



**Fremont Group
2007 Annual Review**

Dear Shareholders, Partners and Employees,

For Fremont Group, 2007 was a year of accomplishments amid the challenges inherent in periods of market volatility and economic uncertainty. While all segments of the public and private capital markets were affected by the contraction in credit and a slowing economy, our investments in private equity, venture capital and real estate all achieved positive returns in 2007. Gains from these investments helped to offset the largely unrealized declines in the value of our concentrated portfolio of public equities.

The collapse of the housing bubble and the accompanying subprime mortgage problems had widespread consequences, both domestically and abroad. The dislocations in the mortgage market extended to other sectors of the credit markets as well. Hedge funds and financial institutions sold positions amid declining valuations and tighter credit. As a result, credit spreads have widened, and continued declines in equity markets are now well known.

Fremont Group had no direct exposure to the mortgage or other credit sectors most deeply involved in the credit crisis. Additionally, we do not borrow at the corporate level to fund equity investments and were not, therefore, forced to sell investments to repay loans. We do have exposure to the credit markets through the BF fund portfolios, which are managed in an endowment style by external managers. Nevertheless, despite negative returns in the fourth quarter, these highly diversified portfolios had positive returns for the year and outperformed their benchmarks.

After four years of low volatility and positive returns for equities, the Standard & Poor's 500 Index had its first correction since 2003 in the fourth quarter of 2007. Although our holdings of public equities (principally through FPO and FPR Partners) were adversely affected, the companies in our portfolio have excellent management and prospects. We believe that the disparity between the current market values of our portfolio companies and their intrinsic values will correct itself over time and lead to attractive returns.

In times like these, Fremont Group's long-term investment horizon gives us a very useful and reliable advantage in coping with market volatility. We capitalize on periods of market uncertainty and use them to purchase companies and assets trading at well below their intrinsic values. Over time, this approach will enable us to continue to achieve superior returns.

Fremont Realty Capital

Fremont Realty Capital (FRC) manages our real estate investment funds (FSPP I and FSPP II) and specializes in investments in non-traditional real estate sub-sectors, including self storage and senior housing, and distressed property turnarounds. FRC achieved solid gains in 2007, as it has in the ten years since we began this business. Based on its track record and reputation, FRC today counts more than 30 institutions and individuals as investors in its funds, and ended the year with approximately \$1 billion in assets under management.

FRC's strategy of capitalizing on market imbalances to invest in nontraditional and selected sub-segments of the real estate markets produced healthy returns. After years of increasing values, prices for commercial real estate assets reached a high-water mark in 2007. Since then, there has been some erosion in investor demand for commercial real estate, while residential real estate is undergoing a significant correction. FRC's diversified portfolio is focused on value-creating investments that are underpinned by one or more of the following attributes: secular changes, cyclical trends or special opportunities. The portfolio includes holdings in senior housing, lodging, retail, mixed use, office, land and residential assets.

By year-end, Fremont Strategic Property Partners (FSPP I) had fully harvested eight of its original ten investments and returned all investor equity contributions. Since its inception in 2000, the Fund has produced a gross internal rate of return of 25.7 percent. During 2007, FSPP I liquidated its majority equity position in Fretus, a portfolio of 24 assisted living communities, which generated returns of 4.2 times invested equity. The two remaining investments in that fund are both residential condominium projects in Florida. Bayside Village, a 292-unit waterfront condominium conversion project in Tampa, is approximately 93 percent sold and has returned 1.7 times invested equity. The other remaining project is Panama City Beach Condominiums, a 570-unit condominium development project in Panama City, Florida. The building was completed last year and sales of 314 of the 570 units have closed through mid-March of 2008. The bank construction financing was repaid in full in February 2008.

The commitment period for new investments for Fremont Strategic Property Partners II (FSPP II) ended on June 30, 2007, with \$439 million committed. Among the Fund's 2007 investments was Savannah Mall, a retail shopping center in Savannah, Georgia. The value-added plan for the Mall includes an asset repositioning with the goal of improving the mix of tenants through improvements in management, operations and marketing, and additional leasing of vacant space.

FSPP II also acquired East Hill Woods, a retirement center in Southbury, Connecticut, which provides a full continuum of living arrangements for retirees, including independent living, assisted living and skilled nursing facilities. The project provides several value-added opportunities, such as increasing occupancy to market levels, reconfiguring the product mix to improve revenues and building additional units. This investment capitalizes on FRC's successful track record of investing in the senior housing sector and represents FRC's sixth investment in this category.

Reflecting the success of FRC, a number of employees earned promotions in 2007. Steven Karpf, based in FRC's New York office, was named a Managing Partner. Matthew Reidy was promoted to Senior Managing Director, and Raphael Sidelsky was promoted to Managing Director. Keiri Custodio was promoted to Principal, and Max Newland was named Vice President. Additionally, Jennifer Joo, Priya Naidu and Ashminder Singh were promoted from Analyst to Associate, and Tran Tran was promoted to Assistant Controller. After ten years as a partner at FRC, Fred Zarrilli decided to leave to pursue other business and personal interests, and we wish him well in his new endeavors.

