

Newsletter

General Market Review May 2007

Economic Review

May retail sales surged 1.4% over the previous month, exaggerated by the spike in gas prices. This represents the largest increase in 16 months. Similarly, gasoline prices produced another outsized gain in May's CPI (Consumer Price Index), resulting in a 0.6% increase versus the 0.4% increase in April. Average gas prices for May rose to \$3.19 per gallon from \$2.89 per gallon the prior month. The PPI (Producer Price Index) should register another strong gain in May as well, rising 0.9%, due mostly to higher energy prices and further upward pressure on food prices. The ISM Manufacturing Survey has improved materially over the last two months, with industrial production likely to rise 0.3% in May, boosted by stronger growth in manufacturing output. Housing starts, however, were expected to decline in May (forecast of 1,450K from 1,528K) given April's cycle low in building permits, which is a short run leading indicator for the following month.

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 May 2007

		Performance May 2007	Performance year to date	Performance since Inception
Absolute Private Equity NAV (USD)	USD 108.35	7.68%	18.42%	103.67%
Share price (USD)	USD 99.70	2.51%	18.20%	76.40%
Premium (Discount)	-7.98%			
Morgan Stanley World Equity	1'616.87	2.47%	8.98%	23.87%
JP Morgan Global Government Bond Index	360.535	-0.92%	-0.28%	31.28%

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

Results of the *Private Equity Analyst Terms & Conditions Report*, covering funds raised from 2004 to 2007, illustrate Limited Partners' ("LPs") increased ability over time to gain concessions from General Partners ("GPs") on a number of issues, most importantly key man provisions, management fees and transaction fees.

Key Man Provisions: The key man is a clause that attempts to ensure proper corporate governance. The key man allows LPs to determine which members of the management team are crucial to the success of the fund and gives them the right to suspend investment activities or close the fund should those individuals resign, retire or fail to commit the majority of their professional time to the GP. According to the survey, key man provisions have become largely standard throughout the industry, with 90% of the sample of buyout funds and 79% of the sample venture funds including key man clauses in their documents.

Management Fees: Management fees, which are paid annually as a percentage of capital commitments, are designed to cover the basic costs of running a fund such as overhead, salaries, etc. Historically, the industry standard management fee has been 2% for buyout funds and 2.5% for venture capital funds, which is further reinforced by results of the recent survey. This term has been an area of concern for many LPs as fund sizes increase, particularly on the buyout side. For example, a \$1 billion fund with a 2% management fee would generate \$20 million in fees, while a \$5 billion fund would generate substantially more, approximately \$100 million. Many LPs believe that fees are rising much faster than the underlying expenses they are meant to cover.

Transaction Fees: Transaction fees refer to the fees GPs charge their underlying portfolio companies for consulting and board activities. This practice is particularly common among buyout firms, who tend to split the transaction fees 50:50 with LPs. However, as deals have increased in size, LPs argue that they deserve more of the additional revenue generated by these ancillary fees. Consequently, the survey indicates that many buyout firms have migrated toward an 80:20 split, which gives 80% of the fee income to investors.

Of course, there remain a handful of exceptional groups with consistently extraordinary performance who refuse to negotiate on terms. However, despite the influx of capital in the private equity market, LPs remain receptive towards negotiation.

