

PRIVATE EQUITY OVERVIEW

Private equity continues to be impacted by the credit issues in the market, but the statistical indicators still do not fully reflect this impact given the delays and lags in the reporting of different sets of data. Deal activity has noticeably slowed, particularly among large and mega buyouts, largely due to the difficulty in financing new deals. In order to complete deals going forward, the large and mega funds will have to put more equity into deals, while the environment for recaps will be much less accommodative. Additionally, holding periods should expand, all of which should adversely impact IRRs looking forward. Ironically, it may be those mega funds that were least aggressive about “flipping” deals quickly that may be impacted more, as they will be forced to ride out the storm. The days of generating value through financial engineering are largely over, at least in the near term; the ability to create value through operational improvements will be critical looking forward.

Despite the near-term issues in the market, and the market uncertainty looking forward, private equity will successfully navigate these more turbulent times over the long-run. While certain segments of the private equity space are, and will continue to be, materially impacted, some segments may continue to perform solidly or even benefit from the uncertainty in the market. Private equity as an asset class offers many investment strategies that are not readily available among more “mainstream” investments. As such, even in a highly uncertain outlook, there are opportunities to take advantage of dislocations in the markets that may not be available to investors in “traditional” asset classes. Distressed funds may find increasingly attractive, and a higher quantity of, investment opportunities than has been the case over the past few years. Even if the economy does not materially weaken, there will undoubtedly be weak industries and sectors from which the distressed players can choose. Mezzanine funds may also benefit from the credit crunch, as alternative forms of financing dry up, potentially providing additional opportunities to these funds to deploy capital favorably.

Even among traditional buyouts and venture capital, commitments made today will be invested over a number of years, which makes it extremely difficult to time such investments. As such, a potentially weakening environment may be an attractive time to commit to private equity, as capital will be invested over time, and may be able to capture lower prices than was available only a few months ago.

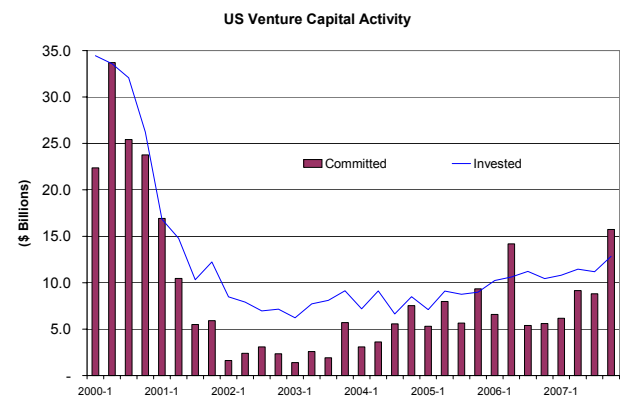
VENTURE CAPITAL

US Private Equity Performance Index (PEPI)
Investment Horizon Performance through 9/30/2007

Fund Type	1 Yr	3 Yr	5 Yr	10 Yr	20 Yr
Early/Seed	23.6	6.8	3.1	34.5	20.8
Later Stage	41.4	10.5	8.4	8.3	13.8
All Venture	32.3	10.4	6.7	17.9	16.4
Medium	7.4	14.7	10.4	9.5	13.0
Large	5.7	9.4	13.0	7.0	11.9
All Buyouts	27.9	14.9	14.3	8.3	12.8
Mezzanine	18.3	5.5	5.1	6.1	8.3
All P.E.	31.1	13.6	11.8	10.5	13.8
NASDAQ	20.5	13.4	18.9	5.4	10.3
S & P 500	16.4	13.1	15.5	6.6	10.6

*The PEPI is based on the latest quarterly statistics from Thomson Venture Economics. All returns are calculated by TVE from the underlying financial cash flows. Returns are net to investors after mgmt fees and carried interest.