Fremont Public Opportunities/FPR Partners, L.P.

Fremont Public Opportunities (FPO) invests in public equities. For reasons we outlined previously, 2007 was very difficult. After strong performance in the first half of the year, the market value of FPO's holdings decreased in the second half. As a result, FPO experienced its first year of negative returns in its four years of operation. While market volatility is a fact of life for equity investors, it also presents an opportunity for investors who focus on superior companies. We are confident in and committed to FPO's investment approach, the excellent companies in the portfolio, and the strong team of professionals managing these investments. We believe the portfolio will deliver the superior rates of return that characterized FPO's performance in the prior three years.

As value-oriented investors, FPO seeks to acquire outstanding companies with proven management teams at prices that are less than the intrinsic values of the companies. Another aspect of FPO's approach is to engage the management of portfolio companies. By focusing on just 10-12 companies, FPO has been successful in developing strong relationships with portfolio company managements and provides input on issues such as capital allocation, growth strategies and communications with Wall Street. In addition to its core investment strategy, FPO selectively employs short selling and options strategies in order to increase returns while keeping risk low. In 2007, use of short sales contributed positively to returns, helping to offset declines elsewhere in the portfolio.

FPO's long-term focus is an advantage that enables FPO to endure short-term changes in value in the pursuit of long-term gains. Its concentrated portfolio of high quality U.S. equities includes positions in the media, insurance, retail/consumer, financial services, energy and transportation sectors.

In 2007, FPO launched a fund, FPR Partners, L.P., which includes capital from non-Fremont investors, and received a very positive response. The Fund has the same mandate as the FPO portfolio, to pursue a value-oriented strategy with a long-term time horizon. Another important development in 2007 was Andy Raab's promotion to Managing Director. Andy, who has been with FPO since its inception, applies his excellent business analysis skills as co-manager of the portfolio, working side-by-side with Managing Director Bob Peck, who together with Fremont, established FPO in 2003.

The current equity market dislocations have resulted in more attractive investment opportunities for FPO as long-term investors. Worries about recession, record prices for oil and other commodities, and credit market upheavals, coupled with the housing correction, have created a climate of uncertainty in which the valuations of outstanding companies have fallen along with those of lesser businesses. FPO is capitalizing on these opportunities to enhance the portfolio with holdings of high quality companies that the team believes will achieve very attractive returns in coming years.

Private Equity

Despite the credit crisis and difficult economic conditions, Fremont Group's investments in private equity performed well in 2007. Several of the funds in which we have invested over the last five years have entered the harvesting phase.

Calera Capital, the private equity firm formerly known as Fremont Partners, enjoyed an active year, making new investments early in 2007 and building value operationally in its portfolio companies. Calera completed the sale of Software Architects (SARK), an information technology consulting company, to Capgemini, a strategic buyer. After the sale of SARK, the Calera Capital II fund is 90 percent realized, providing gains of approximately three times invested capital. The Calera Capital III fund completed its investment cycle in 2007, with three of its remaining four portfolio companies achieving record results and maintaining a solid outlook for 2008.

Calera Capital's operating initiatives are well underway at each portfolio company. At Direct General, initiatives in claims processing, telecommunications, branch deployment and new revenue opportunities were developed and implemented in 2007. At ModSpace, management successfully executed initiatives to drive increased leasing, sales and ancillary revenues, following the successful combination of this business with portfolio holding, Resun Leasing. Ironshore, a property and casualty insurance company, enjoyed robust revenues and profits and completed the addition of a leading management team in professional liability insurance. Lastly, IPS, an industrial adhesives and plumbing business, achieved record results and is pursuing growth opportunities domestically and internationally, as well as making improvements in manufacturing and distribution.

Our investments in PAI Partners, one of the oldest and most experienced private equity firms in Europe, also provided healthy returns in 2007. Gains were due to the sale of several portfolio companies, all of them headquartered in Europe, as well as the recapitalizations of other companies in the portfolio. Among the significant transactions was the successful sale of Elis, a European leader in textile rental and hygiene services, including the rental and cleaning of uniforms, linens and the provision of restroom services and beverage dispensers. PAI also completed the sale of its majority stake in Vivarte, a publicly traded French company, which is a major distributor of clothing and shoes in Europe with more than 2,500 outlets. Other transactions included the sale of Saur, a leader in water distribution, sanitation and waste management in France, and the sale of Provimi, a worldwide leader in animal nutrition.

Venture Capital

In 2007, venture capital continued its recovery aided by an improved IPO market through the first part of the year and continued merger and acquisition activity. In this operating environment, Trinity Ventures, the venture firm that Fremont Group helped found 21 years ago, had a very active and successful year on many fronts. Trinity Ventures selectively capitalized on the broad range of company formations, relying on their disciplined approach and network of contacts to source attractive early stage investment opportunities.

