

# Newsletter

---

## General Market Review July 2006

### Economic Review

Similar to June, equity markets in July displayed significant volatility while finishing the month solidly in positive territory. Markets in the first half of the month trended down strongly amidst micro- and macro-economic concerns. Earnings season was a mixed bag as companies reported solid quarters but conservative to cautious guidance. The technology sector took the brunt of this sell off as investors worried about future growth. At the same time, geopolitical issues presented significant overhang amidst terrorist bombings in Mumbai, a standstill in Iranian nuclear diplomacy and, most significantly, an escalating military conflict between Israel and Hezbollah. The result was oil soaring above \$78/bbl, a global equity markets sell off and a flight to quality (stronger USD, CHF and Treasuries).

Testimony from Ben Bernanke and the minutes from the previous Fed meeting proved to be the catalyst to turn the markets around. The implication of both statements is that the US is close to stopping, or at least pausing, in its interest rate tightening as the effects of prior hikes start flowing through the economy. The result was a broad late month surge in global equities (the Bloomberg 500 European Index rose nearly 5% from July 18<sup>th</sup> to July 31<sup>st</sup>, finishing up +1.31%). As the US economy downshifts to a lower growth environment (circa 2% perhaps?), the outlook for Europe and the rest of the world remains mixed. Domestic economies are improving and inflation remains in check, however the possible effects of slowing demand from US consumers and a weaker dollar (assuming US interest rates don't move much higher) remain to be seen.

Source: ABS Investment Management

## Absolute Private Equity Ltd.

### Portfolio Description

Absolute Private Equity focuses its investment strategy mainly on the private equity market. Absolute Private Equity commits its money to private equity funds, which pursue investment strategies differing by industry, geographic region and stage of financing. The asset class of private equity is characterized by a long investment horizon. From the time of capital commitment, through the investment cycle and up to the realization period, between three to seven years elapse. In order to maximize the returns on capital invested for its shareholders, Absolute Private Equity employs a cash management strategy through a portfolio of absolute return strategies, which targets investments in non-traditional funds that can generate immediate returns. The capital within the absolute return part will be allocated to the private equity portion, as soon as the underlying private equity funds call committed capital for investments.

### Investment Performance as of July 31, 2006

		Performance July 2006	Performance year to date	Performance since Inception
Absolute Private Equity NAV (USD)	USD 77.01	0.55%	13.18%	44.76%
Share price (USD)	USD 69.95	1.38%	17.27%	23.76%
Premium (Discount)	-9.17%			
Morgan Stanley World Equity	1'327.23	0.55%	5.52%	1.68%
JP Morgan Global Government Bond Index	354.319	0.88%	-1.21%	29.02%

Past performance is no guarantee of future results. Performance numbers are estimated net of management and performance fees and are subject to change.

### Private Equity Review

Venture capital fundraising activity through the first and second quarters of 2006 indicates a trend toward fewer, larger funds. For example, the number of funds closed during the second quarter of 2006 fell to 23 from 37 during the same period in 2005. Meanwhile, the amount raised remained steady at \$8.2 billion versus \$8.3 billion during the second quarter of 2005.

Moreover, only 28% of funds raised during the first half of 2006 have been less than \$100 million in capital commitments. This is in line with venture fundraising data over the last four years that illustrates the percentage of these funds steadily falling on an annual basis since 2002 (from 71% in 2002 to 44% in 2005). Another indicator of growing fund size is the median size of funds raised, which is \$170 million for the first half of 2006. According to VentureOne, this is the second highest median recorded next to 2005's median fund size of \$210 million.

While the industry has witnessed this phenomenon on the buyout side for quite some time, it has only recently become more popular among venture investors. One primary driver of larger venture funds is the need to fund companies for a longer period of time prior to achieving an exit. An inconsistent initial public offering ("IPO") market, and stiff regulatory measures imposed by the Sarbanes-Oxley Act, have made it more difficult to readily access the public markets.

A contingent of blue chip firms have found it easier to raise larger pools of capital, while the less established players have not fared as well. Although both Worldview Technology Partners and Mobius Venture Capital have had unsuccessful fundraises; Oak Investment Partners, Sequoia Capital, Essex Woodlands Health Ventures and New Enterprise Associates have all raised funds over \$650 million this year. Oak Investment Partners' twelfth fund was the largest venture capital fund ever raised at \$2.56 billion. Runner up, New Enterprise Associates, also raised its twelfth fund with \$2.5 billion in capital commitments.

Industry experts predict that 2006's fundraising activity will meet or exceed that of 2005 given the significant amount of continued limited partner interest in the asset class.

