

Newsletter

General Market Review March 2006

Economic Review

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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 March 31, 2006

		Performance March 2006	Performance year to date	Performance since Inception
Absolute Private Equity NAV (USD)	USD 73.27	3.71%	7.69%	37.73%
Share price (USD)	USD 69.05	3.45%	15.76%	22.17%
Premium (Discount)	5.76%			
Morgan Stanley World Equity	1'335.07	1.96%	6.15%	2.28%
JP Morgan Global Government Bond Index	353.43	-1.13%	-1.46%	28.69%

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 private equity firms create new funds, many have chosen to address potential succession issues. Industry experts believe that this is long overdue in the private equity space. Such transitions have traditionally been piecemeal, with most private equity firms continuing to be run by the same professionals that initiated the firm. GPs hope that the current flood of capital in the market and investors' general eagerness to access buyout funds will cause them to overlook some of the risks associated with generational shifts.

During the most recent buyout fundraising cycle, there have been a number of prominent private equity firms tackling succession issues. Firms with some fresh faces at the top echelons of management include HM Capital Partners (formerly Hicks Muse Tate & Furst), Welsh Carson Anderson & Stowe, Fox Paine & Co., TA Associates Inc., Texas Pacific Group and Apollo Management. In such cases, the founders have generated considerable personal wealth and have the means to retire during an overheated market while at the top of their game. For example, at HM Capital three principals (all in their 30's) have been recently promoted to partner. At Fox Paine, a co-founder will no longer maintain an active role in sourcing and working with companies in the new fund. And at Texas Pacific Group, one of the senior partners will be scaling back his role at the firm.

Succession planning has inherent risks for both GPs and LPs alike. In transitioning authority to a broader pool of decision-makers, GPs are paying special attention to intricate details such as how to pass on founders' ownership stakes in management companies and their share of the carried interest. From an LP perspective, generational change calls into question a firm's ability to move forward under new leadership that is less proven. Many of these new leaders are younger and may not have been in the industry long enough to witness multiple market cycles. In addition, this new generation's ability to set strategic direction effectively and mentor junior professionals appropriately may not yet be tested. LPs have sought to protect against transitional issues by requiring a two-tier key man provision. Under such a structure, the founding partners are typically included in the first tier, with the next generation of partners in the second tier. In order to trigger the provision, a certain number of founders as well as next generation partners would need to leave the firm at the same time.

Despite the risks associated with investing in a firm undergoing generational change, LPs have continued to allocate significant sums of capital to such firms, facilitating a very smooth and swift fundraising process. While obviously driven by the amount of capital in the market, this also signals investors' faith in the younger generation of partners. Addressing succession issues allows firms to retain talented junior professionals, not only because of greater economic incentives, but also because these professionals will have a change to play a more significant role in the strategic direction of the firm.