Sources: LBO Wire

Private Equity Investments as of May 31, 2007

Private Equity Funds	Investment Focus	Commit- ments USD	Market Value of Investments USD	% of Commit- ments	% of Absolute Private Equity Assets
Clarity Partners	Software & technology companies in telecom, media and internet	10'000'000	5'450'084	54.50%	0.50%
Bay Partners	Early stage investment in US technology companies	8'000'000	4'622'599	57.78%	0.42%
GRP II	Start-up and venture capital in the US and EU	15'000'000	14'606'149	97.37%	1.33%
AC Private Equity Invest	Private Equity with focus on Southern Europe	10'000'000	10'641'818	106.42%	0.97%
Warburg Pincus Int'l	Venture capital, buyouts and recapitalizations in a broad range of industries world wide	105'826'250	143'046'263	135.17%	13.06%
WPIP Co. LLC	Venture capital, buyouts and recapitalizations in a broad range of industries world wide	94'173'750	127'738'893	135.64%	11.66%
Warburg Pincus Private Equity VIII	Venture & growth capital and buyouts in a broad range of industries	25'000'000	31'947'018	127.79%	2.92%
PAI Europe III-B	Focus on buyouts, lesser extent growth capital, in Western Europe	12'426'848	13'885'301	111.74%	1.27%
PAI Europe III-B3	Focus on buyouts, lesser extent growth capital, in Western Europe	12'184'946	13'761'295	112.94%	1.26%
CSFB Fund Investments VII Holdings, L.P.	Venture & growth capital and buyouts in a broad range of industries	140'000'000	100'537'276	71.81%	9.18%
CSFB Middle Market Value Investor, L.P.	Focus on middle market buyouts in the US	74'925'000	57'969'413	77.37%	5.29%
DLJ Merchant Banking Partners III	Buyout in a broad range of industries mainly in the US	15'000'000	9'281'932	61.88%	0.85%
Absolute Fiduciary Global Opportunities Partners, L.P.	Investments into distressed companies world-wide	50'000'000	30'149'377	60.30%	2.75%
Terra Firma Capita Partners II, L.P.	Heavy-asset based and out-of-favour European companies with a potential for active value creation	93'631'151	94'282'055	100.70%	8.61%
Terra Firma Capita Partners III, L.P.	Heavy-asset based and out-of-favour European companies with a potential for active value creation	13'202'247	86'107	0.65%	0.01%
DLJ Venture Partners II	Venture & growth capital in a broad range of industries world-wide	7'111'396	5'661'887	79.62%	0.52%
DLJ Offshore Partners IV, L.P.	Buyout in a broad range of industries mainly in the US and western Europe	10'000'000	3'599'991	36.00%	0.33%
The ADM Maculus Fund, L.P.	Distressed assets and undervalued situations in Asia	15'000'000	7'011'158	46.74%	0.64%
ADM Maculus Fund III, L.P.	Distressed assets and undervalued situations in Asia	20'000'000	5'321'818	26.61%	0.49%

(Cont.)

Private Equity Funds	Investment Focus	Commit- ments USD	Market Value of Investments USD	% of Commit- ments	% of Absolute Private Equity Assets
The Lightyear Fund L.P.	Private Equity with focus in the financial services industry	5'000'000	2'863'916	57.28%	0.26%
Lightyear Fund II L.P.	Private Equity with focus in the financial services industry	1'000'000	294'858	29.49%	0.03%
Wayzata Opportunities Fund LLC	Private Equity, with focus in distressed debt	10'000'000	8'769'863	87.70%	0.80%
Apollo Investment Fund, VI, L.P.	Private Equity with focus in classic, distressed and corporate buyouts	8'325'000	2'962'241	35.58%	0.27%
VSS Communications Parallel Partners IV, L.P.	Private Equity with focus in the media industry in both North America and Europe	10'000'000	4'042'013	40.42%	0.37%
Blackstone Capital Partners V, L.P.	Focus on leveraged buyouts in a diverse group of industries	15'000'000	6'959'171	46.39%	0.64%
Nordic Capital Fund VI	Investments in many industry sectors in Nordic region.	11'960'023	4'523'281	37.82%	0.41%
Madison Dearborn Capital Partners V, L.P.	Buyout opportunities in specific industries in US avoiding hightech	15'000'000	3'774'720	25.16%	0.34%
CSFB CFGI SPV Investros II, LLC	Focuses on early and late-stage venture capital investment in life sciences/biotechnology industry	5'000'000	1'071'757	21.44%	0.10%
Credit Suisse/ CFGI TV SPV, L.P.	Large Buyout in operating companies	15'000'000	3'765'492	25.10%	0.34%
Credit Suisse/CFG I BP II SPV, LLC	Focuses on leveraged buyouts transactions in the small-cap and mid-cap range	5'000'000	1'279'147	0.00%	0.00%
The Fourth Cinven Fund	Focuses on large European buyouts, typically being the lead investor in each transaction	16'635'402	3'874'552	23.29%	0.35%
Credit Suisse/CFG BC IX SPV, LLC	Participates in growth capital buyouts and restructurings	15'000'000	9'001'035	60.01%	0.82%
Greenstone Capital Partners I, L.P.	Investments in established Small-Cap Businesses, co-invest in larger business in Australia and New Zealand	26'024'001	4'308'230	16.55%	0.39%
Centerbridge Capital Partners	Focuses on leveraged buyouts, corporate partnerships, recapitalizations, corporate buildups and distressed securities.	5'000'000	138'594	2.77%	0.01%
Permira IV, L.P.	Focuses on leveraged acquisitions of listed companies in TMT, chemicals and industrial products & services sectors.	8'095'652	1'526'674	18.86%	0.14%
Cerberus Institutional Partnership LP(series 4)	Investments in debt securities that are senior in the capital structure and often secured.	5'000'000	767'448	15.35%	0.07%
Hellman & Friedman Capital Partners VI, L.P.	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	146'415	2.93%	0.01%

