

Newsletter

General Market Review May 2006

Economic Review

Payroll growth weakened sharply in May to 75,000 jobs, well below the consensus estimate of 170,000 jobs. May's numbers capped the slowest three-month pace since post-Katrina last Fall. Analysts view the recent weakness as part of a transition to a more moderate run rate in economic activity. In line with this transition, retail sales are expected to increase a modest 0.1% for the month. Although price-related gas station sales were up (average \$2.95 per gallon in May, versus \$2.79 per gallon in April), growth was tempered by a decline in vehicle sales to 16.1 million during May. The University of Michigan's Consumer Sentiment Index declined to a seven-month low in May of 79.1. Consistent high gas prices, concerns over rising interest rates and declines in the stock market were all negative factors.

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 May 31, 2006

		Performance May 2006	Performance year to date	Performance since Inception
Absolute Private Equity NAV (USD)	USD 76.16	3.23%	11.93%	43.16%
Share price (USD)	USD 69.20	-3.69%	16.01%	22.43%
Premium (Discount)	-9.14%			
Morgan Stanley World Equity	1'322.25	-3.72%	5.13%	1.30%
JP Morgan Global Government Bond Index	351.745	0.25%	-1.93%	28.08%

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

A number of European governments have taken a keen interest in private equity firms and their best practices and policies in the region. In particular, Denmark, Holland and the United Kingdom have launched investigations to better understand the private equity industry and its implications for their respective economies. Such inquiries have been spurred in part by private equity's reputation for both cost-cutting initiatives that result in massive employee layoffs and increasing leverage on the balance sheet such that companies avoid taxation.

Denmark, the most recent country to launch an investigation, will review how private equity firms operating within the country affect employment and the health of local businesses and the economy as a whole. Holland specifically seeks to determine the level of risk its pension funds and insurance companies are exposed to as a result of their private equity activities. The Dutch government has indicated that it will likely require greater transparency from private equity firms conducting transactions in the country. Meanwhile, England has begun meeting with the country's top private equity players in an attempt to better understand the type of information investors have access to, as well as portfolio company valuation methodologies.

European politicians are aware of the potential for gaining votes by capitalizing on the public's attitude toward job security. Unemployment is high throughout the continent, where many workers continue to benefit from social protections such as the 35-hour work week and non-termination policies. The fear is that private equity firms will worsen the high unemployment trend. However, private equity executives claim that the allegations are without merit as private equity firms created approximately 420,000 new jobs during the period 2000 to 2004 (according to the European Venture Capital Association). Moreover, they claim that any loss in tax revenue from portfolio companies will likely be recouped in capital gains taxes from the fund managers and their investors.

Although European governments have not yet enacted policy initiatives that impact private equity firms' operations, a group of pre-eminent buyout firms are proactively taking steps to educate the public. Blackstone, the Carlyle Group, Kohlberg Kravis & Roberts and the Texas Pacific Group are establishing a trade body to provide education about the economic benefits of the private equity industry and to finance studies that would provide relevant data on the industry. These firms understand the importance of befriending politicians and improving their public images as a means to ensuring longevity in the European markets.

