

Chairman's speech at the AGM 2008

By Thomas Amstutz | July 2, 2008

2007 was characterised by one central, all-pervading topic: the subprime market and the associated financial crisis with the resulting deleveraging of the financial system.

This also seriously affected the private equity industry: many acquisitions (taking private) are no longer possible because banks and financial markets are no longer able to provide the risk capital or because the price has become too high. At the same time the value of existing holdings has been hit and sales have become difficult or even impossible.

Despite this, 2007 was a successful year for Absolute Private Equity, a fact clearly demonstrated by the more than 30% rise in our net asset value.

How did this happen?

In September 2006 one of our advisors drew our attention to the possible consequences of a subprime fallout. Having reviewed the relevant issues, we reached the conclusion that the securitisation of these mortgage risks could indeed become a major problem.

For this reason in October 2006, in order to hedge our private equity portfolio, Absolute Private Equity invested USD 25 million in Paulson Credit Opportunities Funds I and II - and indeed this investment has approximately quadrupled in value. This demonstrates the correctness of our strategy which also enables us to make hedge fund investments. There will always be times in which it is worth investing 1 - 2 % of our net asset value in financial markets as a hedge against possible dislocations.

However, it was not just subprime shorts that had a positive impact on our portfolio: our investments in various limited partnerships have also continued to develop favourably. As I have been saying for the past three years: "Don't underestimate the effect of the J-curve".

The value of our investments in Warburg Pincus and Terra Firma has still not been fully recognized, and there still remains a good measure of upside potential. In addition, the international focus of Warburg Pincus in particular is often underestimated: Warburg Pincus has been investing in India and China for the past 5 - 10 years, and not just for the past 2.

All in all, a good year for Absolute Private Equity in 2007!

What is the outlook and where do we expect the financial markets to go in the coming months?

In our view the financial crisis is likely to continue for some considerable time. Even though central banks have done everything they can to keep the system alive, many losses are still hidden and have yet to come to light. At the same time - and we have never seen this constellation before - emerging countries are growing strongly, not least because they are often the beneficiaries of the commodities boom.

I would like to list a number of - very often contradictory- trends:

- * Slowdown in established industrialised nations (G7) and a possible recession
- * Slowdown in emerging economies but with growth nevertheless remaining robust
- * Inflationary dangers everywhere
- * Increased demand for commodities in emerging economies (BRIC)
- * New winners (commodity exporters)
- * Financial institutions facing more stringent regulation
- * Credit crunch
- * Relative loss of purchasing power for the middle classes in wealthy countries
- * Huge investment in infrastructure
- * State intervention in a wide variety of forms
- * A new president in the USA

These are the most important factors pointing to risks as well as to above-average opportunities.

Absolute Private Equity will be maintaining its strategy of creating an international private equity portfolio with the widest possible diversification. At the same time we will also endeavour to sharpen our focus on countries to the east of Zurich: to mention just a few countries or regions, we believe that the Middle East, Turkey, South Korea and Australia offer far greater potential than the G7 countries.

The early part of this year has been relatively difficult for Absolute Private Equity, too: substantial value adjustments within the portfolio, above all involving Warburg Pincus at the end of March, have kept the net asset value down at practically the same level as at the start of the year. Despite this, our portfolio continues to show potential, and I am convinced that we will continue to generate above-average returns in the coming months.