

Newsletter

General Market Review August 2006

Economic Review

After three months of heightened volatility, the global equity markets experienced a broad, albeit muted, rally in August. The markets again focused on the direction of US interest rates, and on August 9th, the Fed confirmed the market's speculation and held rates steady at 5.25% for the first time since 2004. With limited surprises on the economic front, the European markets moved steadily higher throughout the month and nearly all countries posted gains. The Bloomberg 500 European Index returned +2.63% in August, helped by solid returns in Germany (+3.13%), Italy (+3.65%), and Sweden (+5.06%). In the UK, a surprise interest rate hike by the Bank of England pushed returns into the red, and despite a late-month rally, the FTSE 100 ended August with a negative return of -0.38%. The rise in UK rates combined with a pause in the US also led to a strong rise in the pound, which gained nearly 2% versus the dollar.

From a sector perspective, returns followed a similar pattern of solid returns across the board, with one exception. Global energy stocks lost -3.3% in August in response to a drop in oil and gas prices. Crude oil, which peaked in July at over \$78/barrel, retraced its steps all the way below \$70/barrel by the end of August as the violence in Israel and pipeline troubles for British Petroleum proved to be minor events in terms of supply disruption. The decline in energy prices had an impact in Norway, where the energy-heavy OBX Index fell -0.10% in August.

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 August 31, 2006

		Performance August 2006	Performance year to date	Performance since Inception
Absolute Private Equity NAV (USD)	USD 81.43	5.74%	19.68%	53.06%
Share price (USD)	USD 71.90	2.79%	20.54%	27.21%
Premium (Discount)	-11.70%			
Morgan Stanley World Equity	1'358.87	2.38%	8.04%	4.11%
JP Morgan Global Government Bond Index	359.457	1.45%	0.22%	30.89%

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

Commitments to private equity have traditionally been centred on two primary buyout and venture capital investment strategies. Although growth equity has existed for over 20 years, it has long been overlooked because of its loosely defined investment strategy. Growth equity exhibits characteristics of both buyout and venture capital, typically involving minority stakes in profitable companies. Few limited partners have allocations to growth equity and many industry databases simply do not track performance benchmarks for growth equity firms.

The strategy has been dominated by a small number of well established firms such as General Atlantic, Summit Partners, TA Associates and Technology Crossover Ventures. However, within the last year, growth equity has attracted considerable attention, with a number of new firms entering the space. Experts believe that the sudden interest is a result of a number of factors, including:

- § The growth in fund size of the incumbent firms, which has left a void at the smaller end of the growth equity market. This is particularly beneficial for firms raising between \$100 million and \$500 million.
- § Strong returns in the growth equity space. While growth equity is less risky than venture capital because it invests in slightly more mature companies with proven revenue traction, it still offers the possibility of strong returns through investing in rapidly growing companies.
- § The Sarbanes-Oxley regulatory reforms have made it difficult for small companies to go public, forcing such companies to seek alternative sources of capital. Growth equity funds can provide an infusion of capital that allows smaller companies to build to a size where an initial public offering is more feasible.
- § As the private equity asset class as a whole matures, firms typically become more specialized and new strategies, such as growth equity, naturally emerge.

While the market opportunity in growth equity could likely support more players, not every firm will succeed as deal sourcing in this space is particularly labor and time intensive. Growth equity firms must employ a proactive calling effort and foster relationships over a number of years.

Despite the influx of new managers in the growth equity space, some investors remain weary of the strategy because of its emphasis on taking minority stakes rather than control positions. However, since growth equity funds invest in companies that are more stable, they face fewer issues than venture capital businesses.

Source: Private Equity Interactive

Private Equity Investments as of August 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%	0.57%
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	12'176'104	81.17%	1.44%
AC Private Equity Invest	Private Equity with focus on Southern Europe	10'000'000	9'332'473	93.32%	1.10%
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%	11.20%
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%	10.02%
Warburg Pincus Private Equity VIII	Venture & growth capital and buyouts in a broad range of industries	25'000'000	24'767'303	99.07%	2.93%
PAI Europe III-B	Focus on buyouts, lesser extent growth capital, in Western Europe	12'338'452	8'903'143	72.16%	1.05%
PAI Europe III-B3	Focus on buyouts, lesser extent growth capital, in Western Europe	12'097'347	8'824'086	72.94%	1.04%
CSFB Fund VII Investor, LP	Venture & growth capital and buyouts in a broad range of industries	140'000'000	106'836'959	76.31%	12.63%
CSFB Middle Market Value Investor, LP	Focus on middle market buyouts in the US	74'925'000	60'268'053	80.44%	7.13%
DLJ Merchant Banking Partners III	Buyout in a broad range of industries mainly in the US	15'000'000	9'353'342	62.36%	1.11%
Matlin Patterson Global Opportunities Partners "	Investments into distressed companies world-wide	50'000'000	26'688'982	53.38%	3.16%
Terra Firma Capita Partners	Heavy-asset based and out-of-favour European companies with a potential for active value creation	89'956'932	91'744'697	101.99%	10.85%
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	11'852'881	79.02%	1.40%
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	7'510'018	75.10%	0.89%

(Cont.)

	Investment Focus	Commitments USD	Market Value of Investments USD	% of Commitments	% of Absolute Private Equity Assets
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	2'266'587	22.67%	0.27%
Blackstone Capital Partners	Focus on leveraged buyouts in a diverse group of industries	15'000'000	1'314'946	8.77%	0.16%
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	166'951	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	82'612	0.00%	0.00%
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	375'027	2.50%	0.04%
Greenstone Capital Partners II, LP	Investments in established Small-Cap Businesses, co-invest in larger business in Australia and New Zealand	25'000'000			
Total		824'754'127	585'051'839	70.94%	69.17%
Total Net Assets Absolute Private Equity		845'856'035			

Overall Allocation Overview as of August 31, 2006

	Asset Value (USD)	In % of Total Assets
Private Equity Investments	585'051'839	69.20%
Absolute Return Strategies	229'186'061	27.10%
Cash	31'618'135	3.70%
Total Net Assets	845'856'035	100.00 %

Private Equity Investments Review

Total commitments as of August, 2006 stand at USD 824.8 million, of which USD 585 million have been invested. This represents 70.94% of committed capital and 69.17% of total net assets. During August USD 3.8 million were called for new investments. Unrealized gains of USD 44.5 million were attributable to DLJ MB III, Terra Firma, WPIP and VSS Communication. Unrealized loss of USD 714'429 came from CSFB MMV, ADM Maculus, WPIP LLC, WPIP Private Equity VIII, Blackstone Capital Partners V L.P. and distributions of USD 13.5 million came from PAI Europe III, ADM Maculus, Terra Firma, WP Private Equity VIII, CSFB Fund VII, Lightyear Fund I and Blackstone Capital Partners. Finally, USD 234'535 of recallable ROC was attributable to CSFB Fund VII.

Valor:	1111333
Bloomberg ticker:	ABSP SW <EQUITY>

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