

Newsletter

General Market Review September 2006

Economic Review

For the second consecutive month, a sharp fall in energy prices provided a boost to the global equity markets. While the -10.5% decline in oil prices punished stocks in the energy and materials sectors, the news was decidedly positive for the rest of the market. In addition, the Fed held interest rates steady for the second consecutive meeting during September, helping ease fears of rising inflation. Europe further benefited from another strong wave of M&A activity with a flurry of new combinations and new developments in prior announced deals. Overall, the result was a gain of +1.40% for the MSCI Europe Index (in Euros) and +1.38% for the FTSE 350 Index, with consumer discretionary and technology sectors leading the way while energy and materials stocks declined significantly.

From a regional perspective, most European markets were positive during the month, with the exception of energy and material heavy indices like the Norwegian OBX (-3.63%) and Russian RTS Index (-4.72%). On the corporate front, announced M&A transactions (Schwartz Pharma/Fadessa Inmobiliaria, E.On/Gas Natural/Endesa/Acciona, Actividades/Iberdrola) fuelled takeover speculation that sent European stocks to a 5-year high at quarter-end.

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 September 30, 2006

		Performance September 2006	Performance year to date	Performance since Inception
Absolute Private Equity NAV (USD)	USD 83.51	2.55%	22.74%	56.97%
Share price (USD)	USD 72.60	0.97%	21.71%	28.45%
Premium (Discount)	-13.06%			
Morgan Stanley World Equity	1'373.37	1.07%	9.19%	5.22%
JP Morgan Global Government Bond Index	361.33	0.52%	0.75%	31.57%

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

As return expectations from the public market have adjusted downward, a number of institutional investors have sought out allocations to private equity to fill that void. Even those investors that were severely affected by the bubble burst in 1999 and 2000 are slowly returning to the asset class. Other investors are once again becoming active after a hiatus that began when the market lost momentum.

One of the significant challenges facing new and returning entrants to the asset class is determining the most effective method of investing the capital. Some investors have turned to fund of funds to build out their portfolios, while other larger LPs have sought to hire additional personnel to build an in-house practice. Moreover, some have focused on seeding their programs with secondary and mezzanine funds to generate early returns and ensure vintage year diversification.

Fund of funds, which have raised over \$10 billion from January to mid-September 2006, offer investors access to a broad portfolio of partnerships. Larger limited partners, who generally desire more control over their portfolios than a fund of funds typically offers, have opted for separate account structures in which they are the sole investor and have much more discretion over the compilation of their portfolio. However, one challenge currently facing a number of fund of funds is insufficient access. With so much capital targeting the asset class, some fund of funds managers are finding it difficult to deliver the access they promise to clients. For instance, many blue chip venture capital firms have trouble securing enough allocation for their existing LPs and are therefore limiting the number of new investors they allow into their funds.

Large institutional investors seeking to build an in-house private equity practice face an altogether different hurdle – the ability to find and retain talented professionals to manage these portfolios in what has become a competitive job market. Many institutional investors (i.e. pension plans) lack the budget and the political wherewithal to match lucrative compensation packages offered by consultants or private equity shops. Building an in-house practice requires significant resources from both a management and capital perspective.

With regards to portfolio completion, there is an abundant supply of funds in the market, particularly large buyout funds that are willing to absorb a significant amount of new capital. Consequently, many limited partners have found themselves already overexposed to the large buyout sector. In order to ensure a more appropriate balance, many investors are now focusing on other private equity strategies such as distressed debt, mezzanine, venture capital and international funds. Furthermore, buying secondary interests has allowed investors to diversify their portfolios by vintage year.

