

Princess Private Equity Holding Limited

Investment holding company traded on the Frankfurt Stock Exchange and on the London Stock Exchange

Princess Private Equity Holding Limited ("Princess") is an investment holding company domiciled in Guernsey that invests in private market investments. Investments include primary and secondary fund investments, direct investments and listed private equity. Princess aims to provide shareholders with long-term capital growth and an attractive dividend yield in the mid- to long-term. The shares are traded on the Frankfurt Stock Exchange (in the form of co-ownership interests in a global bearer certificate) and on the London Stock Exchange.

Key facts

	Frankfurt	London
Trading symbol	PEY1	PEY
Reuters	PEYGz.DE/PEYGz.F	PEY.L
Bloomberg	PEY1 GR	PEY LN
WKN	AOLBRM	AOLBRL
ISIN	DE000AOLBRM2	GG00B28C2R28
Valor	2 830 461	2 830 461
Formation of the Company	12.05.1999	
Base currency	EUR	
Dividends 2008	EUR 0.30 (20/06/2008)	

Monthly commentary

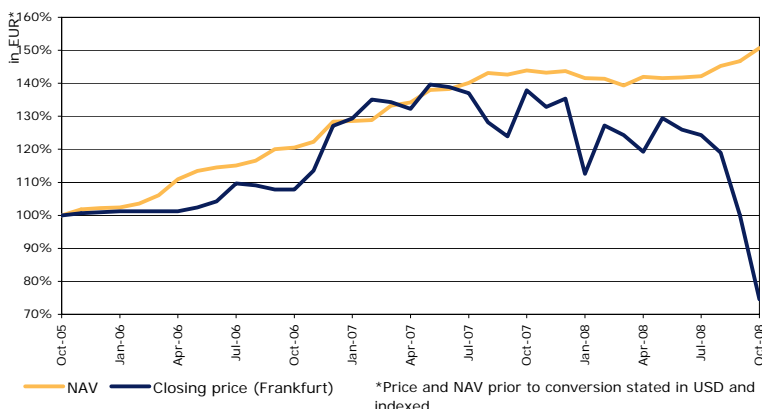
The net asset value of Princess increased for the fifth consecutive month in October with a gain of 2.7% to EUR 9.78 per share. The revaluations of the underlying fund investments were on aggregate stable, with the majority of the underlying private equity portfolio company reports reflecting 30 June or 30 September valuations. However, the necessary IFRS adjustments made by Princess' Investment Advisor Partners Group, to reflect current public market prices, resulted in a net decrease of 2.4% of NAV. A key component of NAV performance in October was the appreciation of the US dollar against the Euro, which resulted in an additional 5.8% positive impact on the NAV.

Key figures

	31.10.2008	30.09.2008	YTD
Net asset value (NAV)	EUR 9.78	EUR 9.52	
Net asset value (NAV) incl. dividend	EUR 10.74	EUR 10.46	4.9%
Investment level	96.89%	95.99%	
Over-commitment	56.48%	55.01%	
Closing price Frankfurt	EUR 4.20	EUR 5.64	-44.9%
Premium	-57.06%	-40.76%	
Closing price London	EUR 4.10	EUR 5.65	-46.8%
Premium	-58.08%	-40.65%	

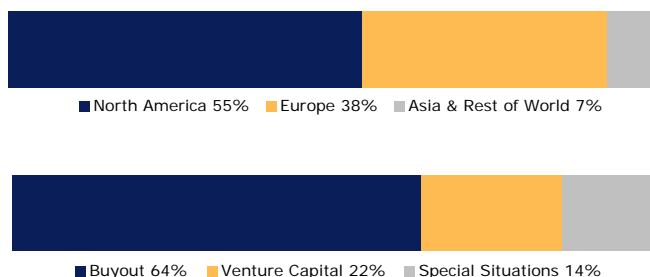
Where applicable, returns are calculated according to the standard BVI-method of the Bundesverband Investment and Asset Management and may be subject to decimal rounding.

NAV and price development (including dividends)

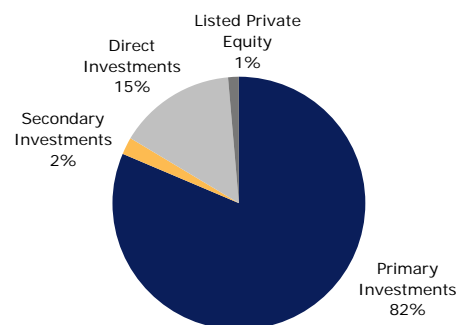


Princess currently has net cash and liquid assets of 5% of NAV and remains fully undrawn in its USD 50m credit facility which is committed until the end of 2009. Partners Group is continuously adapting its cashflow modelling and commitment planning based on various market scenarios. In this context, the Investment Advisor significantly reduced its commitment program at the end of 2007, and did not make significant commitments after April 2008 in order to position Princess for a softening market environment. With respect to its current cashflow model, Princess would need to slightly increase its existing credit facility to retain enough headroom for over-commitments and to resume dividend payments. This credit facility would present a very low loan to NAV ratio and would be easy to obtain under less extreme market conditions. However, since such severe dislocation in credit markets could not be foreseen, for the sake of prudence and in spite of the NAV development, the Princess Board of Directors has decided upon the precautionary suspension of dividend payments for the second half of 2008. Nevertheless, Partners Group is confident to be able to arrange an extension of Princess's existing credit line in 2009 which allows the Company to retain its long-term dividend policy, which targets an annual dividend yield of 5-8% p.a. on the NAV.

