Newsletter

October 2008

shaPE

Dear Investor

What already loomed at the time of the release of the September Newsletter is now disenchanted fact: October 2008 turned out as one of the worst months ever for the financial markets. While public equity markets declined by 17.6% (MSCI World TR - USD terms), listed private equity was hit even more seriously with the LPX 50 TR and the LPX Indirect declining by 24.5% and 35.0% (both in Euro terms).

As it is well known that reported Net Asset Values (NAV) of listed private equity vehicles tend to lag underlying asset values by at least one to two quarters, listed private equity vehicles currently trade at substantial discounts to their reported NAV which are still predominantly based on Q2 2008 reports of underlying funds. For example, the aggregate discount of the share price to NAV for the five listed private equity vehicles traded at the SIX Swiss Exchange has increased from -23.5% per 24 September 2008 to -67.4% per 12 November 2008.[1]

Market data	31.10.08	30.09.08	Change mtm	31.12.07	Change ytd
MSCI World TR (USD)	**2'228.4**	2'705.7	-17.6%	3'628.1	-38.6%
LPX 50 TR (EUR)	**703.4**	931.2	-24.5%	1'312.6	-46.4%
LPX Indirect (EUR)	**41.3**	63.6	-35.0%	88.2	-53.1%
USD / CHF	**1.1580**	1.1216	3.2%	1.1341	2.1%
EUR / CHF	**1.4748**	1.5815	-6.7%	1.6550	-10.9%
GBP / CHF	**1.8601**	1.9960	-6.8%	2.2497	-17.3%

Performance and Portfolio Development

The NAV per share decreased from CHF 269.01 per end of September to CHF 265.76 per 31 October (-1.2%). The share price declined from CHF 230.00 to CHF 98.00 (-57.4%), implying a discount of share price to NAV per share of -63.1% per end of October. At the time of this writing (13 November), the share price stands at CHF 58.50, implying a discount of -78.0% to NAV.

Excluding currency effects, the gains on the investment portfolio decreased by 1.0%, resulting out of +0.8% in realized investment gains and -1.7% in unrealized gains due to lowered investment valuations. About two third of underlying fund valuations are still based on Q2 2008, while another 24% base on Q1 2008 or are valued at cost. The few valuation reports received so far for Q3 2008 show valuation adjustments between -2% and -16% relative to Q2 2008 valuations.

Throughout October, CHF 2.5 million were paid out to underlying partnerships and CHF 2.1 million were received in distributions, reflecting the reduced investment and exit activity of underlying funds in the current environment. Due to the balanced relation between cash paid out and distribution received, the investment level remained unchanged at 97%. Since no new commitments were added to the investment portfolio, the commitment ratio moved slightly from 160% to 162%, mainly reflecting currency effects (majority of commitments denominated in USD).

Development of key figures	31.10.08	30.09.08	Change mtm	31.12.07*	Change ytd
NAV per share (CHF)	**265.76**	269.01	-1.2%	283.38	-6.2%
Closing price SWX (CHF)	**98.00**	230.00	-57.4%	274.00	-64.2%
Premium / (discount) to NAV	**(63.1%)**	(14.5%)	-48.6%	(3.3%)	-59.8%
Investment level	**97%**	97%	0%	88%	9%
Total commitments vs. NAV	**162%**	160%	2%	139%	23%
Undrawn commitments vs. NAV	**75%**	75%	0%	69%	6%
No. of listed PE investments	**2**	2	0	3	-1
FV listed PE investments (CHFm)	**11.4**	12.2	-6.7%	17.6	-6.2
No. of unlisted PE investments	**67**	67	0	64	3
FV unlisted PE investments (CHFm)	**224.4**	225.4	-0.5%	211.4	13.0

*The NAV per 31 December 2007 reflects audited information as disclosed in the Annual Report 2007.

In the context of the continued deleveraging process coupled with a further deterioration of asset values, shaPE decided to increase its freedom of flexibility. At the beginning of November 2008, shaPE signed a contract to sell seven funds of three different fund managers. The package was a combination of four smaller, mostly funded, older vintage funds as well as three larger 2007 and 2008 vintage funds with a predominantly unfunded part (more details to be disclosed upon closing of the transaction). The transfer is expected to take place in December 2008. Calculated on a pro forma basis as of 30 October 2008, this secondary sale will have the following effects on key figures (the final impact will be evident only after closing of the transfer in December):

- Decrease of the sum of total NAV plus unfunded commitments (also referred to as “total exposure”) by 12%.
- Decrease in the investment ratio by 3% from 97% to 94%, reflecting the build up of the cash position.
- Decrease in NAV by 6%, reflecting the write-down incurred relative to Q2 2008 valuations.

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[1] RBS Alternatives Parity Sheet 24.09.08 and 12.11.08

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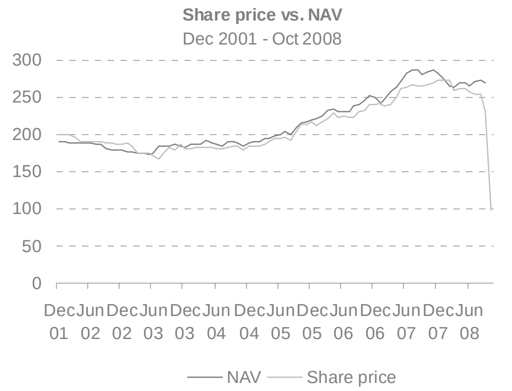
– Decrease of the commitment ratio by 7% from 162% to 155%, reflecting the disposal of CHF 40 million in commitments included in the secondary sale.

While the sale took place at substantial discounts relative to Q2 2008 valuations, the transaction will increase the financial flexibility of shaPE through the build-up of cash and through the decrease of unfunded commitments.

Corporate actions

In light of the significantly increased discount of share price to NAV over the last few weeks, the board of directors of shaPE Capital AG has decided to launch a share buyback program. Under the buyback program, shaPE will be authorized to repurchase own shares up to 10% of its outstanding capital (corresponding to 91'466 shares). The details of the buyback program are described in a separate ad-hoc press release, which has been published concurrently with this Newsletter (release available on www.shape-capital.com).



Market Development

With the US and Europe facing a deep and prolonged recession, credit markets effectively remaining shut for the next six to twelve months, the unavailability of capital raising from the public markets (with a few exceptions so far) and potential further downward pressure on public equity valuations, the private equity industry is facing significant challenges.

In this market context, operational efficiency, cautious cash management and a sound financing structure are imperative. shaPE will therefore continue its strategy of relying on private equity managers, who aim to generate value through strategic and operational improvements (resulting in EBITDA growth) and whose investment returns are less dependent on leverage. Due to the above mentioned reporting lag we expect the NAV of shaPE to further come down over the upcoming months as Q3 2008 and later on year end valuations are being reported by the underlying funds. On the other hand, although general investment activity is expected to remain curbed over next few months, the market correction will without doubt create buying opportunities that carry a high potential for value creation over the forthcoming years.

Pfaeffikon SZ, 13 November 2008

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