) To Date (Nov 2000)	Average Annual Return	Annual Standard Deviation	Sharpe Ratio
Absolute Invest NAV (USD)	377.69	-0.55%	20.54%	60.15%	8.10%	5.91%	0.42
Share price (USD)	345.00	-0.22%	22.12%	46.39%	5.72%	7.77%	0.01
S&P 500 Index (USD)	1473.99	1.29%	3.93%	2.92%	0.43%	13.55%	Neg.

Past performance is no guarantee of future results. Performance figures are estimated net of management and performance fees and are subject to change.
*) Absolute Invest has paid out CHF 9 (= US$ 7.36 or ca. 2.70 %) on June 30, 2004 due to a par value repayment. This Special Dividend is not included in the above numbers.

Investment Review

Absolutissimo and Conferre

August was a mixed bag for Pool 1 and Pool 2, which returned -.54% and +4.2%, respectively. Global equity markets experienced turbulence as credit market illiquidity and the continued sub-prime fallout filtered into other areas. Markets witnessed a massive de-levering of quantitative equity market neutral hedge fund strategies, a sharp blowout of deal spreads held by merger arbitrage managers, and substantial volatility in Japan, among other markets. Fears over the financial system's stability, along with a liquidity crunch, prompted central banks around the world, including the ECB and the Federal Reserve, to pump liquidity into the system and reassure the markets. Intra month, returns across most strategies, but especially quantitative equity market neutral, went well into negative territory, only to bounce back sharply to single-digit losses on average. It is believed that as banks were unable to turn over their warehouse lines and bridge loans in the evaporated credit market, they were forced to shore up their balance sheets by raising cash. In order to do so, they forced their proprietary trading desks to start liquidating their enormous portfolios. This led to selling pressure in various asset classes, most notably in quantitative equity market neutral strategies, which affected markets globally. Also, fears over banks' ability and willingness to follow through on their commitments to fund-announced LBO transactions caused deal spreads to widen markedly. Banks needed to hedge their loan books, but they realized they would be unable to unload them given the evaporation of demand in the structured credit markets in August. This caused banks to short the loan indices enormously, resulting in an unprecedented underperformance of leveraged loans versus high yield. These pressures, which are best characterized as technical rather than fundamental, caused huge dislocations throughout the markets in August, many of which abated as the month ended. Although equity markets ended the month largely unchanged, this liquidity driven selling made the environment particularly difficult for many hedge funds.

Pool 1's performance was hurt mostly by its exposure to two Long/Short sector-focused managers, Ventana (down 10.3%) and Vardon (down 8.6%). Ventana was hurt by losses on both the long and the short sides, as a number of their positions were statistically cheap (longs) or expensive (shorts) and, therefore, were attractive candidates for the quant funds. Fundamentally, most of these stories are sound and the stocks should move back toward a fairer valuation over time. Vardon's losses are, to some degree, attributable to the same phenomenon, although Vardon had the added excitement of being effectively long the U.S. consumer sector through several of their positions. The manager recognized the exposure but felt that the underlying fundamental stories were attractive enough to weather the storm. At the other end of the spectrum, NightWatch and Penta both delivered positive performance; they were up 6.1% and 6.3%, respectively. NightWatch's gains were Copyright, 2007 Cadogan Management, LLC largely attributable their largest position, a software company, which gained 21% after losing approximately the same amount in July. Investors realized that the prior month's news, which had driven down the stock, wasn't nearly as bad as it originally had seemed. Meanwhile, Penta did a great job of trading around the month's volatility, particularly via the options. At month end, the options portfolio was up 10.7%, shorts were up 2.7%, and the longs were down 6.1%.

