

# Newsletter

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## General Market Review November 2006

### **Economic Review**

November employment recorded a solid 132,000 gain in jobs, which continues to be in line with upward revisions to the payroll count over the last three months. Notably, a rebound in retail employment (up 20,000 jobs) from last month is a sign that retailers believe they will have an active holiday shopping season. Analysts expect retail sales to increase modestly in November, with only a small drag due to a slight decline in automotive sales (fell to 16.0 million from 16.1 million in October) and sales of furniture and building materials (result of the housing slowdown). Industrial production is likely to advance 0.3% in November as a result of an increase in utility output and auto assemblies. While the downdraft in home construction will persist, housing demand seems to have bottomed. However, non-residential construction spending, which was growing rapidly earlier in the year, seems to have suddenly flattened.

Sources: CS Research & Analytics

## 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 November 30, 2006

		Performance November 2006	Performance year to date	Performance since Inception
Absolute Private Equity NAV (USD)	USD 90.89	4.68%	33.58%	70.85%
Share price (USD)	USD 79.50	1.92%	33.28%	40.66%
Premium (Discount)	-12.53%			
Morgan Stanley World Equity	1'455.17	2.27%	15.69%	11.49%
JP Morgan Global Government Bond Index	364.40	0.60%	1.60%	32.69%

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 dividend recapitalizations have become more common place in the buyout industry, GPs and Limited Partners are struggling to propose a mutually beneficial solution to the treatment of proceeds associated with dividend recaps. While historically, dividend recaps have been somewhat rare, the industry has witnessed a significant upward trend as a result of lower tax rates on dividends (implemented in 2003) and an unusually robust credit market. For example, according to Standard & Poor's, the volume of dividend loans reached approximately \$42.6 billion this year (as of early November 2006), which is more than 10x the \$3.3 billion volume in 2002.

Consequently, investors are now paying more attention to how GPs treat dividend recap proceeds when calculating the distributions waterfall. Historically, partnership documents allowed for the treatment of proceeds as all profit, meaning that the GP would be entitled to its 20% carry. However, this methodology may allow GPs to prematurely collect carry if the investment does not ultimately perform well. Since such proceeds are paper gains, any future decline in the company's value would mean that the Limited Partners would lose money and the GP would not be entitled to carry.

GPs insist that claw back provisions, which require the GP to return capital to investors in the event of an uneven profit distribution, ensure that profits are ultimately distributed equitably. However, Limited Partners contend that claw back provisions are net of taxes, meaning that GPs would only be required to return the capital netted on the deal instead of the full profit amount.

Industry experts have proposed some other more LP-friendly scenarios that may help to bridge the gap with GPs, including:

The GP would treat any dividend recapitalization as a return of invested capital until the investor's original contributions have been returned. Only then would the GP be entitled to carry once its Limited Partners had received all capital invested in any one deal. Some GPs claim that this methodology will act as a disincentive to engage in dividend recaps, which ultimately reduces some of the risk associated with a deal.

The GP would treat part of the proceeds as profits and the remainder as a return of capital. This is a combination of the aforementioned methodologies that would motivate GPs while preserving Limited Partner interests

Source: Private Equity Interactive

## Private Equity Investments as of November 30, 2006

Private Equity Funds	Investment Focus	Commitments USD	Market Value of Investments USD	% of Commitments	% of Absolute Private Equity Assets
<b>Clarity Partners</b>	Software & technology companies in telecom, media and internet	10'000'000	4'753'649	47.54%	0.51%
<b>Bay Partners</b>	Early stage investment in US technology companies	8'000'000	4'614'133	57.68%	0.50%
<b>GRP II</b>	Start-up and venture capital in the US and EU	15'000'000	12'239'105	81.59%	1.33%
<b>AC Private Equity Invest</b>	Private Equity with focus on Southern Europe	10'000'000	9'965'046	99.65%	1.08%
<b>Warburg Pincus Int'l (d)</b>	Venture capital, buyouts and recapitalizations in a broad range of industries world wide	105'826'250	106'352'682	100.50%	11.51%
<b>WPIP Co. LLC (d)</b>	Venture capital, buyouts and recapitalizations in a broad range of industries world wide	94'173'750	95'085'669	100.97%	10.29%
<b>Warburg Pincus Private Equity VIII</b>	Venture & growth capital and buyouts in a broad range of industries	25'000'000	25'968'150	103.87%	2.81%
<b>PAI Europe III-B</b>	Focus on buyouts, lesser extent growth capital, in Western Europe	12'338'452	15'083'094	122.24%	1.63%
<b>PAI Europe III-B3</b>	Focus on buyouts, lesser extent growth capital, in Western Europe	12'097'347	14'948'277	123.57%	1.62%
<b>CSFB Fund VII Investor, LP</b>	Venture & growth capital and buyouts in a broad range of industries	140'000'000	115'430'939	82.45%	12.50%
<b>CSFB Middle Market Value Investor, LP</b>	Focus on middle market buyouts in the US	74'925'000	62'513'693	83.44%	6.77%
<b>DLJ Merchant Banking Partners III</b>	Buyout in a broad range of industries mainly in the US	15'000'000	9'286'996	61.91%	1.01%
<b>Matlin Patterson Global Opportunities Partners “</b>	Investments into distressed companies world-wide	50'000'000	28'523'374	57.05%	3.09%
<b>Terra Firma Capita Partners</b>	Heavy-asset based and out-of-favour European companies with a potential for active value creation	89'956'932	93'730'639	104.20%	10.15%
<b>DLJ Venture Partners II</b>	Venture & growth capital in a broad range of industries world-wide	7'111'396	6'848'908	96.31%	0.74%
<b>DLJ Offshore Partners IV, LP</b>	Buyout in a broad range of industries mainly in the US and western Europe	10'000'000	2'615'916	26.16%	0.28%
<b>ADM Maculus Fund, L.P</b>	Distressed assets and undervalued situations in Asia	15'000'000	10'636'492	70.91%	1.15%
<b>ADM Maculus Fund, L.P II</b>	Distressed assets and undervalued situations in Asia	20'000'000	600'000	3.00%	0.06%
<b>Lightyear Fund I L.P.</b>	Private Equity with focus in the financial services industry	5'000'000	2'834'003	56.68%	0.31%
<b>Lightyear Fund L.P.</b>	Private Equity with focus in the financial services industry	1'000'000	177'185	17.72%	0.02%
<b>Wayzata Opp. Fund</b>	Private Equity, with focus in distressed debt	10'000'000	7'704'376	77.04%	0.83%

