

Newsletter

General Market Review July 2007

Economic Review

Analysts predicted a moderate rebound in retail sales during the month after witnessing a steep decline in June, with total sales up by 0.3%, led by a rebound in furniture, electronics and building materials. The headline CPI (Consumer Price Index) moved up only 0.1% in July. While oil prices have increased, retail gasoline prices have declined. Housing starts hit a new cycle low in July (forecast of 1,380k). Permits ran below starts in June, which is typically a sign that starts will decline the following month. Consumer sentiment, according to the University of Michigan Consumer Sentiment Survey, rebounded to 90.4 for July, up from 85.3 in June and 88.3 in May. Industrial Production edged up by 0.2% in July. A drop in utility output, a function of unseasonably cool weather in July, depressed the headline, while manufacturing output, which excludes weather sensitive utilities, increased sharply in July.

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 July 2007

		Performance July 2007	Performance year to date	Performance since Inception
Absolute Private Equity NAV (USD)	USD 114.36	1.89%	24.98%	114.96%
Share price (USD)	USD 109.00	2.16%	29.22%	92.85%
Premium (Discount)	-4.69%			
Morgan Stanley World Equity	1'565.81	-2.28%	5.54%	19.96%
JP Morgan Global Government Bond Index	363.488	1.33%	0.54%	32.36%

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

While market conditions have been excellent for private equity in recent years, the industry has experienced volatility in the credit market of late. Although a significant downturn in the private equity market is not expected, it is prudent to consider the current conditions of the credit market and its impact on private equity investment.

In recent years, lenders have eagerly financed private equity transactions with buyouts generating 18% of all junk bond issuance so far this year, a substantial increase from 5% in 2003 and 2004. Moreover, the abundance of liquidity drove buyout firms to more aggressively structure debt for their portfolio companies. As a result, lenders agreed to covenant light bonds and loans with pay-in-kind toggle provisions (i.e.; companies could elect to postpone debt payments).

Recently, however, credit markets have tightened as lenders react to bad news in subprime mortgages. This resulted in a significant increase in the number of delayed or cancelled transactions. Most notably, JP Morgan Chase and a consortium of banks cancelled plans in mid-July to sell \$12 million worth of bonds and loans to finance Cerberus Capital Management's buyout of U.S. automaker Chrysler.

A less liquid credit market will likely result in a decline in returns as easy financing tools such as dividend recapitalizations and quick exits may no longer be readily available. Companies may have to pay off the full value of their debt instruments at maturity, rather than recapping the company with additional debt. Additionally, exits may become more difficult as new buyers may not be able to convince lenders to provide the same amount of leverage that the companies already carry.

Despite the drawbacks associated with a tightening credit market, many investors hope that the changed environment will encourage fund managers to take a more measured approach to deals. As yields increase, private equity firms will either have to seek companies with stronger cash flow or reduce their use of leverage. A reduction in the amount of leverage would require greater equity stakes per transaction and thereby encourage investment in smaller companies, rather than the recent trend toward mega buyout deals. Moreover, competition from strategic buyers may increase as they are able to utilize their stock to fund acquisitions, relying less heavily on debt. Many investors believe that this combination of factors could lead to a slow down in deal flow, giving buyout firms more time to conduct thorough due diligence, as well as spend more time with existing portfolio companies.

Source: PE Interactive

Private Equity Investments as of July 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	5'682'086	56.82%	0.49%
Bay Partners	Early stage investment in US technology companies	8'000'000	4'822'599	60.28%	0.42%
GRP II	Start-up and venture capital in the US and EU	15'000'000	19'341'459	128.94%	1.67%
PAI Europe III-B	Focus on buyouts, lesser extent growth capital, in Western Europe	12'426'848	12'692'300	102.14%	1.10%
PAI Europe III-B3	Focus on buyouts, lesser extent growth capital, in Western Europe	12'184'946	12'579'096	103.23%	1.09%
CSFB Middle Market Value Investor, L.P.	Focus on middle market buyouts in the US	74'925'000	62'136'638	82.93%	5.38%
Absolute Fiduciary Global Opportunities Partners, L.P.	Investments into distressed companies world-wide	50'000'000	28'082'570	56.17%	2.43%
DLJ Merchant Banking Partners III	Buyout in a broad range of industries mainly in the US	15'000'000	8'104'778	54.03%	0.70%
DLJ Venture Partners II	Venture & growth capital in a broad range of industries world-wide	7'111'396	5'661'887	79.62%	0.49%
AC Private Equity Invest	Private Equity with focus on Southern Europe	10'000'000	10'579'743	105.80%	0.92%
Warburg Pincus Int'l	Venture capital, buyouts and recapitalizations in a broad range of industries world wide	105'826'250	139'069'923	131.41%	12.03%
WPIP Co. LLC	Venture capital, buyouts and recapitalizations in a broad range of industries world wide	94'173'750	124'200'370	131.88%	10.74%
Warburg Pincus Private Equity VIII	Venture & growth capital and buyouts in a broad range of industries	25'000'000	31'513'464	126.05%	2.73%
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	90'081'853	96.21%	7.79%
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	262'717	1.99%	0.02%
DLJ Offshore Partners IV, L.P.	Buyout in a broad range of industries mainly in the US and western Europe	10'000'000	4'646'099	46.46%	0.40%
The ADM Maculus Fund, L.P.	Distressed assets and undervalued situations in Asia	15'000'000	5'819'879	38.80%	0.50%
ADM Maculus Fund III, L.P.	Distressed assets and undervalued situations in Asia	20'000'000	6'267'840	31.34%	0.54%
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	4'197'122	16.13%	0.36%
Beacon India Private Equity Fund, L.P.	Private Equity with focus on India	5'000'000	696'517	13.93%	0.06%
Arowana Capital Australasian Micro-Cap Private Equity Fund		10'000'000	0	0.00%	0.00%
Pampa Agribusiness Fund, L.P.		15'000'000	0	0.00%	0.00%

(Cont.)