Source: Private Equity Interactive

Private Equity Investments as of September 30, 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	4'753'649	47.54%	0.56%
Bay Partners	Early stage investment in US technology companies	8'000'000	4'834'966	60.44%	0.57%
GRP II	Start-up and venture capital in the US and EU	15'000'000	12'551'104	83.67%	1.47%
AC Private Equity Invest	Private Equity with focus on Southern Europe	10'000'000	9'332'473	93.32%	1.09%
Warburg Pincus Int'l (d)	Venture capital, buyouts and recapitalizations in a broad range of industries world wide	105'826'250	94'766'026	89.55%	11.11%
WPIP Co. LLC (d)	Venture capital, buyouts and recapitalizations in a broad range of industries world wide	94'173'750	84'774'805	90.02%	9.94%
Warburg Pincus Private Equity VIII	Venture & growth capital and buyouts in a broad range of industries	25'000'000	25'217'303	100.87%	2.96%
PAI Europe III-B	Focus on buyouts, lesser extent growth capital, in Western Europe	12'338'452	15'033'144	121.84%	1.76%
PAI Europe III-B3	Focus on buyouts, lesser extent growth capital, in Western Europe	12'097'347	14'898'917	123.16%	1.75%
CSFB Fund VII Investor, LP	Venture & growth capital and buyouts in a broad range of industries	140'000'000	115'249'207	82.32%	13.51%
CSFB Middle Market Value Investor, LP	Focus on middle market buyouts in the US	74'925'000	61'314'480	81.83%	7.19%
DLJ Merchant Banking Partners III	Buyout in a broad range of industries mainly in the US	15'000'000	9'353'342	62.36%	1.10%
Matlin Patterson Global Opportunities Partners	Investments into distressed companies world-wide	50'000'000	26'688'982	53.38%	3.13%
Terra Firma Capita Partners	Heavy-asset based and out-of-favour European companies with a potential for active value creation	89'956'932	107'924'528	119.97%	12.66%
DLJ Venture Partners II	Venture & growth capital in a broad range of industries world-wide	7'111'396	6'977'841	98.12%	0.82%
DLJ Offshore Partners IV, LP	Buyout in a broad range of industries mainly in the US and western Europe	10'000'000	2'051'894	20.52%	0.24%
ADM Maculus Fund, L.P	Distressed assets and undervalued situations in Asia	15'000'000	11'249'016	74.99%	1.32%
Lightyear Fund I L.P.	Private Equity with focus in the financial services industry	5'000'000	2'970'040	59.40%	0.35%
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	7'610'018	76.10%	0.89%
Apollo Investment Fund	Private Equity with focus in classic, distressed and corporate buyouts	8'325'000	819'721	9.85%	0.10%
VSS Communications	Private Equity with focus in the media industry in both North America and Europe	10'000'000	2'343'027	23.43%	0.27%
Blackstone Capital Partners	Focus on leveraged buyouts in a diverse group of industries	15'000'000	2'204'838	14.70%	0.26%
Nordic Capital Fund	Investments in many industry sectors in Nordic region.	11'000'000	618'602	5.62%	0.07%
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	711'840	14.24%	0.08%
TPG Partners V.LP	Large Buyout in operating companies	15'000'000	166'950	1.11%	0.02%
Blue Point Capital Partners II, LP	Focuses on leveraged buyouts transactions in the small-cap and mid-cap range	5'000'000	370'803	0.00%	0.00%

(Cont.)

	Investment Focus	Commitments USD	Market Value of Investments USD	% of Commitments	% of Absolute Private Equity Assets
The Fourth Cinven Fund	Focuses on large European buyouts, typically being the lead investor in each transaction	15'000'000	0	0.00%	0.00%
Bain Capital IX Co-Investment	Participates in growth capital buyouts and restructurings	15'000'000	2'325'307	15.50%	0.27%
Greenstone Capital Partners II, LP	Investments in established Small-Cap Businesses, co-invest in larger business in Australia and New Zealand	25'000'000	757'548	3.03%	0.09%
Total		849'754'127	628'144'329	73.92%	73.66%
Total Net Assets Absolute Private Equity		852'788'900			

Overall Allocation Overview as of September 30, 2006

	Asset Value (USD)	In % of Total Assets
Private Equity Investments	628'144'329	73.66%
Absolute Return Strategies	217'930'239	25.56%
Cash	6'714'332	0.79%
Total Net Assets	852'788'900	100.00 %

Private Equity Investments Review

Total commitments as of September, 2006 stand at USD 849.8 million, of which USD 628.1 million have been invested. This represents 73.92% of committed capital and 73.66% of total net assets. During September USD 23.4 million were called for new investments. Unrealized gains of USD 21 million were attributable to Clarity Partners, PAI Europe III, CSFB FUND VII, and Apollo Investment Fund VI, LP. Unrealized loss of USD 105'880 came from Clarity Partners and distributions of USD 1'065'930 came from Clarity Partners, ADM Maculus and CSFB Fund VII. Finally, USD 153'205 of callable ROC was attributable to CSFB Fund VII and Blue Point Capital Partners II, LP.

Valor:

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Bloomberg ticker:

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