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	Investment Focus	Commitments USD	Market Value of Investments USD	% of Commitments	% of Absolute Private Equity Assets
<b>Apollo Investment Fund</b>	Private Equity with focus in classic, distressed and corporate buyouts	8'325'000	1'359'153	16.33%	0.15%
<b>VSS Communications</b>	Private Equity with focus in the media industry in both North America and Europe	10'000'000	2'457'560	24.58%	0.27%
<b>Blackstone Capital Partners</b>	Focus on leveraged buyouts in a diverse group of industries	15'000'000	4'656'560	31.04%	0.50%
<b>Nordic Capital Fund</b>	Investments in many industry sectors in Nordic region.	11'000'000	2'606'145	23.69%	0.28%
<b>Madison Dearborn</b>	Buyout opportunities in specific industries in US avoiding hitech	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	1'257'247	8.38%	0.14%
<b>Blue Point Capital Partners II, LP</b>	Focuses on leveraged buyouts transactions in the small-cap and mid-cap range	5'000'000	2'139'612	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	5'474'746	36.50%	0.59%
<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>Centerbridge Capital Partners</b>	Focuses on leveraged buyouts, corporate partnerships, recapitalizations, corporate buildups and distressed securities.	5'000'000	0	0.00%	0.00%
<b>Permira IV, LP</b>	Focuses on leveraged acquisitions of both private and publicly listed companies in TMT, chemicals and industrial products & services sectors.	7'700'000	0	0.00%	0.00%
<b>Cerberus Insti. Partnership LP</b>	Investments in debt securities that are senior in the capital structure and often secured.	5'000'000	500'000	10.00%	0.05%
<b>Hellman &amp; Friedman Capital Partners VI, LP</b>	Invests in a variety of transactions ranging from buyouts to restructurings and various types of minority investments.	15'000'000	0	0.00%	0.00%
<b>Total</b>		<b>902'454'127</b>	<b>651'560'029</b>	<b>72.20%</b>	<b>70.54%</b>
	<b>Total Net Assets Absolute Private Equity</b>	<b>923'683'528</b>			

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**Overall Allocation Overview as of November 30, 2006**

	Asset Value (USD)	In % of Total Assets
Private Equity Investments	651'560'029	70.54%
Absolute Return Strategies	249'935'443	27.06%
Cash	22'188'056	2.40%
<b>Total Net Assets</b>	<b>923'683'528</b>	<b>100.00 %</b>

**Private Equity Investments Review**

Total commitments as of November 30, 2006 stands at USD 902.5 million, of which USD 651.6 million have been invested. This represents 72.20% of committed capital and 70.54% of total net assets. During November, USD 9.44 million was called for new investments. Unrealized gains of USD 31.5 million were attributable to Bay Partners, PAI Europe III, Matlin Patterson GOP, WPIP, WPIP LLC, WP Private Equity and Blackstone Opp. Fund LLC. Unrealized loss of USD 11 million came from GRP II, CSFB MMV, ADM Maculuc and Terra Firma. Distributions of USD 8.5 million came from Bay Partners, PAI Europe III, CSFB MMV, WPIP, WPIP LLC, WP Private Equity VIII, CSFB Fund VII, Lightyear Fund I and CFG BC IX SPV, LLC. Finally, USD 536'042 of recallable ROC was attributable to DLJ Offshore, CSFB Fund VII, Lightyear Fund I and II and Apollo Investment Fund VI.

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