Newsletter

General Market Review June 2005

The U.S. GDP grew at an annual rate of 3.8% in Q1 2005 (upwardly revised from an original estimate of 3.5%), matching the Q4 2004 growth rate. This growth was boosted primarily by the rise in exports and business inventory investments, particularly equipment and software, as well as stronger residential investments.

Energy and inflation once again prevailed as the most important driving equity markets in June. Oil rose throughout most of the month reaching a new high above US$ 60.— per barrel before pulling back. Global equity markets, particularly outside of the U.S., shrugged off the oil news and consistently rose throughout June; the S&P was flat, while the FTSE was + 3.0 %, the DAX 2.8 %, the CAC + 2.6 % and the Nikkei +2.7 %.

Interest rates fell in June as probabilities increased that Europe and even the U.S. may need to cut interest rates in the future to avoid an economic slowdown. The tug of war between inflation and growth has investors evenly divided as to where the economy will go from here.

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 June 30, 2005

		Performance June 2005	Performance year to date	Performance since Inception
Absolute Private Equity NAV (USD)	USD 64.83	1.53%	8.99%	21.86%
Share price (USD)	USD 56.50	11.22%	31.40%	-0.04%
Premium (Discount)	(-12.85%)			
Morgan Stanley World Equity	1’148.81	0.71%	-1.76%	-11.98%
JP Morgan Global Government Bond Index	359.178	0.88%	3.83%	30.79%

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

Private equity markets have been in a state of heightened activity, posting several profitable exits and high profile deals. There has been a huge influx of funds, strategic buyers and attractive investment opportunities, which have in turn given rise to mega size buyout funds and very strong deal flow to match it. In the first quarter of 2005, U.S. buyout firms raised $15.4 billion, which was almost three times the amount raised during Q1 2004. Several well-known players have been engaged in raising funds this year. Of the $15.4 billion raised during Q1 2005, almost 64% was raised by just five firms. For example, Goldman Sachs raised $8.5 billion for its fifth fund, while Oak Hill closed on a $2.5 billion fund. Others include Advent International, which raised a $2.3 billion fund, and Code, Hennessy & Simmons, which raised $1.3 billion.

Venture-backed merger and acquisition activity remained stable in the first half of 2005. During Q1 2005, a total of 78 deals were completed, which is consistent with Q1 2004’s M&A activity level. Disclosed transaction value amounted to $4.2 billion for 45 deals, a 7.9% increase in aggregate value, compared to $3.9 billion made for 44 deals in Q1 2004. There has been a corresponding increase in the average M&A deal value from $88.6 million in Q1 2004 to $93.6 million in Q1 2005.

Private equity fundraising in Europe totaled $8.5 billion in Q1 2005, a 67.3% increase over the $5.1 billion raised in Q1 2004. The top fund raisers were Barclays Private Equity, with $2.1 billion for its second fund, followed by Doughty Hanson & Co., which raised $1.3 billion. In April 2005, Paris-based PAI Partners raised $3.5 billion for its fourth fund. Despite this increase in flow of funds, the European markets saw a decline in investment activity. During Q1 2005, only $1.8 billion was invested in European companies, a drop of 56.2% from the corresponding quarter of 2004 and the only quarter since 2001 with investments below $3.0 billion. In terms of sector, the non-high technology sector topped with 43.2% of investments, followed by the medical and life sciences sector and the computer-related sector with 15.8% each, respectively. While buyout and expansion stage companies were in favor during the first half of 2005, on the whole buyout and expansion stage investments decreased by 59.7%. Similarly, early stage and start up investments decreased by 8.0% when compared to corresponding Q1 2004 figures.

Asian markets are attracting considerable attention this year with several large private equity firms looking to tap the high returns that these markets seem to promise. Although Japan and South Korea absorb the bulk of private equity capital, China and India are growing as the latest investment hotspots as investors have begun to raise funds exclusively dedicated to deals in these countries. Capital is flowing in from newcomers to the Asian region such as Blackstone Group, which is expected to dedicate $1.0 billion to invest in India. A number of veteran Asia-focused private-equity players continue to be interested in the region as well. For example, CVC Capital Partners just raised over $1.9 billion in new assets for its second fund. This is more than double their first Asia fund, which was launched in 2000 with $750.0 million. A number of other private equity shops, including JP Morgan Partners, Carlyle Group and Newbridge Capital, are also raising their second Asia-focused funds, each targeting $1.0 billion. U.S. based VC group, Softbank Capital, has a dedicated $640.0 million Asia Infrastructure Fund that is exclusively designed for investment opportunities in China. DCM (Doll Capital Management) has partnered with Chinese VC firm, Legend Capital, and will invest in the latter's $55.0 million fund.

Overall Allocation Overview as of June 30, 2005

	Asset Value (USD)	In % of Total Assets
Private Equity Investments	482'467'472	65.64%
Absolute Return Strategies	99'849'172	13.58%
Cash	152'711'295	20.78%
Total Net Assets Absolute Private Equity	**735'027'939**	**100.00 %**

Private Equity Investments as of June 30, 2005

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	3'215'076	32.15%	0.44%
Bay Partners	Early stage investment in US technology companies	8'000'000	3'419'336	42.74%	0.47%
GRP II	Start-up and venture capital in the US and EU	15'000'000	8'140'767	54.27%	1.12%
AC Private Equity Invest	Private Equity with focus on Southern Europe	10'000'000	7'813'589	78.14%	1.07%
Warburg Pincus International Partners, LP and affiliates	Venture capital, buyouts and recapitalizations in a broad range of industries world wide	200'000'000	151'911'105	76.46%	20.95%
Warburg Pincus Private Equity VIII	Venture & growth capital and buyouts in a broad range of industries	25'000'000	20'370'527	81.48%	2.79%
PAI III Europe	Focus on buyouts, lesser extent growth capital, in Western Europe	25'179'072	25'072'108	99.58%	3.43%
CSFB Fund VII Investor, LP	Venture & growth capital and buyouts in a broad range of industries	140'000'000	94'002'327	67.14%	12.88%
CSFB Middle Market Value Investor, LP	Focus on middle market buyouts in the US	74'925'000	53'070'910	70.83%	7.27%
DLJ Merchant Banking Partners III	Buyout in a broad range of industries mainly in the US	15'000'000	9'809'180	65.39%	1.34%
Matlin Patterson Global Opportunities Partners "	Investments into distressed companies world-wide	50'000'000	41'408'280	82.82%	5.67%
Terra Firma Capital Partners	Heavy-asset based and out-of-favour European companies with a potential for active value creation	97'942'146	45'781'780	46.74%	6.27%
DLJ Venture Partners II	Venture & growth capital in a broad range of industries world-wide	7'111'396	4'838'407	68.04%	0.66%
ADM Maculus Fund, L.P.	Distressed assets and undervalued situations in Asia	15'000'000	12'614'080	84.09%	1.73%
	Total	**693'157'614**	**482'467'472**	**69.60%**	**66.10%**

Private Equity Investments Review

The total commitments as of June 30, 2005 stand at USD 693.2 million, of which USD 482.5 million have been invested. This represents 69.60% of committed capital and 66.10% of total net assets. During June USD 15.8 million were called for new investments. Unrealized gains of USD 14.8 million were attributable to Clarity Partners, PAI Europe III, DLJ MB III, Terra Firma, WP Private Equity VII and CSFB Fund VII. Bay Partners and WPIP show an unrealized loss of USD 4.2 million. Distributions of total USD 1.5 million came from DLJ MB III and WP Private Equity VIII.

Valor:	1111333
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