

Newsletter

General Market Review December 2006

Economic Review

December was a month that exhibited regular seasonal patterns. Due to the holiday season, retail sales typically surge, with about 10% of all retail sales booked in the final month of the year. Certain types of products, particularly jewellery, clothing and electronics, performed well during the month. The labor market was also a significant beneficiary of the up-tick in retail sales during December, as workers were brought on board to handle the large holiday volume. December employment figures appeared to be solid, with non-farm payroll growth expanding at 136,000 jobs, which was relatively in line with the last three months, and the unemployment rate held steady at 4.5%. In addition, December has historically proven to be a soft month for housing demand citing the holidays and typically inclement weather.

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 December 31, 2006

		Performance December 2006	Performance year to date	Performance since Inception
Absolute Private Equity NAV (USD)	USD 90.41	-0.53%	32.88%	69.94%
Share price (USD)	USD 84.35	6.10%	41.41%	49.24%
Premium (Discount)	-6.70%			
Morgan Stanley World Equity	1'483.58	1.95%	17.95%	13.66%
JP Morgan Global Government Bond Index	361.53	-0.79%	0.80%	31.64%

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

The exit market conditions slowly improved toward the end of 2006, with a bump in both venture-backed initial public offerings ("IPO") and venture-backed merger and acquisition ("M&A") activities, giving hope to many venture investors for continued realizations in the new year. Although the IPO activity has generally been regarded as fairly weak since the bubble burst in 2000/2001, some venture-backed companies have managed to capitalize on the small window of opportunity. According to *Thomson Financial/NVCA*, 58 companies completed IPOs in 2006. While representing an increase of only two deals over the prior year, the average deal size increased substantially from \$79.7 million in 2005 to \$91.7 million in 2006.

The fourth quarter was particularly robust, accounting for 18 deals and \$1.2 billion raised, which compares favorably to the \$697 million raised during the same period in 2005. A boost at the end of December resulted in five companies registering for IPOs between December 15th and 26th, including Clearwire Corp., BigBand Networks, Orexigen Therapeutics, Glu Mobile and Aruba Networks.

IT companies saw the greatest gain in terms of number of IPOs this year, with 20 completed, including data storage company, Isilon Systems, and healthcare website company, eHealth Inc. Notably, this represents the highest number of IT offerings since 2000, and nearly twice the number completed in all of 2005. The healthcare sector also benefited from the thin gap in the IPO window at year-end. Twenty eight healthcare companies completed IPOs in 2006, up from the twenty one completed in 2005.

Despite a slowdown in the number of venture-backed M&A deals in 2006 (404 versus 407 in 2005), the total transaction value remained on par with the previous year. This was primarily due to Google Inc.'s acquisition of YouTube Inc. for \$1.6 billion during the fourth quarter of 2006. Experts contend that the continued interest in M&A exits has been likely driven by overall strong capital performance and availability of capital from private equity firms.

According to *Thomson Financial/NVCA*, seven venture-backed M&A deals completed during the fourth quarter resulted in returns exceeding ten times invested capital, while another eight returned between four and ten times. Seven negative exits were recorded during the fourth quarter, largely believed to be legacy investments from the bubble era.