Source: Private Equity Interactive

Private Equity Investments as of March 31, 2006

Private Equity Funds	Investment Focus	Commitments USD	Market Value of Investments USD	% of Commitments	% of Absolute Private Equity
Clarity Partners	Software & technology companies in telecom, media and internet	10'000'000	4'610'976	46.11%	0.59%
Bay Partners	Early stage investment in US technology companies	8'000'000	4'290'885	53.64%	0.55%
GRP II	Start-up and venture capital in the US and EU	15'000'000	10'042'552	66.95%	1.28%
AC Private Equity Invest	Private Equity with focus on Southern Europe	10'000'000	8'996'347	89.96%	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	165'148'417	82.57%	21.00%
Warburg Pincus Private Equity VIII	Venture & growth capital and buyouts in a broad range of industries	25'000'000	22'450'759	89.80%	2.86%
PAI III Europe	Focus on buyouts, lesser extent growth capital, in Western Europe	24435799	18'918'349	77.42%	2.41%
CSFB Fund VII Investor, LP	Venture & growth capital and buyouts in a broad range of industries	140'000'000	108'945'349	77.82%	13.85%
CSFB Middle Market Value Investor, LP	Focus on middle market buyouts in the US	74'925'000	56'270'294	75.10%	7.16%
DLJ Merchant Banking Partners III	Buyout in a broad range of industries mainly in the US	15'000'000	8'940'298	59.60%	1.14%
Matlin Patterson Global Opportunities Partners "	Investments into distressed companies world-wide	50'000'000	28'661'674	57.32%	3.64%
Terra Firma Capital Partners	Heavy-asset based and out-of-favour European companies with a potential for active value creation	89'956'932	67'398'781	74.92%	8.57%
DLJ Venture Partners II	Venture & growth capital in a broad range of industries world-wide	7'111'396	6'575'990	92.47%	0.84%
ADM Maculus Fund, L.P.	Distressed assets and undervalued situations in Asia	15'000'000	15'673'081	104.49%	1.99%
Lightyear Fund I L.P.	Private Equity with focus in the financial services industry	5'000'000	4'167'629	83.35%	0.53%
Lightyear Fund L.P.	Private Equity with focus in the financial services industry	1'000'000	170'453	17.05%	0.02%
Wayzata Opp. Fund	Private Equity, with focus in distressed debt	10'000'000	4'216'300	42.16%	0.54%
Apollo Investment Fund	Private Equity with focus in classic, distressed and corporate buyouts	8'325'000		0.00%	0.00%
VSS Communications	Private Equity with focus in the media industry in both North America and Europe	10'000'000		0.00%	0.00%
Blackstone Capital Partners	Focus on leveraged buyouts in a diverse group of industries	15'000'000		0.00%	0.00%
Nordic Capital Fund	Investments in many industry sectors in Nordic region.	11'000'000		0.00%	0.00%
Madison Dearborn	Buyout opportunities in specific industries in US avoiding hightech	15'000'000		0.00%	0.00%
TGP Biotechnology Partners	Focuses on early and late-stage venture capital investment in life sciences/biotechnology industry	5'000'000		0.00%	0.00%
TGP Partners V.LP	Large Buyout in operating companies	15'000'000		0.00%	0.00%

(Cont. Private Equity Investments as of March 31, 2006)

Blue Point Capital Partners	Focuses on leveraged buyouts transactions in the small-cap and mid-cap range	5'000'000		0.00%	0.00%
The Fourth Cinven Fund	Focuses on large European buyouts, typically being the lead investor in each transaction	15'000'000		0.00%	0.00%
Bain Capital IX Co-Investment	Participates in growth capital buyouts and restructurings	15'000'000		0.00%	0.00%
Total		814'754'127	535'478'134	65.72%	68.10%

Overall Allocation Overview as of March 31, 2005

	Asset Value (USD)	In % of Total Assets
Private Equity Investments	535'478'134	68.10%
Absolute Return Strategies	210'285'750	26.74%
Cash	40'576'605	5.16%
Total Net Assets	786'340'489	100.00 %

Private Equity Investments Review

The total commitments as of March, 2006 stand at USD 814.8 million, of which USD 535.5 million have been invested. This represents 65.72% of committed capital and 68.10% of total net assets. During March USD 5 million were called for new investments. Unrealized gains of USD 20.3 million were attributable to Bay Partners, DLJ VP II, Terra Firma and CSFB Fund VII and unrealized loss of USD 1.2 million to Clarity Partners and PAI Europe III. Distributions of USD 2.2 million came from PAI Europe III, CSFB MMV, DLJ MB III, AC PE Invest, ADM Maculuc, WP Private Equity VIII, CSFB Fund VII and Lightyear Fund I. Finally, USD 5.1 million of recallable ROC was attributable to PAI Europe III, CSFB MMV, CSFB Fund VII, Lightyear Fund I and Wayzata Opportunities Fund LLC.

Valor:

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ABSP SW <EQUITY>

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