Private Equity Funds	Investment Focus	Commitments USD	Market Value of Investments USD	% of Commitments	% of Absolute Private Equity Assets
CSFB Fund Investments VII Holdings, L.P.	Venture & growth capital and buyouts in a broad range of industries	140'000'000	98'297'267	70.21%	8.50
The Lightyear Fund L.P.	Private Equity with focus in the financial services industry	5'000'000	2'798'297	55.97%	0.24
Lightyear Fund II L.P.	Private Equity with focus in the financial services industry	1'000'000	293'989	29.40%	0.03
Apollo Investment Fund, VI, L.P.	Private Equity with focus in classic, distressed and corporate buyouts	8'325'000	2'952'289	35.46%	0.26
VSS Communications Parallel Partners IV, L.P.	Private Equity with focus in the media industry in both North America and Europe	10'000'000	5'216'600	52.17%	0.45
Blackstone Capital Partners V, L.P.	Focus on leveraged buyouts in a diverse group of industries	15'000'000	7'975'392	53.17%	0.69
Nordic Capital Fund VI	Investments in many industry sectors in Nordic region.	11'960'023	7'227'577	60.43%	0.63
Wayzata Opportunities Fund LLC	Private Equity, with focus in distressed debt	10'000'000	10'111'692	101.12%	0.87
Madison Dearborn Capital Partners V, L.P.	Buyout opportunities in specific industries in US avoiding hightech	15'000'000	7'290'635	48.60%	0.63
CSFB CFGI SPV Investros II, LLC	Focuses on early and late-stage venture capital investment in life sciences/biotechnology industry	5'000'000	1'278'508	25.57%	0.11
The Fourth Cinven Fund	Focuses on large European buyouts, typically being the lead investor in each transaction	16'635'402	5'695'334	34.24%	0.49
Credit Suisse/CFG BP II SPV, LLC	Focuses on leveraged buyouts transactions in the small-cap and mid-cap range	5'000'000	2'138'274	0.00%	0.00
Credit Suisse/ CFGI TV SPV, L.P.	Large Buyout in operating companies	15'000'000	5'610'182	37.40%	0.49
Credit Suisse/CFG BC IX SPV, LLC	Participates in growth capital buyouts and restructurings	15'000'000	9'062'165	60.41%	0.78
Centerbridge Capital Partners	Focuses on leveraged buyouts, corporate partnerships, recapitalizations, corporate buildups and distressed securities.	5'000'000	289'249	5.78%	0.03
Permira IV, L.P.	Focuses on leveraged acquisitions of listed companies in TMT, chemicals and industrial products & services sectors.	8'095'652	2'046'264	25.28%	0.18
Cerberus Institutional Partnership LP(series 4)	Investments in debt securities that are senior in the capital structure and often secured.	5'000'000	1'295'476	25.91%	0.11
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	2'606'905	17.38%	0.23
TPG Star L.P.	Investments in growth equity, small buyout, recap and venture deals in divers sectors across the world.	5'000'000	422'946	8.46%	0.04

(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	256'676	2.57%	0.02%
Trident IV, L.P.	Focuses on growth equity and buyout acquisitions of companies in the insurance/finance services industry	5'000'000	399'977	8.00%	0.03%
Providence Equity Partners VI, L.P.	Focuses on leveraged buyout, growth capital, consolidations and under-managed companies in the medi/communications industries.	15'000'000	1'952'284	13.02%	0.17%
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	805'116	16.10%	0.07%
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	1'173'594	7.82%	0.10%
Matlin Patterson Global Opportunities Partners III, L.P.	Investments into distressed companies world-wide	10'000'000	200'000	2.00%	0.02%
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.	12'402'303	430'970	3.47%	0.04%
Arowana Capital Australasian Micro-Cap Private Equity Fund	Focuses on Private Equity listed and unlisted growth companies, micro-cap sector, in Australia and NZ, Singapore and HK.	0			
Total		1'060'923'969	754'266'596	71.10%	65.25%
Total Net Assets Absolute Private Equity		1'155'909'448			

Overall Allocation Overview as of July 31, 2007

	Asset Value (USD)	In % of Total Assets
Private Equity Investments	754'266'596	65.25%
Absolute Return Strategies	265'583'612	22.98%
Cash	136'059'240	11.77%
Total Net Assets	1'155'909'448	100.00 %

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Private Equity Investments Review

Total commitments as of July 2007 stand at USD 1'061 million, of which USD 754.3 million have been invested. This represents 71.10% of committed capital and 65.25% of total net assets. During July, USD 11.6 million was called for new investments. Unrealized gains of USD 6.24 million were attributable to GRP II, AC PE Invest, ADM Maculuc, Greenstone Capital Partners II, LP, Apollo Investment Fund VI, LP, TPG Star LP, The fourth Cinven Fund, CFG BC IX SPV, LLC, The Resolute Fund II, LP and Point 406 Ventures I, LP. Unrealized loss of USD 441'612 came from Greenstone Capital Partners II, LP, Cerebus Inst. Partnership LP, Permira IV, LP, and Trident IV, LP. Distributions of USD 2.63 million came from Clarity Partners, CSFB MMV, DLJ MB III, AC PE Invest, The Lightyear Fund I and the Resolute Fund II, LP, and callable ROC of US\$ 1.05 million came from Clarity Partners, Apollo Investment Fund IV, LP, Blackstone Capital Partners V, LP and Madison Dearborn Capital Partners V, LP.

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