Newsletter

General Market Review September 2005

Per August data, the economy was improving steadily before Hurricane Katrina made her landing. Non-farm payrolls were trending at slightly under 200,000 per month and retail sales, excluding autos and gasoline, rose a solid 0.5%. The post-Katrina period has been characterized by increased uncertainty throughout the economy. Analysts' best estimate for September non-farm payrolls decreased by 200,000, corresponding to an overall rise in the unemployment rate of a tenth of a point to 5.0%. Given that Hurricane Katrina presents more uncertainty than usual for the job count, the Bureau of Labor Statistics ("BLS") has stated that it will not be possible to accurately quantify the impact of the hurricane. For example, if the BLS is unable to contact businesses in its collection sample, then the BLS survey will assume that the company has an employment level of zero. Consequently, it is possible that job loss for the month of September will be overstated.

Most alarming was the plunge in the University of Michigan's Consumer Sentiment Index in the first half of September, post-Katrina, to its lowest level in 13 years (a decline exceeding that of the September 11th terrorist attacks). Analysts believe that consumers' fears about the hurricane's impact on oil prices likely caused the significant decline. Given that wholesale gasoline prices returned to pre-Katrina levels, consumer sentiment did not worsen in the second half of September.

Source: CSFB 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 September 30, 2005

		Performance September 2005	Performance year to date	Performance since Inception
Absolute Private Equity NAV (USD)	USD 65.87	-0.48%	10.74%	23.82%
Share price (USD)	USD 59.25	1.89%	37.79%	4.83%
Premium (Discount)	-10.05%			
Morgan Stanley World Equity	1'224.31	2.47%	4.70%	-6.20%
JP Morgan Global Government Bond Index	357.528	-0.57%	3.35%	30.19%

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

As the private equity asset class gains popularity with investors, industry experts predict that buyout returns will begin to diminish. Buyout firms have raised an unprecedented amount of capital this year, likely closing on more than $100 billion in 2005, in an attempt to satisfy demand from both long time limited partners and new entrants to the asset class. This includes two multi-billion fundraises set to close later this year, each exceeding $10 billion in capital. Some compare this buyout fundraising market to the venture capital industry peak in 2000, when fundraising topped $80 billion and returns subsequently plummeted.

Many believe that this influx of capital implies an increasingly efficient private equity market and a more competitive auction process, both of which will lead to lower future returns for buyout investors. With the tremendous increase in fund sizes, as well as an increase in the number of strategic bidders, competition for deals at the large end of the buyout market has become exceedingly intense. This trend has also developed in the middle-market segment for deals valued between $250 million and $500 million. The average deal price has risen to 7.45x EBITDA, as compared to 4x to 6x EBITDA four or five years ago.

The affect on returns will likely be more pronounced for larger limited partners that must commit substantial capital to private equity funds each year and cannot afford to be as selective with their managers. Smaller limited partners (committing $100 million or less per year) will be better poised to capture traditional buyout-like returns, as will some foundations and endowments that have long-established access to elite funds, who consistently deliver upper quartile returns.

Many LPs will find that achieving historical buyout-like returns will be directly correlated to gaining access to the premier buyout firms in the industry. While this may be difficult for most LPs to do alone, partnering with an established program manager, such as a fund of funds, that has deep industry relationships and expertise will prove to be highly beneficial. This will provide a significant competitive advantage in ensuring access to the highly sought after firms, thereby preserving buyout returns. Moreover, some LPs may be interested in exploring the more inefficient pockets of the asset class such as energy, distressed debt and emerging markets to generate additional returns.

Source: Private Equity Interactive

absolute private equity

October 2005

Overall Allocation Overview as of September 30, 2005

	Asset Value (USD)	In % of Total Assets
Private Equity Investments	491'274'569	66.69%
Absolute Return Strategies	138'608'341	18.81%
Cash	106'734'075	14.48%
Total Net Assets Absolute Private Equity	**736'616'985**	**100.00 %**

Private Equity Investments as of September 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	5'083'069	50.83%	0.69%
Bay Partners	Early stage investment in US technology companies	8'000'000	3'052'107	38.15%	0.41%
GRP II	Start-up and venture capital in the US and EU	15'000'000	8'565'184	57.10%	1.16%
AC Private Equity Invest	Private Equity with focus on Southern Europe	10'000'000	8'356'447	83.56%	1.13%
Warburg Pincus International Partners, LP and affiliates	Venture capital, buyouts and recapitalizations in a broad range of industries world wide	200'000'000	166'549'131	83.27%	22.61%
Warburg Pincus Private Equity VIII	Venture & growth capital and buyouts in a broad range of industries	25'000'000	19'376'334	77.51%	2.63%
PAI III Europe	Focus on buyouts, lesser extent growth capital, in Western Europe	24'450'558	19'588'425	80.11%	2.66%
CSFB Fund VII Investor, LP	Venture & growth capital and buyouts in a broad range of industries	140'000'000	95'705'061	68.36%	12.99%
CSFB Middle Market Value Investor, LP	Focus on middle market buyouts in the US	74'925'000	49'158'919	65.61%	6.67%
DLJ Merchant Banking Partners III	Buyout in a broad range of industries mainly in the US	15'000'000	9'731'800	64.88%	1.32%
Matlin Patterson Global Opportunities Partners "	Investments into distressed companies world-wide	50'000'000	42'639'317	85.28%	5.79%
Terra Firma Capital Partners	Heavy-asset based and out-of-favour European companies with a potential for active value creation	90'967'454	38'024'978	41.80%	5.16%
DLJ Venture Partners II	Venture & growth capital in a broad range of industries world-wide	7'111'396	6'602'856	92.85%	0.90%
ADM Maculus Fund, L.P.	Distressed assets and undervalued situations in Asia	15'000'000	15'313'652	102.09%	2.03%
Lightyear Fund I L.P.	Private Equity with focus in the financial services industry	5'000'000	3'527'189	70.54%	0.48%
	Total	**690'454'408**	**491'274'569**	**71.15%**	**66.69%**

Private Equity Investments Review

The total commitments as of September 30, 2005 stand at $690.5 million, of which $491.3 million have been invested. This represents 71.15% of committed capital and 66.69% of total net assets. During September $9 million were called for new investments. Unrealized gains of $344'857 were attributable to AC PE Invest and unrealized loss of $7.1 million to Clarity Partners, DLJ MB III, Terra Firma and CSFB Fund VII. Distributions of total $1.3 million came from GRP II, CSFB MMV, DLJ MB III, DLJ VP II and CSFB Fund VII. Recallable ROC of $750'312 were attributable to Clarity Partners, CSFB MMV, DLJ MB III and CSFB Fund VII.