PE investments by regions and financing stages



PE investments by investment types



Recent commitments

Partnership/Company	Financing stage	Region	Vintage	Size in m	Month
Media and Communications Company	Buyout	North America	2008	EUR 1.6	Aug 08
Xanit Hospital Internacional	Buyout	Europe	2008	EUR 2.0	June 08
Cengage	Buyout	North America	2008	EUR 0.4	May 08
Ares Corporate Opportunities Fund III, L.P.	Buyout	North America	2008	USD 10.0	Apr 08
Aksia Capital III, L.P.	Buyout	Europe	2005	EUR 3.0	Mar 08

Market commentary

In response to the current public market situation and the challenging economic environment, Partners Group, the Investment Advisor to Princess, provides an update on its private market views and the expected impact on private equity portfolios.

After the fifth consecutive month seeing the Princess NAV increasing in total by almost 6% on the one hand and a further decline in the product's share price on the other hand, the discount widened to unprecedented levels. While the Investment Advisor cannot rule out short term negative impacts on the product performance due to the ongoing market dislocations, Partners Group in the mid to long term remains confident about the development of the NAV and regards the current discount as disproportionate.

Private equity is typically less dependent on short term fluctuations of the global financial markets but rather linked to developments in the real economy. Even though private equity sponsored companies are also affected by a softening or likely recessionary environment, the Investment Advisor is convinced that these are better positioned than their public peers by nature of the private equity business.

First and foremost, private equity financed companies do not have a broadly diversified shareholder base, but usually – and this is especially true for the buyout side – only one to two majority shareholders. These majority shareholders are close to the firm, with often a very hands-on approach to the development and management of the company, with the ability to adjust strategies or management very swiftly if necessary, and, most importantly, are not dependent on the short term focus of public markets. Private equity firms build companies and generate shareholder value over the long term, through business and market cycles. The Investment Advisor's leading private equity investment partners have been through such times before and Partners Group is convinced they will again successfully adapt to the current environment as proven in the past.

Secondly, many private equity backed companies are better financed than their public counterparts. In particular, in the past they benefited from highly attractive financing terms and "covenant light" structures, which put them in a much better position to weather a softening or likely recessionary environment. In most cases, significant refinancing activities in these transactions are only expected to commence in 2011/12 and beyond. In addition, many private equity sponsors have substantial undrawn capital available to further finance their existing portfolio companies as needed.

However, Partners Group does expect that a few large and "high profile" transactions will potentially fail – with associated high level of publicity – but investors should bear in mind that this should not be representative for broader private equity portfolios. In this regard, the Princess portfolio will benefit from its significant diversification of vintage years, regions, stages, industries, and size, consisting of approximately 150 funds, 22 direct investments as well as one direct co-investment feeder vehicle. Within a well balanced industry allocation only 7% are allocated to the financial services sector and only 28% of Princess' overall investments were made in 2006 and in the first half of 2007. This sophisticated setup should contribute to the stability of the Princess portfolio in a softening or likely recessionary environment.

Private equity has proven in the past that returns have remained remarkably stable throughout various public market crises, such as the bursting of the dot com bubble, the Russian debt default or the Black Monday stock market crash, generating positive returns even in the most difficult years.

Having said this, in the short and mid-term Partners Group expects to see modest valuation adjustments – some of which should only be temporary – in the Princess portfolio, in particular based on "fair market value" accounting and valuation principles applied to individual investments; the recent performance of financial markets has resulted in a decline in valuations of comparable public companies across most sectors and may lead to downward revisions of certain investments. However, while such adjustments for diversified large-cap buyout portfolios of recent vintage years are expected, the effect on the Princess portfolio, which has an allocation to large caps of less than 30% is expected to be limited; the small cap sector not being subject to significant multiple expansion in the past. Accordingly these valuations should be more stable. While, of course, private equity firms are not required to exit their investments at this point in time, IRRs of recent vintage years – 2006 and 2007 in particular – are, however, expected to be affected. The slowing exit activity in general translated into a significant decrease of distributions flowing back in the Princess portfolio, as compared to 2007 levels.

In summary, Partners Group has high confidence in Princess' portfolio, with quality investments and high levels of diversification, managed by top-quartile private equity firms which the Investment Advisor believes are well-equipped to weather a difficult economic environment.

Contact details

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