

# Newsletter

## General Market Review June 2006

### Economic Review

Despite finishing in flat-to-positive territory, equity markets in June were as volatile as they were in May, if not more so. The month started in a similar fashion as mid-May, with investors selling off their most risky assets and sending the markets into free-fall. Concerns remained regarding higher inflation leading to higher global interest rates, which would subsequently choke off profits and economic growth. By mid-month, the Bloomberg 500 fell -5.4% and the energy-heavy OBX Index (Norway) fell -10.3%. However, markets bottomed around June 13<sup>th</sup> as stocks were oversold and investors acknowledged the M&A backdrop in Europe. Global equity markets got a further boost at month end when the US Fed raised interest rates by 25 bps but indicated that US growth was "moderating" which investors took as a sign of fewer future rate hikes. The Bloomberg 500 rallied 6.1% over the final two weeks to finish the month +0.32%, while the OBX Index (Norway) surged +10.8% over the second half of the month and finished -0.64%.

Europe remains an attractive investment arena which has only gotten more attractive over the past two months as valuations have plunged. There are pockets of strong growth (Germany, Eastern Europe), low base interest rates (recently raised to 2.75%), falling unemployment and improving domestic demand to drive stocks higher.

Source: ABS Investment Management

## 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.

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### Investment Performance as of June 30, 2006

		Performance June 2006	Performance year to date	Performance since Inception
Absolute Private Equity NAV (USD)	USD 76.59	0.56%	12.57%	43.97%
Share price (USD)	USD 69.00	-0.29%	15.67%	22.08%
Premium (Discount)	-9.91%			
Morgan Stanley World Equity	1'319.93	-0.17%	4.94%	1.13%
JP Morgan Global Government Bond Index	351.245	-0.14%	-2.07%	27.90%

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 first half of 2006 witnessed the largest European private equity fund ever to be raised. U.K.-based Permira's fourth buyout fund raised over €10.0 billion on its first closing in June 2006. The fund is expected to invest in Europe, the U.S., as well as Japan. Overall, however, the pace of European fundraising slowed in Q1 2006, with total capital raised (€470.7 million) for approximately half the amount raised in Q1 2005. While venture capital fundraising declined, the amount raised by private equity and buyout funds increased in the first quarter of 2006.

The European private equity market continued its robust performance in Q1 2006, with the total value of private equity backed deals in Europe exceeding the €30.0 billion mark for the fourth quarter in succession. The total deal value of €34.2 billion (297 deals) in Q1 2006 was 4.0% above Q4 2005 and 53.0% more than the corresponding quarter of 2005. The €10.0 billion buyout of Denmark's TDC, by a five-strong syndicate of large U.S. and European buyout houses including KKR, Permira, Providence Equity Partners, Blackstone Capital Partners and Apax Partners, was one of the largest deals in 2006. Other notable deals included the €2.1 billion investment in Germany-based Kabel Deutschland by Providence Equity Partners and the €1.9 billion investment in France-based Cadbury Schweppes by Lion Capital and Blackstone Capital Partners.

Activity in the European growth capital segment recovered strongly in the first quarter of 2006 from poor performance in the last quarter of 2005. The 112 expansion deals that were recorded represented the highest figure achieved since the third quarter of 2004. One of the largest deals of the year in this segment was the acquisition of a minority stake in the Belgian postal service, De Post/La Poste, for €300.0 million by a CVC Capital Partners-backed vehicle. Activity in the early stage sector increased in the first quarter of 2006, following a generally downward path over the last 18 months. The number of transactions recorded doubled in the first quarter of 2006. One of the largest venture deals in 2006 was the €42.0 million investment in biotech firm, Nabriva, by a Global Life Science Ventures backed syndicate.

In H1 2006, the IPO market failed to continue the momentum gained in 2005. €180.3 million raised through IPOs in Q1 2006 represented a 35.0% decline over the amount raised in Q1 2005. One of the largest IPO deals in H1 2006 was the offer by Italian oil refiner, SARAS, which raised €2.1 billion. Another significant offering in 2006 was the listing of U.K.-based Debenhams, which raised €1.5 billion.

Interest in Asia's fast moving private equity markets continues to grow. This interest is largely driven by a combination of potentially attractive returns as well as regulatory liberalization. Buyouts in Asia reached \$13.1 billion in H1 2006, which is more than \$12.6 billion for all of 2005. China is expected to attract at least \$6.0 billion in private-equity investments in 2006, as buyout firms believe that economic growth and a rebound in stocks will allow companies to realize profits. Investors boosted Q1 2006 buyouts, equity purchases and venture capital almost eightfold to \$3.9 billion compared to Q1 2005. In

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the first half of 2006, private equity firms made investments worth \$146.0 billion. Private equity investors are increasing their exposure to Indian companies. Large U.S. firms such as Blackstone Group, The Carlyle Group and General Atlantic Partners and Britain's Actis Partners have shown interest in the Indian private equity market. So far in 2006, India witnessed 32 deals worth \$420.0 million and produced \$1.2 billion in exits.