Source: Private Equity Interactive

## Private Equity Investments as of July 31, 2006

Private Equity Funds	Investment Focus	Commitments USD	Market Value of Investments USD	% of Commitments	% of Absolute Private Equity Assets
Clarity Partners	Software & technology companies in telecom, media and internet	10'000'000	4'786'205	47.86%	0.59%
Bay Partners	Early stage investment in US technology companies	8'000'000	4'675'494	58.44%	0.58%
GRP II	Start-up and venture capital in the US and EU	15'000'000	12'364'627	82.43%	1.53%
AC Private Equity Invest	Private Equity with focus on Southern Europe	10'000'000	9'332'473	93.32%	1.15%
Warburg Pincus Int'l (d)	Venture capital, buyouts and recapitalizations in a broad range of industries world wide	105'826'250	93'915'323	88.74%	11.61%
WPIP Co. LLC (d)	Venture capital, buyouts and recapitalizations in a broad range of industries world wide	94'173'750	84'012'894	89.21%	10.39%
Warburg Pincus Private Equity VIII	Venture & growth capital and buyouts in a broad range of industries	25'000'000	25'750'459	103.00%	3.18%
PAI Europe III-B	Focus on buyouts, lesser extent growth capital, in Western Europe	12'338'452	9'536'156	77.29%	1.18%
PAI Europe III-B3	Focus on buyouts, lesser extent growth capital, in Western Europe	12'097'347	9'451'397	78.13%	1.17%
CSFB Fund VII Investor, LP	Venture & growth capital and buyouts in a broad range of industries	140'000'000	106'976'238	76.41%	13.22%
CSFB Middle Market Value Investor, LP	Focus on middle market buyouts in the US	74'925'000	60'792'627	81.14%	7.51%
DLJ Merchant Banking Partners III	Buyout in a broad range of industries mainly in the US	15'000'000	8'560'430	57.07%	1.06%
Matlin Patterson Global Opportunities Partners "	Investments into distressed companies world-wide	50'000'000	26'688'982	53.38%	3.30%
Terra Firma Capita Partners	Heavy-asset based and out-of-favour European companies with a potential for active value creation	89'956'932	59'151'470	65.76%	7.31%
DLJ Venture Partners II	Venture & growth capital in a broad range of industries world-wide	7'111'396	7'176'973	100.92%	0.89%
DLJ Offshore Partners IV, LP	Buyout in a broad range of industries mainly in the US and western Europe	10'000'000	2'000'000	20.00%	0.25%
ADM Maculus Fund, L.P	Distressed assets and undervalued situations in Asia	15'000'000	12'202'415	81.35%	1.51%
Lightyear Fund I L.P.	Private Equity with focus in the financial services industry	5'000'000	2'985'941	59.72%	0.37%
Lightyear Fund L.P.	Private Equity with focus in the financial services industry	1'000'000	273'958	27.40%	0.03%
Wayzata Opp. Fund	Private Equity, with focus in distressed debt	10'000'000	5'860'018	58.60%	0.72%
Apollo Investment Fund	Private Equity with focus in classic, distressed and corporate buyouts	8'325'000	509'057	6.11%	0.06%
VSS Communications	Private Equity with focus in the media industry in both North America and Europe	10'000'000	1'861'908	18.62%	0.23%
Blackstone Capital Partners	Focus on leveraged buyouts in a diverse group of industries	15'000'000	1'629'348	10.86%	0.20%
Nordic Capital Fund	Investments in many industry sectors in Nordic region.	11'000'000	319'186	2.90%	0.04%
Madison Dearborn	Buyout opportunities in specific industries in US avoiding hightech	15'000'000	0	0.00%	0.00%
TPG Biotechnology Partners	Focuses on early and late-stage venture capital investment in life sciences/biotechnology industry	5'000'000	323'699	6.47%	0.04%
TPG Partners V.LP	Large Buyout in operating companies	15'000'000	131'488	0.88%	0.02%

(Cont.)

	Investment Focus	Commitments USD	Market Value of Investments USD	% of Commitments	% of Absolute Private Equity Assets
<b>Blue Point Capital Partners II, LP</b>	Focuses on leveraged buyouts transactions in the small-cap and mid-cap range	5'000'000	0	0.00%	0.00%
<b>The Fourth Cinven Fund</b>	Focuses on large European buyouts, typically being the lead investor in each transaction	15'000'000	0	0.00%	0.00%
<b>Bain Capital IX Co-Investment</b>	Participates in growth capital buyouts and restructurings	15'000'000	375'027	2.50%	0.05%
<b>Total</b>		<b>824'754'127</b>	<b>551'643'793</b>	<b>66.89%</b>	<b>68.19%</b>
<b>Total Net Assets Absolute Private Equity</b>		<b>808'956'689</b>			

#### Overall Allocation Overview as of July 31, 2006

	Asset Value (USD)	In % of Total Assets
Private Equity Investments	551'643'793	68.19%
Absolute Return Strategies	213'615'042	26.41%
Cash	43'697'854	5.40%
<b>Total Net Assets</b>	<b>808'956'689</b>	<b>100.00 %</b>

#### Private Equity Investments Review

Total commitments as of July, 2006 stand at USD 824.8 million, of which USD 551.6 million have been invested. This represents 66.89% of committed capital and 68.19% of total net assets. During July USD 3.4 million were called for new investments. Unrealized gains of USD 603'639 were attributable to Terra Firma. Distributions of USD 2.3 million from CSFB MMV, Matlin Patterson GOP, DLJ MB III and AC PE Invest. Finally, USD 48'262 of recallable ROC was attributable CSFB MMV.

Valor:

1111333

Bloomberg ticker:

ABSP SW <EQUITY>

Neither this document nor any copy hereof may be sent or taken or transmitted into the United States or distributed, directly or indirectly, in the United States or to any U.S. person. Any failure to comply with this restriction may constitute a violation of U.S. securities laws. The securities issued by Absolute Private Equity AG have not and will not be registered under the Securities Act of 1933 of the United States of America. This document is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. This document does not constitute an offer to sell, or a solicitation of an offer to purchase, any securities. This document does not constitute a prospectus in the sense of Art. 652a resp. Art. 1156 of the Swiss Code of Obligations.