



**Fremont Group
2008 Annual Review**

Dear Shareholders, Partners and Employees,

The global financial crisis of 2008 brought upheavals across the investment landscape, and Fremont Group was not immune. Like other investors involved in the private and public capital markets, our performance suffered as a result of the year's economic events. But despite the turmoil of recent months, we remain confident in our time-tested, fundamental investment philosophy, honed over decades of investing through both up and down cycles. As patient investors, unencumbered with debt at the corporate level, our focus is on obtaining attractive, sustainable profits over the long-term.

Returns in the primary asset classes in which we invest—public securities, real estate, private equity and venture capital—were all directly affected by the deepening recession, dislocations in the capital markets and the credit squeeze. Reflecting these conditions, the public securities market as measured by the Standard & Poor's 500 Stock Index was down 37 percent for the year. Diversification across asset classes provided little or no benefit in these extraordinary circumstances, as the only assets that performed well were Treasury bonds, federally guaranteed fixed income securities and gold. Many of these same trends have continued into 2009, as U.S. and world leaders take aggressive action to shore up financial institutions and stimulate the global economy.

At Fremont, we do not borrow at the corporate level to finance investments, and, therefore, we were not under pressure to raise cash or sell assets in order to meet near-term credit requirements. Consequently, the vast majority of losses we experienced in 2008 are unrealized. Additionally, we have consistently avoided investments in highly structured assets, including subprime mortgage obligations, associated derivative contracts and collateralized debt obligations. As a result, we were not subject to the massive declines in these instruments.

During the year, we took additional steps to reduce risk in view of the volatile investment and financial environment. To help protect the value of our holdings, we initiated a partial hedge of the portfolio in September by buying put options on the S&P 500 Index. These options, which increased in value in the fourth quarter, partially offset the declines in the rest of the portfolio in 2008. We have started to realize the proceeds from the hedge by closing out the position on market declines. Additionally, in October, we purchased two-year call options on the S&P 500 Index, which should appreciate when the economy and stock markets eventually recover.

We also further diversified our banking relationships to spread the risk among a greater number of well capitalized banks. On the investment side, we have moved the company's liquid assets into even more conservative investments including U.S. Treasury money market funds and FDIC-insured bank deposits. Fremont had held investments in the Reserve Primary Fund, a money-market fund that "broke the buck" when its value

declined below \$1.00 per share, due in large measure to its investment in Lehman Brothers debt. At this point, we have received 86% of our investment, and Reserve recently announced that investors should expect to receive approximately 91.7% of their investment. We have written the investment down to this amount in 2008.

A new factor that affected our investment performance in 2008 was “fair value” accounting rules, which went into effect for private equity, real estate and venture capital. The new accounting rules had an adverse impact on the valuation of several of our private equity and venture capital holdings during 2008. The same conditions also resulted in reductions in the value of some real estate investments. However, these declines in the value of our private investments remain unrealized, since we still own the assets.

The following sections provide a brief summary of developments in each of our major investment categories.

Public Securities

Reflecting the equity market’s turbulence in 2008, Fremont Public Opportunities (FPO), which manages a concentrated portfolio of public securities for Fremont and operates the FPR Partners Fund, experienced significant declines in the values of its portfolios. The declines remain almost entirely unrealized, since the FPO team continues to hold ownership stakes in most of the companies. In fact, at the time of writing this letter, FPO and FPR have recouped some of these declines so far in 2009.

At year-end, the portfolio included investments in the media, energy, insurance, retail, consumer products, food, asset management and telecommunications industries. The companies in the portfolio were selected based on extensive research and analysis of their financial prospects, risks and opportunities, competitive positioning and management strength. Even after factoring in the impact of a protracted recession, long-term demand for their products and services remains intact. FPO management believes that all are attractively valued, with current prices that do not reflect the intrinsic value of these companies.

Real Estate

Fremont Realty Capital (FRC), which specializes in opportunistic investments in real estate, experienced its first year of negative investment results in 2008. Although FRC has never invested in and was not involved with subprime mortgages or collateralized mortgage obligations and has been prudent in its use of asset level debt, the broad-based decline in the value of virtually all real estate-related assets adversely affected the investments held by FRC in its two funds, FSPP I and FSPP II.

