

Newsletter

General Market Review February 2006

Economic Review

The University of Michigan Consumer Sentiment Index fell to 86.7 in February (versus 91.2 in January) as did February retail sales. Given that the prior month was one of the warmest January's of the century, it produced one of the strongest months of retail activity on record. With the weather reverting to more seasonal norms in February, and unit auto sales down from the January selling rate, analysts predicted a significant reversal in numbers. Housing starts will likely reverse in February as well, after January's figure reached the highest level since 1973 due to record warmth (1,950,000 Feb. forecast, versus 2,276,000). In addition, new home sales fell to an 11-month low and the supply of new homes reached the highest level since November 1996. Analysts believe that homebuilder sentiment appears to have reached its limit.

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 February 28, 2006

		Performance February 2006	Performance year to date	Performance since Inception
Absolute Private Equity NAV (USD)	USD 70.65	1.82%	2.99%	32.80%
Share price (USD)	USD 66.75	5.28%	11.90%	18.10%
Premium (Discount)	5.52%			
Morgan Stanley World Equity	1'309.45	-0.29%	4.11%	0.32%
JP Morgan Global Government Bond Index	357.466	0.04%	-0.33%	30.16%

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

Industry experts predict that 2006 will be the year in which the venture capital industry transforms from a cottage industry to a more mature asset class, driven primarily by a shift in risk taking, investment complexity and market participants. Some trends that can be expected for the remaining of the year include the following:

§ The active fundraising cycle in 2005 has resulted in a substantial amount of capital to invest in 2006. While VC's will continue to invest in their traditional areas of focus, this market will allow them to exploit new niches such as alternative energy, nanotechnology, bioinformatics and mobile computing. Rather than rapid investment in these new sectors, there will likely be a gradual ramp up over time as venture capitalists begin to take more calculated risks.

§ The VC market will make a push towards global investment and innovation. While the Silicon Valley and the greater domestic market will continue to provide interesting investment opportunities, they do not promise the same kind of excitement and rapid expansion as some emerging markets such as India, China, Eastern Europe and Israel. These geographies will likely boost VC returns going forward.

§ Publicly traded Internet giants such as Google, Yahoo and eBay will likely play an increasingly important role in the venture market, particularly as potential acquirers or funding sources for young companies. Experts predict that this competition from strategic will be complementary to venture capital firms already in the market.

§ Experts predict that the S.E.C. will review the rules affiliated with Sarbanes-Oxley that have had a severe impact on small growth companies considering an IPO. Many do not expect the U.S. IPO market to rebound considerably in 2006, implying that VC's will be required to find other innovative means to achieve an exit. Alternatives include (i) a continued reliance on the M&A market as an easier, more reliable exit strategy; (ii) potentially going public on a foreign exchange such as the Toronto Exchange or AIM; or (iii) funding portfolio companies longer until a viable exit is determined.

§ Companies that survived the bubble meltdown will be nearing the three to five year sweet spot for M&A opportunities. Given that these companies were the strong performers during the lean years of venture capital funding, the potential return on investment for such companies should be higher.

Source: Venture Capital Journal

Private Equity Investments as of February 28, 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%	0.68%
Bay Partners	Early stage investment in US technology companies	8'000'000	4'130'544	51.63%	0.54%
GRP II	Start-up and venture capital in the US and EU	15'000'000	9'817'552	65.45%	1.29%
AC Private Equity Invest	Private Equity with focus on Southern Europe	10'000'000	9'510'127	95.10%	1.25%
Warburg Pincus International Partners, LP and affiliates	Venture capital, buyouts and recapitalizations in a broad range of industries world wide	200'000'000	165'148'417	82.57%	21.78%
Warburg Pincus Private Equity VIII	Venture & growth capital and buyouts in a broad range of industries	25'000'000	22'800'759	91.20%	3.01%
PAI III Europe	Focus on buyouts, lesser extent growth capital, in Western Europe	24450558	20'480'716	83.76%	2.70%
CSFB Fund VII Investor, LP	Venture & growth capital and buyouts in a broad range of industries	140'000'000	101'586'420	72.56%	13.40%
CSFB Middle Market Value Investor, LP	Focus on middle market buyouts in the US	74'925'000	58'722'065	78.37%	7.74%
DLJ Merchant Banking Partners III	Buyout in a broad range of industries mainly in the US	15'000'000	8'982'581	59.88%	1.18%
Matlin Patterson Global Opportunities Partners "	Investments into distressed companies world-wide	50'000'000	28'661'674	57.32%	3.78%
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%	6.87%
DLJ Venture Partners II	Venture & growth capital in a broad range of industries world-wide	7'111'396	6'373'452	89.62%	0.84%
ADM Maculus Fund, L.P	Distressed assets and undervalued situations in Asia	15'000'000	16'121'118	107.47%	2.13%
Lightyear Fund I L.P.	Focus in the financial services industry	6'000'000	4'521'076	75.35%	0.60%
Wayzata Opp. Fund	Focus in distressed debt	10'000'000	4'500'000	45.00%	0.59%
Total		701'454'408	518'609'954	73.93%	68.40%

Overall Allocation Overview as of February 28, 2005

	Asset Value (USD)	In % of Total Assets
Private Equity Investments	518'609'954	68.40%
Absolute Return Strategies	205'022'621	27.04%
Cash	34'601'245	4.56%
Total Net Assets	758'233'820	100.00 %

Private Equity Investments Review

The total commitments as of February, 2006 stand at USD 701 million, of which USD 518.6 million have been invested. This represents 73.98% of committed capital and 68.40% of total net assets. During February USD 12.7 million were called for new investments. Unrealized gains of USD 6.3 million were attributable to AC PE Invest, ADM Maculus, WPIP, WPIP LLC and WP Private Equity VIII and unrealized loss of USD 1.6 million to Matlin Patterson GOP. Distributions of USD 2.1 million came from CSFB Fund VII.

Valor: 1111333
 Bloomberg ticker: ABSP SW <EQUITY>

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