

# Newsletter

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## General Market Review October 2006

### Economic Review

The market built on its strong performance from August and September to post its best month since January. Nearly all sectors and regions posted positive results in October, leading to a +3.58% gain for the MSCI Europe Index (in EUR). Unlike last month when energy and materials stocks suffered from falling commodity prices, all of the major global sectors finished with positive performance, led by materials, telecom, and consumer discretionary. The primary drivers for the post-summer rally included low inflation, continued growth in employment, falling oil prices, and most importantly, strong earnings growth. In the US, over 70% of the companies reporting third quarter profit exceeded analyst estimates, leading to another quarter of double digit earnings growth. High beta benefited from the global rally as biotech, emerging market, and small cap stocks gained over 4% in October.

From a regional perspective, nearly every country in Europe produced positive results. The biggest winner was Norway (OBX Stock Index was up +9.03% in NOK) where investors returned to the energy sector after a brutal summer for the region.

The macro picture in Europe remains mixed where the current business climate remains strong while economic participants do not expect strong economic conditions to continue into the future. As interest rates rise, the case for slower growth is understandable though we believe the opportunity to find long and short investments should persist.

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 October 31, 2006

		Performance October 2006	Performance year to date	Performance since Inception
Absolute Private Equity NAV (USD)	USD 86.83	3.98%	27.62%	63.21%
Share price (USD)	USD 78.00	7.44%	30.75%	38.00%
Premium (Discount)	-10.17%			
Morgan Stanley World Equity	1'422.93	3.61%	13.13%	9.02%
JP Morgan Global Government Bond Index	362.24	0.25%	1.00%	31.90%

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 buyout firms steadily progress towards the larger end of the market, investors have begun to question whether or not the size of these deals will limit exit options and returns in the future. In the relatively unexplored realm of mega deals, the barriers to achieving a successful exit are not insignificant, including a smaller group of prospective buyers and an unpredictable public market.

At least half of the dozen largest buyout transactions occurred during 2006 including Freescale, Univision, Kinder Morgan and hospital operator HCA. In contrasting the size of the largest M&A deals and IPOs this year with those transactions, a substantial discrepancy exists. AT&T's \$72.7 billion acquisition of BellSouth was an anomaly, given that the next largest M&A transaction (Banca Intesa SpA's acquisition of SanPaolo IMI SpA) was only half the size and barely larger than the HCA transaction. Moreover, the largest PE-backed strategic sale over the last several years, Texas Genco, garnered just \$8.3 billion.

While IPOs would be a more logical exit route, a number have struggled to get out this year, with the value of withdrawn offerings in the U.S. rising by 72% to nearly \$10.8 billion in 2006 from \$6.2 billion in 2005. Additionally, those companies that have completed the IPO process have not raised enough cash to ensure a successful exit for a mega deal. For example, the largest PE-backed IPO this year was U.K. retailer Debenhams PLC, which raised approximately \$2 billion on the London Stock Exchange. The overall largest IPO this year, including non-PE-backed companies, was the Industrial & Commercial Bank of China, which raised approximately \$19 billion in Hong Kong. These values are less than desirable for a buyout firm that invests anywhere from \$5 billion to \$10 billion of equity in a deal. Such firms are looking for returns ranging from \$15 billion to \$30 billion.

In light of this, buyout firms focusing on mega deals have offered some suggestions with regards to exit strategy:

Buy time to achieving a desirable exit by taking capital off the table through dividend recapitalizations. This will allow firms to return money to limited partners while retaining control of the company until an appropriate exit opportunity arises. However, note that dividend recaps depend on a favorable debt environment and can be detrimental if potential buyers perceive that the company has been weakened by the addition of debt.

Rather than exit a large company through a single transaction, break the company into pieces and sell or take it public piecemeal.

Initiate a public listing on global exchanges or on several exchanges simultaneously. Only three of the 10 largest PE-backed IPOs closed this year have occurred in the U.S. The three in question floated on the London Stock Exchange and exchanges in Hong Kong and Australia.