At year-end, FSPP I, which has returned all investor equity contributions and a substantial profit from its inception through 2008, held only two remaining investments, which are in condominium projects in Florida. Despite the over-supply of housing in this

market, FRC made excellent progress in sales of its primary investment, the Panama City Beach Condominiums. In its other remaining project, located in Tampa, Florida, only a few units remain to be sold.

For FSPP II, the FRC team is focused on aggressive management of the Fund's diversified portfolio of properties, including office buildings, hotels, senior housing communities, a mall and residential developments. The management team's goals are to maintain and improve occupancy and enhance the properties' marketability, while tightly managing expenses during this tough economic environment. A bright spot in the portfolio was the positive leasing performance of the Fund's commercial office properties in Puerto Rico, Chicago and Baltimore. The Fund's other investments in senior communities, hotels and residential projects all suffered from the impact of the economic recession and credit crunch.

In addition to investments through FRC, Fremont has invested directly in certain real estate properties. One such investment is Cheyenne Corporate Center, a 321,000 square foot mixed-use project in Northwest Las Vegas with nine office/retail buildings. During 2008, Fremont reduced the value of this investment as vacancy rates at the property (and in the market generally) increased and rental rates declined.

Private Equity

For our private equity portfolio, the emphasis in 2008 was on operating initiatives to drive future growth and profits, as well as on cost control at the four remaining companies in Funds II and III. None of these companies required additional capital to fund operations, although a follow-on investment was made in IPS, an adhesives and plumbing business. However, the values of two of the investments, ModSpace and IPS, were reduced as required by the new accounting rules.

The management strategy for our private equity portfolio is to broaden the product offerings of its portfolio companies, while aggressively managing expenses. Reflecting this strategic direction, IPS expanded into international markets and developed a new, environmentally friendly "green" line of plumbing-related products. Direct General, an insurer that provides non-standard personal automobile insurance and other consumer finance products, added tax preparation services to its product mix. Ironshore, which provides specialty lines of property and casualty insurance, expanded its presence internationally with the acquisition of an agency that gives the firm access to the Lloyd's platform.

Fremont Group also invests in funds operated by PAI Partners, one of the oldest and most experienced private equity firms in Europe. PAI made new investments in Atos Origin, one of the largest European information technology services and outsourcing companies, and Xella, a leading supplier of building products based in Germany.

Venture Capital

In light of the deteriorating economic picture, Trinity Ventures, the company Fremont founded in 1986, re-evaluated each portfolio company's prospects and, where appropriate, reduced their spending rates, downsized staff and fine-tuned strategies. The goal remains to conserve cash and help the companies reach cash flow breakeven. Capital-efficient business models have long been one of Trinity's investment themes, so the majority of their portfolio companies will not need to raise additional capital in 2009.

Most of the portfolio companies in Funds VII and VIII continued to make progress from a product and operational perspective, staying the course despite the slow economy. For Fund IX, Trinity completed 10 new investments in its core sectors of software, internet and mobile services and systems. These new investments are in early-stage companies with small, lean management teams that are focused on product development rather than more capital-intensive, expansion-stage initiatives.


In other portfolio developments, eSilicon, a semiconductor company in which Fremont Group has a stake, saw strong revenue growth and achieved three quarters of profitability. BioSeek, a portfolio company that applies predictive human biology to drug discovery, entered into collaboration agreements with several well-known pharmaceutical companies during 2008.

Conclusion

While Fremont Group avoided the worst of the economic pitfalls of 2008, we nevertheless experienced largely unrealized write-downs across our investment portfolio. Painful as they are, short-term revaluations are the unavoidable consequences of being an active investor, with risk as an inherent part of the equation in the pursuit of sustainable long-term returns. Our investment processes and adherence to a strict investment discipline have helped us through these difficult markets. In fact, we believe that the current economic dislocations should eventually yield attractive investment opportunities for patient, long-term investors, such as Fremont.

Tough times demand the best of our people, and I want to thank the talented professionals on our corporate staff and in our business lines for their dedication, skill and steadiness in navigating the rough waters of 2008. As always, I want to thank our board of directors for their counsel and guidance, and our shareholders and partners for their continued confidence and support.

Sincerely,



Alan Dachs
President and CEO