

Newsletter

General Market Review January 2007

Economic Review

The New Year kicked off with a thud, as falling commodity prices and rising bond yields sent the majority of market indexes into the red during early January. By month-end, however, oil prices had recovered somewhat and signals of strong economic growth spurred a modest rally, helping the MSCI All Country Europe Index recover from a -0.54% intra-month loss to return +1.78% for the month. Despite the rocky start to the month, many of the trends from the final few months in 2006 carried over into January, such as strong returns in manufacturing, materials and industrials and negative performance within the energy sector due to a -4.8% decline in oil prices.

From a macro perspective, signs of strengthening economic growth in both the US and UK spurred inflation concerns. In the UK, a surge in housing prices led to a surprise interest rate hike by the Bank of England (from 5% to 5.25%). The rate hike combined with falling commodity prices led to flat returns for UK equities and negative performance for UK bonds. Inflation concerns in the US also pushed bond yields higher during January, which led to a 2% appreciation by the Dollar versus the Yen and Euro. The rise in the Dollar was another contributing factor to the strong performance for stocks in Europe.

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.

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Investment Performance as of January 31, 2007

		Performance January 2007	Performance year to date	Performance since Inception
Absolute Private Equity NAV (USD)	USD 91.35	1.04%	1.04%	71.71%
Share price (USD)	USD 90.00	6.70%	6.70%	59.24%
Premium (Discount)	-1.48%			
Morgan Stanley World Equity	1'500.23	1.12%	1.12%	14.94%
JP Morgan Global Government Bond Index	360.60	-0.26%	-0.26%	31.30%

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 European private equity market continued its strong performance in 2006, with the total value of private equity-backed deals in Europe soaring to another record in the final quarter of 2006, rising by more than €10.0 billion to €55.7 billion. The record third and final quarters drove the total value of European private equity transactions for 2006 to €178.0 billion, a 41.3% increase over €126.0 billion in 2005. Large buyouts continued to drive the increase with the total value of European buyouts reaching €168.0 billion in 2006, up 42.4% from the 2005 level of €117.9 billion. The record fundraising in Europe was driven by the increasing asset allocation by limited partners as well as reinvestments from cash distributions made over the year. The rise in interest of limited partners was contributed by the increased understanding of the asset class and the growing public attention.

The year 2006 experienced a wave of very large buyout deals that drove the market to higher levels. January 2006 saw the completion of Europe's first €10.0 billion deal, the buyout of TDC by a consortium including KKR, Permira, Providence Equity Partners, Blackstone and Apax. Other large buyout deals during the year were the €8.3 billion acquisition of Philips Semiconductors, the €8.7 billion purchase of VNU World Directories, the €3.5 billion buyout of Eircom Group and the €3.3 billion buyout of Brenntag.

There have been quite a few early stage investments during 2006. One of the largest early stage deals of the year was the estimated €100.0 million investment in Synesis by a group involving Warburg Pincus, the Royal Bank of Scotland and JP Morgan. Other large deals include the €43.0 million investment in Chroma Therapeutics by a consortium of British investors and the €42.0 million investment in Cerenis Therapeutics by a consortium of venture capital firms including Sofinnova and EDF Ventures. Strong exit activity in Europe and a positive economic climate coupled with continued availability of debt for buyouts led to the overall vibrancy in the private equity sector in the region. European venture-backed companies completed a total of 91 IPOs in 2006, reaching the highest annual level since 2000 (183 IPOs) and outpacing US liquidity activity in the same period. However, the total amount of capital raised by these IPOs was only €1.8 billion, a 19.0% decline from the €2.2 billion raised by IPOs in 2005.

Source: Private Equity Interactive

Private Equity Investments as of January 31, 2007

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	4'814'133	60.18%	0.52%
GRP II	Start-up and venture capital in the US and EU	15'000'000	12'539'105	83.59%	1.36%
AC Private Equity Invest	Private Equity with focus on Southern Europe	10'000'000	10'099'197	100.99%	1.09%
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%	11.52%
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%	10.30%
Warburg Pincus Private Equity VIII	Venture & growth capital and buyouts in a broad range of industries	25'000'000	25'718'150	102.87%	2.79%
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	117'256'650	83.75%	12.70%
CSFB Middle Market Value Investor, LP	Focus on middle market buyouts in the US	74'925'000	62'113'308	82.90%	6.73%
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	6'800'909	95.63%	0.74%
DLJ Offshore Partners IV, LP	Buyout in a broad range of industries mainly in the US and western Europe	10'000'000	3'376'698	33.77%	0.37%
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	491'818	2.46%	0.05%
Lightyear Fund I L.P.	Private Equity with focus in the financial services industry	5'000'000	3'037'982	60.76%	0.33%
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	7'959'863	79.60%	0.86%

(Cont.)

	Investment Focus	Commitments USD	Market Value of Investments USD	% of Commit- ments	% 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	4'965'999	33.11%	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	1'088'481	21.77%	0.12%
TPG Partners V.LP	Large Buyout in operating companies	15'000'000	2'150'722	14.34%	0.23%
Blue Point Capital Partners II, LP	Focuses on leveraged buyouts transactions in the small-cap and mid-cap range	5'000'000	264'592	0.00%	0.00%
The Fourth Cinven Fund	Focuses on large European buyouts, typically being the lead investor in each transaction	15'000'000	2'304'300	15.36%	0.25%
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	516'102	2.06%	0.06%
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 industrial 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%
TPG Star L.P.	Investments in growth equity, small buyout, recap and venture deals in divers sectors across the world.	5'000'000	217'520	4.35%	0.02%
Total		920'300'327	656'489'238	71.33%	71.10%
Total Net Assets Absolute Private Equity		923'359'557			

Overall Allocation Overview as of January 31, 2007

	Asset Value (USD)	In % of Total Assets
Private Equity Investments	656'489'238	71.10%
Absolute Return Strategies	266'361'157	28.85%
Cash	509'161	0.06%
Total Net Assets	923'359'557	100.00 %

Private Equity Investments Review

Total commitments as of January 31, 2007 stands at USD 920.3 million, of which USD 656.5 million have been invested. This represents 71.33% of committed capital and 71.10% of total net assets. During January, USD 3.8 million was called for new investments. Unrealized gains of USD 529'988 were attributable to AC PE Invest, Greenstone Capital Partners II, LP and Wayzata Opp. Fund LLC. Unrealized loss of USD 83'585 came from CSFB CFG SPV Investor II, LLC. Distributions of USD 1.66 million came from CSFB MMV, ADM Maculus, WP Private Equity VIII and CSFB Fund VII. Finally, USD 37'947 of callable ROC was attributable to Blackstone Capital Partners V, LP.

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