

Newsletter

General Market Review October 2005

Third quarter GDP figures were released in October at a level two tenths higher than consensus estimates. Real GDP growth was 3.8%, spurred more by the demand side than previously anticipated. Notably, consumer spending was up 3.9%, with business investment (up 6.2%), residential investment (up 4.8%) and government spending (up 3.2%) also contributing solid performances. Analysts predict that the composition of growth will shift in the coming quarters, with a smaller contribution from consumer spending and housing, and a larger addition from construction, government spending and exports.

Non-farm payrolls increased by a disappointing 56,000 jobs in October. Experts attribute this generalized slowdown in national employment growth to higher fuel costs and rising gas prices. However, hurricane rebuilding efforts are likely to give construction jobs a considerable lift going forward, as well as good news from the manufacturing sector. October ISM reports maintained a very strong pace from last month (October index at 59.1, compared to 59.4 in September), suggesting robust industrial activity, which is a good sign for future hiring.

The FOMC raised the federal funds rate another quarter-point to 4.0%, echoing the committee's intention to raise rates at a measured pace going forward. Analysts predict another increase at the final meeting this year, that will likely bring the funds rate to 4.25% by year end.

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 October 31, 2005

| | | Performance October 2005 | Performance year to date | Performance since Inception |
|--|-----------|--------------------------|--------------------------|-----------------------------|
| Absolute Private Equity NAV (USD) | USD 66.03 | 0.24% | 11.01% | 24.12% |
| Share price (USD) | USD 58.90 | -0.59% | 36.98% | 4.21% |
| Premium (Discount) | -10.80% | | | |
| Morgan Stanley World Equity | 1'193.88 | -2.49% | 2.10% | -8.53% |
| JP Morgan Global Government Bond Index | 359.576 | 0.57% | 3.95% | 30.93% |

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

The third quarter private equity fundraising climate remained robust for both, venture and buyout funds, pushing fundraising activity for the first three quarters of 2005 ahead of total 2004 activity. While third quarter 2005 fundraising represents a drop off in activity from the prior quarter (a 16.9% and 28.5% decrease from second quarter 2005 in venture and buyout, respectively) demand for the asset class continues to be strong. For example, in the third quarter of 2005, 45 venture funds raised \$5.4 billion and 45 buyout and mezzanine funds raised roughly \$16.8 billion. This represents an 11.6% increase in venture fundraising over the same time period in 2004, and a 23.5% increase for buyout fundraising activity.

Venture capital fundraising by investment stage followed a familiar pattern during the quarter, with early-stage venture capital funds securing the majority of the quarter's entire venture commitment at 44.1% (22 funds raised \$2.4 billion). This was followed by 18 balanced funds that raised roughly \$2 billion, four later stage funds that raised \$138.6 million and one expansion-focused fund that raised \$80 million. Note that of these firms, only 10 were first time funds, compared to 35 established venture capital firms that returned to the market.

One interesting trend is the venture market's ability to remain disciplined in its fundraising activity. Despite the strong investor demand for access to venture capital, VC firms have remained close to their fundraising targets. Much of the excess capital declined by venture firms has been funnelled into buyout funds, driving a surge in fundraising activity in that segment of the asset class.

Year to date, 122 buyout funds have raised approximately \$54 billion, representing a 61.4% increase over the same time period in 2004. Mega buyout funds have accounted for the majority of this significant increase in fundraising activity. Blackstone Capital Partners V, with a target of \$12.5 billion, and Apollo Investment Fund VI at a \$10 billion target, are among the largest.

Many industry observers expect fundraising to continue at this aggressive pace for the fourth quarter of 2005, as many funds rush to complete their fundraising efforts by year end.

Sources: Venture Economics

Overall Allocation Overview as of October 31, 2005

| | Asset Value (USD) | In % of Total Assets |
|--------------------------------|--------------------|----------------------|
| Private Equity Investments | 499'786'136 | 68.30% |
| Absolute Return Strategies | 142'610'930 | 19.49% |
| Cash | 89'366'400 | 12.21% |
| Total Net Assets | | |
| Absolute Private Equity | 731'763'466 | 100.00 % |

Private Equity Investments as of October 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 | 4'837'852 | 48.38% | 0.66% |
| Bay Partners | Early stage investment in US technology companies | 8'000'000 | 3'052'107 | 38.15% | 0.42% |
| GRP II | Start-up and venture capital in the US and EU | 15'000'000 | 8'565'184 | 57.10% | 1.17% |
| AC Private Equity Invest | Private Equity with focus on Southern Europe | 10'000'000 | 8'356'447 | 83.56% | 1.14% |
| Warburg Pincus International Partners, LP and affiliates | Venture capital, buyouts and recapitalizations in a broad range of industries world wide | 200'000'000 | 171'549'131 | 85.77% | 23.44% |
| Warburg Pincus Private Equity VIII | Venture & growth capital and buyouts in a broad range of industries | 25'000'000 | 21'376'334 | 85.51% | 2.92% |
| PAI III Europe | Focus on buyouts, lesser extent growth capital, in Western Europe | 24'450'558 | 19'588'425 | 80.11% | 2.68% |
| CSFB Fund VII Investor, LP | Venture & growth capital and buyouts in a broad range of industries | 140'000'000 | 96'580'683 | 68.99% | 13.20% |
| CSFB Middle Market Value Investor, LP | Focus on middle market buyouts in the US | 74'925'000 | 50'000'622 | 66.73% | 6.83% |
| DLJ Merchant Banking Partners III | Buyout in a broad range of industries mainly in the US | 15'000'000 | 9'731'800 | 64.88% | 1.33% |
| Matlin Patterson Global Opportunities Partners " | Investments into distressed companies world-wide | 50'000'000 | 42'639'317 | 85.28% | 5.83% |
| 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% | 5.20% |
| DLJ Venture Partners II | Venture & growth capital in a broad range of industries world-wide | 7'111'396 | 6'592'929 | 92.71% | 0.90% |
| ADM Maculus Fund, L.P. | Distressed assets and undervalued situations in Asia | 15'000'000 | 15'313'652 | 102.09% | 2.09% |
| Lightyear Fund I L.P. | Private Equity with focus in the financial services industry | 5'000'000 | 3'576'675 | 71.53% | 0.49% |
| Total | | 690'454'408 | 499'786'136 | 72.39% | 68.30% |

Private Equity Investments Review

The total commitments as of October 31, 2005 stand at \$690.5 million, of which \$499.8 million have been invested. This represents 72.39% of committed capital and 68.30% of total net assets. During October \$9,4 million were called for new investments. Distributions of total \$ 847'195 came from Clarity Partners and CSFB MMV.

Valor:

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Bloomberg ticker:

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