Investing in companies in its target areas of software, services and systems, Trinity Ventures added to its long-term record of funding and nurturing a wide variety of young companies. In 2007, the vast majority of its portfolio companies increased in value, many of them substantially, and there were four successful exits from the portfolio, as companies were acquired or went public.

The signature deal of the year was the successful initial public offering in March of Aruba Networks (NASDAQ: ARUN), a company providing secure, scalable enterprise mobility solutions. Approximately 30 percent of the shares obtained in the transaction were distributed to investors in Fund VII and Fund VIII, providing a return of ten times invested equity. Even with a decline in the value of Aruba's shares in 2008, which will affect subsequent distributions, Trinity Ventures expects that overall returns to investors will remain attractive.

Bix, a consumer-focused Internet contest platform where users can create talent-based competitions, was acquired by Yahoo! in a stock transaction that resulted in a gain of four times invested capital. Modulus Video, a provider of video compression systems for digital TV, was acquired by Motorola in a cash transaction in which investors realized three to four times invested capital. Photobucket, a Fund IX holding that provides image and video hosting and online publishing, was acquired by Fox Interactive in a cash transaction at four times invested capital.

For Fund IX, the newest Trinity fund, it was a busy year for new investments, with eight new companies added to the portfolio, bringing the total number of companies in the portfolio to 19. New investments included companies involved in children's multi-player online gaming, a mobile browser for cell phones and other internet-driven software and services companies. By year-end, Fund IX was midway through its investment cycle, and Trinity Ventures anticipates completing investments for the fund by early 2009.

Fremont Ventures continues to hold three active companies in its portfolio. Among them, eSilicon, a full-service provider of custom chips to the world's leading electronics companies, continued to attract new customers and diversify its revenue base. It recently acquired the product lines of SwitchCore AB, which will contribute to revenue and gross margin growth. BioSeek, a systems biology-driven drug discovery company, had an eventful 2007. The company closed a significant joint research collaboration agreement with Amylin Pharmaceuticals, which also made an equity investment in the company. GlobalServe, an internet-based platform for IT procurement and services, increased its revenues for the sixth consecutive year. Although growth in revenues fell short of targets, the company has improved operations and is increasing its investment in sales and marketing to maximize future revenue growth.

BF Funds

Fremont oversees two investment partnerships, the BF Funds, which invest in an "endowment style" with a long-term perspective across multiple asset classes and investment managers. The assets in the partnerships are broadly diversified and invested with approximately 15 to 25 different investment managers. Monticello Associates, an institutional investment consulting firm headquartered in Denver, Colorado, assists with asset allocation and manager selection, and an Investment Committee has oversight responsibilities for the funds. Last year, the funds had positive performance in the high single digits and were ahead of their benchmarks, even after the downturn in the market later in the year.

Corporate Developments

In 2007, we achieved a number of significant corporate goals. We continued the strategic shift to increase the liquidity of our overall portfolio, completing the transition from an essentially illiquid portfolio when we were founded 21 years ago to a portfolio that is significantly more liquid today. Most importantly, we finalized the long-term reorganization of key aspects of our financial and capital structure. The successful resolution of this process clears the way to identify new strategic opportunities that will be tomorrow's winning investments.


In our 21 years of history, Fremont Group has evolved from being essentially a passive steward of assets to a highly proactive investor seeking superior returns on a consistent basis. As entrepreneurs ourselves, we have nurtured many businesses from start-ups to ongoing enterprises. Among them are Trinity Ventures, Fremont Partners (Calera Capital), Fremont Realty Capital and Fremont Public Opportunities/FPR Partners.

Prior successes notwithstanding, our fundamental challenge remains essentially the same as it was 21 years ago: to discover and pursue the most compelling investment opportunities. This mission is more demanding than ever, due to the multiplicity of investment options and the complexities of the global economy. To help us in this profoundly exciting and difficult work, we are delighted to announce that Richard (Dick) Cavanagh, a member of our Board of Directors and former President and CEO of the Conference Board and Executive Dean of Harvard University's John F. Kennedy School of Government, will be assisting us in identifying new investment themes and opportunities. I am confident that Dick's wide network of contacts and global perspective will be an invaluable asset to Fremont Group and our business lines.

As always, I want to recognize the outstanding team of professionals who work in the business lines and our corporate staff. I especially want to acknowledge Nancy Hair, who is retiring after 12 years as Director of Client Services, and thank her for her dedicated service. Succeeding her is Barbara Whitfield, who has assumed the role of Director of Client Services in addition to her responsibilities as Controller. Also, Shu Huang, Kent Doty and Elias Wen have assumed additional responsibilities as part of this transition. In addition, Gregg Glanz, Director of Financial Reporting was named a Principal. I also wish to extend my sincere thanks to the Board of Directors for their continued guidance and insights.

Looking ahead, the economic outlook is uncertain at best. With recession as a possibility, we cannot expect 2008 to be smooth sailing. Yet, it is in times like these that long-term investors, such as Fremont, lay the groundwork for future gains.

Sincerely,



Alan Dachs
President and CEO