(Cont.)

Private Equity Funds	Investment Focus	Commit- ments USD	Market Value of Investments USD	% of Commit- ments	% of Absolute Private Equity Assets
The Resolute Fund II, L.P.	The fund will make leveraged acquisitions of well managed and consistently profitable business in the middle market.	10'000'000	490'623	4.91%	0.04%
Trident IV, L.P.	Focuses on growth equity and buyout acquisitions of companies in the insurance/finance services industry	5'000'000	477'530	9.55%	0.04%
Providence Equity Partners VI, L.P.	Focuses on leveraged buyout, growth capital, consolidations and under-managed companies in the medly/communications industries.	15'000'000	1'440'056	9.60%	0.13%
Point 406 Ventures I, L.P.	The Fund will invest in IT Security and IT Infrastructure; Technology-enable Business Services; and Next Generation Software	5'000'000	843'750	16.88%	0.08%
Silver Lake Partners III, L.P.	Focuses on Technology, technology-enabled and related growth industries.	15'000'000	0	0.00%	0.00%
Apax Europe VII-A, L.P.	Focuses on buyout acquisitions, opportunistically growth capital investments and to an even lesser extent, PIPE transactions.	15'000'000	0	0.00%	0.00%
Matlin Patterson Global Opportunities Partners III, L.P.	Investments into distressed companies world-wide	10'000'000	0	0.00%	0.00%
Beacon India Private Equity Fund, L.P.	Private Equity with focus on India	5'000'000	696'517	13.93%	0.06%
Arch Capital	Insurance and financial services company that provides reinsurance and insurance products on a worldwide basis.	0	0	—	—
Silver Lake Sumeru Fund L.P.	Focuses primarily on investing in middle market companies in the technology, technology-enabled and related growth industries.	10'000'000	0	0.00%	0.00%
The Bay City Capital Fund V, L.P.	Investments into Biopharmaceutical, drug discovery, medical device and medical diagnostic industries	5'000'000	0	0.00%	0.00%
HIG Europe Capital Partners IV, L.P.	Focuses on private equity, growth capital and other equity-related investments in lower middle-market companies primarily in Europe.	15'000'000	0	0.00%	0.00%
Total		1'038'521'666	743'618'318	71.60%	67.90%
Total Net Assets Absolute Private Equity		1'095'187'220			

Overall Allocation Overview as of May 31, 2007

	Asset Value (USD)	In % of Total Assets
Private Equity Investments	743'618'318	67.90%
Absolute Return Strategies	214'318'130	19.57%
Cash	137'250'773	12.53%
Total Net Assets	1'095'187'220	100.00 %

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Private Equity Investments Review

Total commitments as of May 2007 stand at USD 1'039 million, of which USD 743.6 million have been invested. This represents 71.60% of committed capital and 67.90% of total net assets. During May, USD 11.6 million was called for new investments. Unrealized gains of USD 72.5 million were attributable to Terra Firma Cap. Partners II and III, WPIP, WPIP LLC, WP Private Equity VIII and Greenstone Capital Partners II, LP. Unrealized loss of USD 15.6 million came from GRP II, DLJ MB III, DLJ VP II and Arch Capital. Distributions of USD 11.1 million came from GRP II, CSFB MMV, DLJ MB III, AC PE Invest, Arch Capital, ADM Maculus, WPIP, WPIP LLC, WP Private Equity VIII, The Lightyear Fund I, LP and Trident IV, LP and recallable ROC of 1.12 million from Madison Dearborn Capital Partners V, LP, TPG Partners V, LP and The Resolute Fund II, LP.

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