Source: Credit Suisse Customized Fund Investment Group

### Private Equity Investments as of June 30, 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	4'520'970	45.21%	0.55%
Bay Partners	Early stage investment in US technology companies	8'000'000	4'435'494	55.44%	0.54%
GRP II	Start-up and venture capital in the US and EU	15'000'000	12'139'627	80.93%	1.48%
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%	21.65%
Warburg Pincus Private Equity VIII PAI III Europe	Venture & growth capital and buyouts in a broad range of industries	25'000'000	25'750'459	103.00%	3.13%
CSFB Fund VII Investor, LP	Focus on buyouts, lesser extent growth capital, in Western Europe	24435799	18'987'553	77.70%	2.31%
CSFB Middle Market Value Investor, LP	Venture & growth capital and buyouts in a broad range of industries	140'000'000	105'883'394	75.63%	12.88%
DLJ Merchant Banking Partners III	Focus on middle market buyouts in the US	74'925'000	61'706'012	82.36%	7.51%
Matlin Patterson Global Opportunities Partners "	Buyout in a broad range of industries mainly in the US	15'000'000	8'605'507	57.37%	1.05%
Terra Firma Capita Partners	Investments into distressed companies world-wide	50'000'000	26'940'873	53.88%	3.28%
DLJ Venture Partners II	Heavy-asset based and out-of-favour European companies with a potential for active value creation	89'956'932	58'547'831	65.08%	7.12%
DLJ Offshore Partners IV, LP	Venture & growth capital in a broad range of industries world-wide	7'111'396	7'176'973	100.92%	0.87%
ADM Maculus Fund, L.P	Buyout in a broad range of industries mainly in the US and western Europe	10'000'000	2'000'000	20.00%	0.24%
Lightyear Fund I L.P.	Distressed assets and undervalued situations in Asia	15'000'000	12'202'415	81.35%	1.48%
Lightyear Fund L.P.	Private Equity with focus in the financial services industry	5'000'000	2'985'941	59.72%	0.36%
Wayzata Opp. Fund	Private Equity with focus in the financial services industry	1'000'000	108'689	10.87%	0.01%
	Private Equity, with focus in distressed debt	10'000'000	5'860'018	58.60%	0.71%

(Cont.)

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	Investment Focus	Commitments USD	Market Value of Investments USD	% of Commitments	% of Absolute Private Equity Assets
<b>Apollo Investment Fund</b>	Private Equity with focus in classic, distressed and corporate buyouts	8'325'000		0.00%	0.00%
<b>VSS Communications</b>	Private Equity with focus in the media industry in both North America and Europe	10'000'000	1'861'908	18.62%	0.23%
<b>Blackstone Capital Partners</b>	Focus on leveraged buyouts in a diverse group of industries	15'000'000	1'629'348	10.86%	0.20%
<b>Nordic Capital Fund</b>	Investments in many industry sectors in Nordic region.	11'000'000		0.00%	0.00%
<b>Madison Dearborn</b>	Buyout opportunities in specific industries in US avoiding hightech	15'000'000		0.00%	0.00%
<b>TPG Biotechnology Partners</b>	Focuses on early and late-stage venture capital investment in life sciences/biotechnology industry	5'000'000	323'699	6.47%	0.04%
<b>TPG Partners V.LP</b>	Large Buyout in operating companies	15'000'000	131'488	0.88%	0.02%
<b>Blue Point Capital Partners II, LP</b>	Focuses on leveraged buyouts transactions in the small-cap and mid-cap range	5'000'000		0.00%	0.00%
<b>The Fourth Cinven Fund</b>	Focuses on large European buyouts, typically being the lead investor in each transaction	15'000'000		0.00%	0.00%
<b>Bain Capital IX Co-Investment</b>	Participates in growth capital buyouts and restructurings	15'000'000	375'027	2.50%	0.05%
<b>Total</b>		<b>824'754'127</b>	<b>550'008'017</b>	<b>66.69%</b>	<b>66.92%</b>
<b>Total Net Assets Absolute Private Equity</b>		<b>821'933'223</b>			

**Overall Allocation Overview as of June 30, 2006**

	Asset Value (USD)	In % of Total Assets
Private Equity Investments	550'008'017	66.92%
Absolute Return Strategies	216'970'211	26.40%
Cash	54'954'995	6.69%
<b>Total Net Assets</b>	<b>821'933'223</b>	<b>100.00 %</b>

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### Private Equity Investments Review

Total commitments as of June, 2006 stand at USD 824.8 million, of which USD 550 million have been invested. This represents 66.69% of committed capital and 66.92% of total net assets. During June USD 6.4 million were called for new investments. Unrealized gains of USD 1.5 million were attributable to Clarity Partners, DLJ MB III, DLJ VP II and TPG Biotechnology. Unrealized loss of USD 8.5 million came from Arch Capital and CSFB Fund VII and distributions of USD 6.1 million from Clarity Partners, Arch Capital, Terra Firma, CSFB Fund VII, Lightyear Fund I, LP, VSS Communications Paralle Partners IV, LP. Finally, USD 11.4 million of recallable ROC was attributable to ADM Maculuc, Terra Firma, Lightyear Fund I, LP.

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