Source: Private Equity Interactive

Private Equity Investments as of December 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	5'258'022	52.58%	0.57%
Bay Partners	Early stage investment in US technology companies	8'000'000	4'614'133	57.68%	0.50%
GRP II	Start-up and venture capital in the US and EU	15'000'000	12'239'105	81.59%	1.33%
AC Private Equity Invest	Private Equity with focus on Southern Europe	10'000'000	9'965'046	99.65%	1.08%
Warburg Pincus Int'l (d)	Venture capital, buyouts and recapitalizations in a broad range of industries world wide	105'826'250	106'352'682	100.50%	11.51%
WPIP Co. LLC (d)	Venture capital, buyouts and recapitalizations in a broad range of industries world wide	94'173'750	95'085'669	100.97%	10.29%
Warburg Pincus Private Equity VIII	Venture & growth capital and buyouts in a broad range of industries	25'000'000	25'968'150	103.87%	2.81%
PAI Europe III-B	Focus on buyouts, lesser extent growth capital, in Western Europe	12'338'452	13'381'283	108.45%	1.45%
PAI Europe III-B3	Focus on buyouts, lesser extent growth capital, in Western Europe	12'097'347	13'261'797	109.63%	1.44%
CSFB Fund VII Investor, LP	Venture & growth capital and buyouts in a broad range of industries	140'000'000	118'353'779	84.54%	12.81%
CSFB Middle Market Value Investor, LP	Focus on middle market buyouts in the US	74'925'000	62'324'730	83.18%	6.75%
DLJ Merchant Banking Partners III	Buyout in a broad range of industries mainly in the US	15'000'000	9'666'043	64.44%	1.05%
Matlin Patterson Global Opportunities Partners "	Investments into distressed companies world-wide	50'000'000	28'523'374	57.05%	3.09%
Terra Firma Capita Partners II	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%
Terra Firma Capita Partners III	Heavy-asset based and out-of-favour European companies with a potential for active value creation	12'846'200	0	0.00%	0.00%
DLJ Venture Partners II	Venture & growth capital in a broad range of industries world-wide	7'111'396	6'774'409	95.26%	0.73%
DLJ Offshore Partners IV, LP	Buyout in a broad range of industries mainly in the US and western Europe	10'000'000	3'076'358	30.76%	0.33%
ADM Maculus Fund, L.P	Distressed assets and undervalued situations in Asia	15'000'000	9'443'715	62.96%	1.02%
ADM Maculus Fund, L.P II	Distressed assets and undervalued situations in Asia	20'000'000	600'000	3.00%	0.06%
Lightyear Fund I L.P.	Private Equity with focus in the financial services industry	5'000'000	2'956'209	59.12%	0.32%
Lightyear Fund L.P.	Private Equity with focus in the financial services industry	1'000'000	177'145	17.71%	0.02%
Wayzata Opp. Fund	Private Equity, with focus in distressed debt	10'000'000	7'621'787	76.22%	0.83%

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	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	1'411'484	16.95%	0.15%
VSS Communications	Private Equity with focus in the media industry in both North America and Europe	10'000'000	2'221'481	22.21%	0.24%
Blackstone Capital Partners	Focus on leveraged buyouts in a diverse group of industries	15'000'000	5'003'946	33.36%	0.54%
Nordic Capital Fund	Investments in many industry sectors in Nordic region.	11'000'000	4'355'062	39.59%	0.47%
Madison Dearborn	Buyout opportunities in specific industries in US avoiding hightech	15'000'000	541'059	3.61%	0.06%
TPG Biotechnology Partners	Focuses on early and late-stage venture capital investment in life sciences/biotechnology industry	5'000'000	1'172'065	23.44%	0.13%
TPG Partners V.LP	Large Buyout in operating companies	15'000'000	1'728'484	11.52%	0.19%
Blue Point Capital Partners II, LP	Focuses on leveraged buyouts transactions in the small-cap and mid-cap range	5'000'000	262'997	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	6'226'035	41.51%	0.67%
Greenstone Capital Partners II, LP	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%
Centerbridge Capital Partners	Focuses on leveraged buyouts, corporate partnerships, recapitalizations, corporate buildups and distressed securities.	5'000'000	9'040	0.18%	0.00%
Permira IV, LP	Focuses on leveraged acquisitions of both private and publicly listed companies in TMT, chemicals and industrials products & services sectors.	7'700'000	629'180	8.17%	0.07%
Cerberus Insti. Partnership LP	Investments in debt securities that are senior in the capital structure and often secured.	5'000'000	500'000	10.00%	0.05%
Hellman & Friedman Capital Partners VI, LP	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%
Total		915'300'327	653'919'750	71.44%	70.79%
	Total Net Assets Absolute Private Equity	913'851'457			

Overall Allocation Overview as of December 31, 2006

	Asset Value (USD)	In % of Total Assets
Private Equity Investments	653'919'750	71.56%
Absolute Return Strategies	258'516'183	28.29%
Cash	1'415'524	0.15%
Total Net Assets	913'851'457	100.00 %

Private Equity Investments Review

Total commitments as of December 31, 2006 stands at USD 915.3 million, of which USD 653.9 million have been invested. This represents 71.44% of committed capital and 70.79% of total net assets. During December, USD 8 million was called for new investments. Unrealized gains of USD 6.8 million were attributable to Clarity Partners, DLJ MB III, CSFB Fund VII, Apollo Inv.Fund VI, LP, TPG Partners V, LP, CFG BC IX SPV, LLC and Centerbridge Capital Partners. Unrealized loss of USD 2.7 million came from DLJ Offshore, VSS Communications, Wayzata Opp. Fund LLC and Blue Point Capital Partners II, SPV, LLC. Distributions of USD 8 million came from PAI Europe III, CSFB MMV, DLJ MB III, DLJ VP II, ADM Maculuc and CSFB Fund VII. Finally, USD 1.9 million of recallable ROC was attributable to CSFB Fund VII, VSS Communications, Nordic Capital fund VI and CFG BC IX SPV, LLC.

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