

# Newsletter

---

## General Market Review January 2006

U.S. GDP grew at an annual rate of 3.5% in 2005 compared with 4.2% in 2004. The slowdown in GDP growth in 2005 mainly reflected a downturn in inventory investment and a slowdown in consumer spending and federal government spending. Consumer spending decelerated, increasing only 1.1% in Q4 2005 after growing at 4.1% in Q3 2005. This was mainly due to the decline in purchases of motor vehicles. Federal government spending fell 7.0% in Q4 2005 after increasing 7.4% in the previous quarter.

The improvement in consumer confidence suggests that business and labor market activity will continue to pick up over the next several months. With a positive consumer outlook and job concerns remaining relatively steady, there is little reason to expect a dramatic shift in consumers' spending. Retail sales rose 1.0% in December, driven by an incentive-induced gain in vehicle sales and decent sales of general merchandise.

Source: 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 January 31, 2006

		Performance January 2006	Performance year to date	Performance since Inception
Absolute Private Equity NAV (USD)	USD 69.39	1.15%	1.15%	30.43%
Share price (USD)	USD 63.40	6.29%	6.29%	12.17%
Premium (Discount)	-8.63%			
Morgan Stanley World Equity	1'313.21	4.41%	4.41%	0.61%
JP Morgan Global Government Bond Index	357.318	-0.37%	-0.37%	30.11%

Past performance is no guarantee of future results. Performance numbers are estimated net of management and performance fees and are subject to change.

Absolute Private Equity Ltd. successfully closed the takeover of Absolute Managers Ltd. as of 25 January 2006. It received 97.38% of the outstanding shares at the price per share of US\$ 47.50. The estimated NAV of Absolute Managers Ltd. as of 27<sup>th</sup> January 2006 was US\$ 52.30.

### Private Equity Review

2005 was a good year for private equity in terms of fund raising, high profile investments and profitable exits. Several aspects drove this increased pace of activity both in the U.S. and European markets. The relative non-performance of the stock market and increasing tendency among funds to participate in consortium investments were some of the contributing factors.

Exit markets showed an increased appetite for inter-firm sales, where private equity firms sell to one another. Companies continued to rely on the acquisitions market as an easier, safer exit strategy, simultaneously searching for more innovative opportunities. In 2005, 13.0% of the deals tracked were sponsor-to-sponsor, or secondary deals. In recent times, the life sciences and IT sectors have been witnessing increased M&A activity. Both the sectors are facing pressure to drive down costs, which have accelerated consolidation as a way to build scale through volume gains and geographic coverage. Other prominent sectors for M&A deals include financial services and consumer products where the consolidation trend is catching up. In addition, the U.S. IPO market is not expected to rebound considerably in the coming year, which has several major implications. Now, more companies will consider going public on foreign exchanges or soliciting offers from private equity firms.

Although it was a good year for private equity, 2005 has also harbored a few concerns. With the advent of the mega fund targeting equally mega deals, there is a concern of substantial increase in competition, resulting in inflated company valuations. Also, start-ups are witnessing a fast influx of financing, which is pushing up valuations as managers compete for investment opportunities. The substantial increase in demand for private equity has made it extremely difficult for limited partners, especially those that are new to the asset class, to secure access to the best performing funds.

Source: Credit Suisse Customized Fund Investment Group

## Private Equity Investments as of January 31, 2006

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	5'141'307	51.41%	0.69%
Bay Partners	Early stage investment in US technology companies	8'000'000	4'130'544	51.63%	0.55%
GRP II	Start-up and venture capital in the US and EU	15'000'000	9'817'552	65.45%	1.32%
AC Private Equity Invest	Private Equity with focus on Southern Europe	10'000'000	9'164'476	91.64%	1.23%
Warburg Pincus international Partners, LP and affiliates	Venture capital, buyouts and recapitalizations in a broad range of industries world wide	200'000'000	156'377'663	78.19%	21.00%
Warburg Pincus Private Equity VIII	Venture & growth capital and buyouts in a broad range of industries	25'000'000	21'269'118	85.08%	2.86%
PAI III Europe	Focus on buyouts, lesser extent growth capital, in Western Europe	24'450'558	20'480'716	83.76%	2.75%
CSFB Fund VII Investor, LP	Venture & growth capital and buyouts in a broad range of industries	140'000'000	100'522'283	71.80%	13.50%
CSFB Middle Market Value Investor, LP	Focus on middle market buyouts in the US	74'925'000	54'499'304	72.74%	7.32%
DLJ Merchant Banking Partners III	Buyout in a broad range of industries mainly in the US	15'000'000	8'982'581	59.88%	1.21%
Matlin Patterson Global Opportunities Partners "	Investments into distressed companies world-wide	50'000'000	30'292'917	60.59%	4.07%
Terra Firma Capital Partners	Heavy-asset based and out-of-favour European companies with a potential for active value creation	90'967'454	52'112'146	57.29%	7.00%
DLJ Venture Partners II	Venture & growth capital in a broad range of industries world-wide	7'111'396	6'373'452	89.62%	0.86%
ADM Maculus Fund, L.P	Distressed assets and undervalued situations in Asia	15'000'000	15'968'799	106.46%	2.14%
Lightyear Fund I L.P.	Private Equity with focus in the financial services industry	5'000'000	4'492'667	89.85%	0.60%
Wayzata Opp. Fund	Private Equity, with focus in distressed debt	10'000'000	4'500'000	45.00%	0.60%
<b>Total</b>		<b>700'454'408</b>	<b>504'125'525</b>	<b>71.97%</b>	<b>67.69%</b>

**Overall Allocation Overview as of January 31, 2005**

	Asset Value (USD)	In % of Total Assets
Private Equity Investments	504'125'525	67.69%
Absolute Return Strategies	198'308'567	26.63%
Cash	42'304'364	5.68%
<b>Total Net Assets</b>	<b>744'738'456</b>	<b>100.00 %</b>

**Private Equity Investments Review**

The total commitments as of January 31, 2006 stand at USD 700 million, of which USD 504.1 million have been invested. This represents 71.97% of committed capital and 67.69% of total net assets. During January USD 2.5 million were called for new investments. Unrealized gains of USD 2.7 million were attributable to GRP II, CSFB MMV and DLJ MB III and unrealized loss of USD 11.6 million to Matlin Patterson GOP. Distributions of total USD 8 million came from DLJ MB III, WPIP and WPIP LLC. recallable ROC from DLJ MB III.

Valor:	1111333
Bloomberg ticker:	ABSP SW <EQUITY>

Neither this document nor any copy hereof may be sent or taken or transmitted into the United States or distributed, directly or indirectly, in the United States or to any U.S. person. Any failure to comply with this restriction may constitute a violation of U.S. securities laws. The securities issued by Absolute Private Equity AG have not and will not be registered under the Securities Act of 1933 of the United States of America. This document is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. This document does not constitute an offer to sell, or a solicitation of an offer to purchase, any securities. This document does not constitute a prospectus in the sense of Art. 652a resp. Art. 1156 of the Swiss Code of Obligations.