

Newsletter

General Market Review July 2005

Strong data on durable goods orders, second quarter GDP and various jobs reports makes it appear that the U.S. economy is firing on all cylinders. The Chicago Purchasing Managers' Manufacturing Index increased from 53.6 to 63.5, well ahead of the consensus estimate of 55.0. Durable goods orders for June were up a very strong 1.4% vs. consensus -1.0%, while GDP growth for the second quarter came in as expected at 3.4%. Finally, on the labour front, the Labour Department reported the largest jobs gain in five months, with non-farm payrolls up by 207,000 in July; somewhat higher than the consensus estimate of 180,000. With modestly lower than expected initial unemployment claims (312,000 vs. 315,000), a sharp increase in hourly earnings (0.4% vs. consensus 0.2%) and an unemployment rate holding steady at 5.0%, the economy appears to grow slightly above its potential speed limit. As such, a continued Fed action is seen as inevitable. Despite the strong economic indicators, consumer confidence fell in July back to the level reported in May after a sharp increase in June. The Consumer Index fell to 103.2 for the month, down from 105.8 in June, most likely reflecting continued consumer concern over higher gasoline prices.

Sources: CSFB Research & Analytics; The Economist

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 July 31, 2005

		Performance July 2005	Performance year to date	Performance since Inception
Absolute Private Equity NAV (USD)	USD 64.88	0.87%	9.08%	21.95%
Share price (USD)	USD 59.00	4.42%	37.21%	4.39%
Premium (Discount)	-9.06%			
Morgan Stanley World Equity	1'188.17	3.43%	1.61%	-8.97%
JP Morgan Global Government Bond Index	356.405	-0.77%	3.03%	29.78%

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 firms are selling to each other, as high prices keep corporate buyers and the public markets away. The volume of sales among private equity firms, or secondary buyouts, has increased significantly over the last few years and shows no sign of slowing down. In 2004, there were 266 such deals, up from 111 in 2003. And there have already been 151 secondary buyouts reported in 2005, with a combined value of \$33.2 billion and representing about 16% of all private equity deals done, according to data from research firm Dealogic. The deals range from the \$47 million sale of American Capital Strategies-owned Roadrunner Freight Systems Inc. to Washington D.C.-based Thayer Capital Partners, to the \$3.2 billion sale of hotel group Wyndham International Inc. by a consortium comprised of Apollo Real Estate Advisors LP, Apollo Management LP, Thomas H. Lee Capital LLC, Beacon Capital Partners Inc. and Blackstone Group.

The availability of cheap money and the competition between hedge funds and private equity firms trying to deploy massive amounts of capital has driven up prices, and strategic buyers are staying away, industry experts say. But public scrutiny may be the only differentiating factor between many private equity buyers and their listed counterparts. Because transaction multiples have escalated, there is increasing pressure on private equity buyers to find more operational improvements and to rationalize expenses to get enhanced growth at the bottom line and not just the top line. Private equity firms can no longer rely on financial engineering alone.

Because of shareholder returns expectations, chief executive officers of public companies are hesitant to overpay, and absolutely refuse to do so if their business unit leaders can't convince their board that they are investing wisely and can effect successful integration. Moreover, the pressure on public companies has increased significantly with Sarbanes-Oxley, which made mergers and acquisitions a personal matter for chief executives, who have to certify annually that internal controls are in place to detect risks and exposures facing the company. Those at the top have to understand and be comfortable with the internal controls of any potential acquisition target, as well as being satisfied that the companies are being combined in a way that maximizes returns.

Source: Private Equity Interactive

Overall Allocation Overview as of July 31, 2005

	Asset Value (USD)	In % of Total Assets
Private Equity Investments	477'619'698	64.39%
Absolute Return Strategies	122'526'027	16.51%
Cash	141'660'994	19.10%
Total Net Assets		
Absolute Private Equity	741'806'719	100.00 %

Private Equity Investments as of July 31, 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	3'538'440	35.38%	0.48%
Bay Partners	Early stage investment in US technology companies	8'000'000	3'419'336	42.74%	0.46%
GRP II	Start-up and venture capital in the US and EU	15'000'000	8'628'267	57.52%	1.16%
AC Private Equity Invest	Private Equity with focus on Southern Europe	10'000'000	8'011'590	80.12%	1.08%
Warburg Pincus International Partners, LP and affiliates	Venture capital, buyouts and recapitalizations in a broad range of industries world wide	200'000'000	149'259'683	74.63%	20.12%
Warburg Pincus Private Equity VIII	Venture & growth capital and buyouts in a broad range of industries	25'000'000	18'894'083	75.58%	2.55%
PAI III Europe	Focus on buyouts, lesser extent growth capital, in Western Europe	24'450'558	23'787'057	97.29%	3.21%
CSFB Fund VII Investor, LP	Venture & growth capital and buyouts in a broad range of industries	140'000'000	94'596'469	67.57%	12.75%
CSFB Middle Market Value Investor, LP	Focus on middle market buyouts in the US	74'925'000	52'273'432	69.77%	7.05%
DLJ Merchant Banking Partners III	Buyout in a broad range of industries mainly in the US	15'000'000	10'112'586	67.42%	1.36%
Matlin Patterson Global Opportunities Partners "	Investments into distressed companies world-wide	50'000'000	44'020'269	88.04%	5.93%
Terra Firma Capital Partners	Heavy-asset based and out-of-favour European companies with a potential for active value creation	90'967'454	43'400'584	47.71%	5.85%
DLJ Venture Partners II	Venture & growth capital in a broad range of industries world-wide	7'111'396	5'063'822	71.21%	0.68%
ADM Maculus Fund, L.P.	Distressed assets and undervalued situations in Asia	15'000'000	12'614'080	84.09%	1.70%
Total		685'454'408	477'619'698	69.68%	64.39%

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Private Equity Investments Review

The total commitments as of July 31, 2005 stand at USD 685.5 million, of which USD 477.6 million have been invested. This represents 69.68% of committed capital and 64.39% of total net assets. During July USD 3.9 million were called for new investments. Unrealized gains of USD 3 million were attributable to Matlin Patterson Global Opportunities Partners, DLJ Venture Partners II and AC Private Equity Invest. CSFB Middle Market Value Investor and WPIP LLC show an unrealized loss of USD 5 million. Distributions of total USD 6.7 million came from PAI Europe III, DLJ MB III, Terra Firma Capital Partners and WP Private Equity VIII.

Valor:

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Bloomberg ticker:

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