Source: Private Equity Interactive

Private Equity Investments as of May 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	5'075'749	50.76%	0.62%
Bay Partners	Early stage investment in US technology companies	8'000'000	4'235'494	52.94%	0.52%
GRP II	Start-up and venture capital in the US and EU	15'000'000	12'139'627	80.93%	1.49%
AC Private Equity Invest	Private Equity with focus on Southern Europe	10'000'000	9'906'574	99.07%	1.21%
Warburg Pincus International Partners, LP and affiliates	Venture capital, buyouts and recapitalizations in a broad range of industries world wide	200'000'000	177'928'217	88.96%	21.77%
Warburg Pincus Private Equity VIII	Venture & growth capital and buyouts in a broad range of industries	25'000'000	25'250'459	101.00%	3.09%
PAI III Europe	Focus on buyouts, lesser extent growth capital, in Western Europe	24435799	18'987'553	77.70%	2.32%
CSFB Fund VII Investor, LP	Venture & growth capital and buyouts in a broad range of industries	140'000'000	109'826'661	78.45%	13.44%
CSFB Middle Market Value Investor, LP	Focus on middle market buyouts in the US	74'925'000	61'109'250	81.56%	7.48%
DLJ Merchant Banking Partners III	Buyout in a broad range of industries mainly in the US	15'000'000	7'816'756	52.11%	0.96%
Matlin Patterson Global Opportunities Partners	Investments into distressed companies world-wide	50'000'000	26'940'873	53.88%	3.30%
Terra Firma Capita Partners	Heavy-asset based and out-of-favour European companies with a potential for active value creation	89'956'932	67'354'957	74.87%	8.24%
DLJ Venture Partners II	Venture & growth capital in a broad range of industries world-wide	7'111'396	6'496'739	91.36%	0.79%
ADM Maculus Fund, L.P	Distressed assets and undervalued situations in Asia	15'000'000	15'091'358	100.61%	1.85%
Lightyear Fund I L.P.	Private Equity with focus in the financial services industry	5'000'000	3'269'263	65.39%	0.40%
Lightyear Fund L.P.	Private Equity with focus in the financial services industry	1'000'000	108'689	10.87%	0.01%
Wayzata Opp. Fund	Private Equity, with focus in distressed debt	10'000'000	4'600'000	46.00%	0.56%
Apollo Investment Fund	Private Equity with focus in classic, distressed and corporate buyouts	8'325'000		0.00%	0.00%
Arch Capital	Full range of property and casualty insurance and reinsurance products on a global basis, with a focus on specialty lines of business.	0	8'509'493	0.00%	1.04%
VSS Communications	Private Equity with focus in the media industry in both North America and Europe	10'000'000	2'032'867	20.33%	0.25%
Blackstone Capital Partners	Focus on leveraged buyouts in a diverse group of industries	15'000'000	673'939	4.49%	0.08%
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%
TPG Biotechnology Partners	Focuses on early and late-stage venture capital investment in life sciences/biotechnology industry	5'000'000	262'388	5.25%	0.03%

(Cont.)

	Investment Focus	Commitments USD	Market Value of Investments USD	% of Commitments	% of Absolute Private Equity Assets
TPG Partners V.LP	Large Buyout in operating companies	15'000'000		0.00%	0.00%
Blue Point Capital Partners II, LP	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	375'000	2.50%	0.05%
Total		814'754'127	567'991'906	69.71%	69.49%
Total Net Assets Absolute Private Equity		817'338'075			

Overall Allocation Overview as of May 31, 2006

	Asset Value (USD)	In % of Total Assets
Private Equity Investments	567'991'906	69.49%
Absolute Return Strategies	214'901'354	26.29%
Cash	34'444'816	4.21%
Total Net Assets	817'338'075	100.00 %

Private Equity Investments Review

Total commitments as of May, 2006 stand at USD 814.8 million, of which USD 568 million have been invested. This represents 69.71% of committed capital and 69.49% of total net assets. During May USD 3.7 million were called for new investments. Unrealized gains of USD 38.4 million were attributable to PAI Europe III, CSFB MMV, Matlin Patterson GOP, AC PE Invest, Arch Capital, WPIP, WPIP LLC and WP Private Equity VIII. Unrealized loss of USD 1.9 million came from Bay Partners, Arch Capital, Lightyear Fund I, LP, Lightyear Fund II, LP and distributions of USD 13.2 million from CSFB MMV, Matlin Patterson GOP, DLJ MB III, Terra Firma, WPIP, WPIP LLC, WP Private Equity VIII and CSFB Fund VII. Finally, USD 2 million of recallable ROC was attributable to CSFB MMV, DLJMB III, WP Private Equity VIII, CSFB Fund VII and Lightyear Fund II, LP.

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.