Source: Private Equity Interactive

## Private Equity Investments as of October 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	4'753'649	47.54%	0.54%
Bay Partners	Early stage investment in US technology companies	8'000'000	4'834'966	60.44%	0.55%
GRP II	Start-up and venture capital in the US and EU	15'000'000	12'402'149	82.68%	1.40%
AC Private Equity Invest	Private Equity with focus on Southern Europe	10'000'000	9'295'675	92.96%	1.05%
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%	10.69%
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%	9.56%
Warburg Pincus Private Equity VIII	Venture & growth capital and buyouts in a broad range of industries	25'000'000	25'217'303	100.87%	2.84%
PAI Europe III-B	Focus on buyouts, lesser extent growth capital, in Western Europe	12'338'452	15'033'144	121.84%	1.70%
PAI Europe III-B3	Focus on buyouts, lesser extent growth capital, in Western Europe	12'097'347	14'898'917	123.16%	1.68%
CSFB Fund VII Investor, LP	Venture & growth capital and buyouts in a broad range of industries	140'000'000	116'630'224	83.31%	13.15%
CSFB Middle Market Value Investor, LP	Focus on middle market buyouts in the US	74'925'000	66'995'561	89.42%	7.56%
DLJ Merchant Banking Partners III	Buyout in a broad range of industries mainly in the US	15'000'000	9'241'411	61.61%	1.04%
Matlin Patterson Global Opportunities Partners "	Investments into distressed companies world-wide	50'000'000	25'493'809	50.99%	2.88%
Terra Firma Capital Partners	Heavy-asset based and out-of-favour European companies with a potential for active value creation	89'956'932	100'246'078	111.44%	11.31%
DLJ Venture Partners II	Venture & growth capital in a broad range of industries world-wide	7'111'396	6'848'908	96.31%	0.77%
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%	0.23%
ADM Maculus Fund, L.P	Distressed assets and undervalued situations in Asia	15'000'000	11'149'675	74.33%	1.26%
ADM Maculus Fund, L.P II	Distressed assets and undervalued situations in Asia	20'000'000	600'000	3.00%	0.07%
Lightyear Fund I L.P.	Private Equity with focus in the financial services industry	5'000'000	2'970'040	59.40%	0.33%
Lightyear Fund L.P.	Private Equity with focus in the financial services industry	1'000'000	283'051	28.31%	0.03%
Wayzata Opp. Fund	Private Equity, with focus in distressed debt	10'000'000	7'704'376	77.04%	0.87%
Apollo Investment Fund	Private Equity with focus in classic, distressed and corporate buyouts	8'325'000	1'056'186	12.69%	0.12%
VSS Communications	Private Equity with focus in the media industry in both North America and Europe	10'000'000	2'343'027	23.43%	0.26%
Blackstone Capital Partners	Focus on leveraged buyouts in a diverse group of industries	15'000'000	2'204'838	14.70%	0.25%

(Cont.)

	Investment Focus	Commitments USD	Market Value of Investments USD	% of Commitments	% of Absolute Private Equity Assets
<b>Nordic Capital Fund</b>	Investments in many industry sectors in Nordic region.	11'000'000	2'603'190	23.67%	0.29%
<b>Madison Dearborn</b>	Buyout opportunities in specific industries in US avoiding hightech	15'000'000	0	0.00%	0.00%
<b>TPG Biotechnology Partners</b>	Focuses on early and late-stage venture capital investment in life sciences/biotechnology industry	5'000'000	711'840	14.24%	0.08%
<b>TPG Partners V.LP</b>	Large Buyout in operating companies	15'000'000	548'496	3.66%	0.06%
<b>Blue Point Capital Partners II, LP</b>	Focuses on leveraged buyouts transactions in the small-cap and mid-cap range	5'000'000	2'171'292	0.00%	0.00%
<b>The Fourth Civen 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	2'324'746	15.50%	0.26%
<b>Greenstone Capital Partners II, LP</b>	Investments in established Small-Cap Businesses, co-invest in larger business in Australia and New Zealand	25'000'000	484'841	1.94%	0.05%
<b>Total</b>		<b>869'754'127</b>	<b>630'640'116</b>	<b>72.51%</b>	<b>71.12%</b>
<b>Total Net Assets Absolute Private Equity</b>		<b>886'680'055</b>			

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

	Asset Value (USD)	In % of Total Assets
Private Equity Investments	630'640'116	71.12%
Absolute Return Strategies	226'026'322	25.49%
Cash	30'013'616	3.38%
<b>Total Net Assets</b>	<b>886'680'055</b>	<b>100.00 %</b>

### Private Equity Investments Review

Total commitments as of October 31, 2006 stand at USD 869.8 million, of which USD 630.7 million have been invested. This represents 72.51% of committed capital and 71.12% of total net assets. During October USD 6.54 million were called for new investments. Unrealized gains of USD 6 million were attributable to CSFB MMV and Wayzata Opp. Fund LLC. Unrealized loss of USD 1.63 million came from Matlin Patterson GOP, DLJ VP II, AC PE Invest and Greenstone Capital Partners II, LP. Distributions of USD 8.4 million came from GRP II, CSFB MMV, DLJ MB III, ADM Maculus and Terra Firma. Finally, USD 66'871 of recallable ROC was attributable to DLJ MB III.

Valor:

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Bloomberg ticker:

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