Pool 2's performance was largely driven by the CDS positions in Radian Group Inc. The spread on the positions widened considerably during the month, and we took advantage of a few days of panic to take off $20 million of notional exposure at levels that were much higher than at month end. We kept the cheapest $30 million of notional exposure in the portfolio and have added another $10 million in September. Aside from the Radian trade, the rest of the portfolio experienced a fairly grim month. We wrote down the Kodiak position another 42% as conditions within the company worsened. The company is currently in the process of raising a preferred equity to shore up their balance sheet. JP Morgan's repo provider has given the company a deadline of October 15th to raise the capital. In the event that they do not raise the capital, our investment will likely be written down to zero. Manny Friedman, Kodiak's CEO, is pledging several million dollars of his personal money to the preferred and they seem confident that they will raise the rest. In addition to Kodiak, Leapfrog was another poor performer during August, declining 20.5%. The stock was sold off as a consumer-related turnaround. The Street generally stopped giving the benefit of the doubt to both the U.S. consumer and most management teams in August. The stock has since rebounded in September.

In September, we have added a new position in Monoline insurer Ambac Financial via CDS. We have also added a new member to the team: Pallavi Golla will be helping Kyle Pickens on all aspects of the Conferre suite of funds.

Source: Cadogan Management, LLC

CQS Directional Opportunities Fund

The CQS Directional Opportunities Fund produced a net return for its investors of +2.20% (Class 1 A USD) in August, bringing calendar year-to-date net returns to +0.87%.

During the month, gains were made in structured credit, equity and short credit positions, while curve steepener, long single name credit and CLO equity positions generated losses.

The Fund's structured credit positions in synthetic equity tranches and first–to-default baskets produced good returns on the month as the portfolio benefited from spread contraction and theta. Observed correlation swings did not impair performance, due to the relatively short-dated duration of these bespoke equity tranche positions.

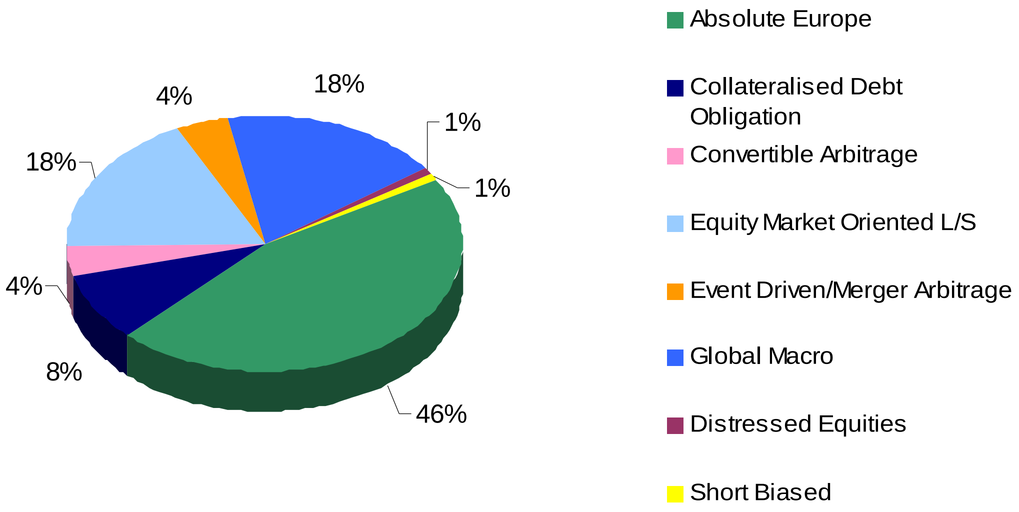
Gains were made in single name equities on the both the long and short side of the market. In particular, long positions in telecoms and short positions in banks generated positive returns.

Continued concerns over credit markets caused a mark down in the valuation of the CLO equity positions held in the Fund. While we continue to have confidence in the underlying reference portfolio of loans, we do expect volatility in loan prices to continue in the short-term, which may result in further mark-to-market declines in the valuation of these positions. Single name long credit positions were flat on the month, while single name short credit strategies produced profits. Long-dated credit curve steepeners produced small losses over the month and the Fund continues to hold these as defensive hedges.

We are encouraged by the Fund's performance in August, but very mindful that liquidity issues in credit markets continue to weigh on risk appetite and financing. We continue to have confidence in the current portfolio and expect market dislocations to provide additional compelling investment opportunities for the Fund and its future returns.

September 2007

Strategy Allocation as of August 31, 2007



Bloomberg	ABSI SW <equity>
Swiss security number	1’138’774