Source: Thomson Venture Economics/NVCA, Stylus



Source: Venture Economics

- In the 4th quarter of 2007, seventy-nine venture capital funds raised \$15.7 billion, meaningfully up from the seventy-seven funds that raised \$8.8 billion in the prior quarter, and nearly triple the sixty-seven funds that raised \$5.6 billion in the 4th quarter of 2006. This represents the highest quarterly total since the 1st quarter of 2001, the end of the technology bubble. The year also accounted for the highest annual total of venture capital funds raised since 2000. However, the 2007 total was still well below the technology bubble-era peak (\$39.8 billion in 2007 versus \$105.2 billion in 2000).
- There were several venture capital funds raised in the quarter over \$1.0 billion, including the largest, Technology Crossover Ventures VII, at \$3.0 billion, which partially account for the overall strength in the fundraising total for the 4th quarter.
- Investments in venture deals were steadier, reflecting venture fundraising which has been relatively steady over the past few quarters, with limited exceptions. In the 4th quarter, \$12.8 billion was invested in 1,667 deals during the quarter, up 15% and 6% with respect to the volume and the number of deals, respectively, versus the prior quarter. Investment activity was also up versus the \$10.4 billion invested in 1,558 deals in the 4th quarter of 2006.
- Much of the strength in investment activity can be attributed to the clean technology and life sciences areas. According to the NVCA, the clean technology sector in particular had 46% growth in dollars and 57% growth in number of deals over 2006 levels.
- While investment in spaces including clean technology and life sciences can be more capital-intensive than traditional venture capital sectors, which may help to explain the growth in fundraising, venture as an industry is less-scalable than is the buyout space. As such, aggregate capital raised is worth monitoring, particularly as it relates to how capital is invested.
- US VCs continue to invest in India and China. In 2007, they invested \$1.1 billion in 91 deals in India and \$1.4 billion in 133 deals in China, which represent all-time highs for both countries.

VENTURE CAPITAL (Con't)

- There are currently sixty venture-backed companies “in registration” for an IPO, which is down from the seventy-two in the prior quarter.
- Exit activity was solid in the 4th quarter. There were thirty-one venture-backed IPOs in the quarter, which was the highest quarterly total since the 3rd quarter of 2000. \$3.0 billion was raised, which was the third highest quarterly total since the 3rd quarter of 2000.
- M&A activity for venture-backed companies was also strong. Seventy-eight companies were acquired in the quarter, down from ninety-seven in the 3rd quarter, but up from sixty-one in the 4th quarter of 2006. Activity was in the middle of the range of the past few years. However, deal volume totaled \$8.1 billion during the quarter, which, while down from the \$10.5 billion in the 3rd quarter, was still the second-highest quarterly volume since the 4th quarter of 2000.

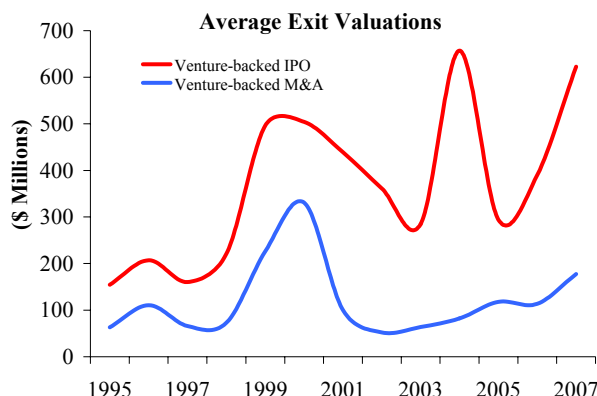
BUYOUTS

- Buyout funds raised \$48.8 billion in the 4th quarter, which is an all-time quarterly record. This represents 67% growth over the \$29.1 billion raised in the prior quarter, and is 6% higher than the \$45.9 billion raised in the 4th quarter of 2006. Total funds raised in the buyout segment in 2007 (\$164.7 billion) also set an all-time record versus the previous record set in 2006 (\$146.9 billion).
- While record fundraising has been driven by large and mega buyout funds, the credit issues in the market are expected to, and have already, impact the largest buyouts most directly. Such deals have been difficult to finance ever since the credit crunch started in the second half of 2007 and some buyout firms have backed out of already agreed-to deals. These include Blackstone with Alliance Data Systems, and J.C. Flowers and Sallie Mae, among others. This pattern should continue as the market uncertainty plays out. However, smaller buyouts remain relatively less impacted.
- Not surprisingly, the exit market for buyout-backed companies weakened during the 4th quarter. There were 10 IPOs of buyout-backed companies in the quarter which raised \$2.6 billion. This is down from the fourteen IPOs for \$3.3 billion in the prior quarter. The volume was near the low end of the quarterly range since 2004.
- Buyout-backed M&A volume was particularly weak, although the number of deals was solid. Twenty-nine buyout-backed companies were acquired in the quarter for \$1.8 billion, down materially from the thirty-two companies acquired in the prior quarter for \$6.9 billion. Dollar volume was the weakest since the 4th quarter of 2004.
- Exit activity most directly reflects the difficulties in the buyout space, and foreshadows a slower fundraising pace and deal activity. Were the economy to weaken materially, this would put additional pressure on the buyout space, in addition to that already caused by the credit problems.

Venture Exit Analysis:

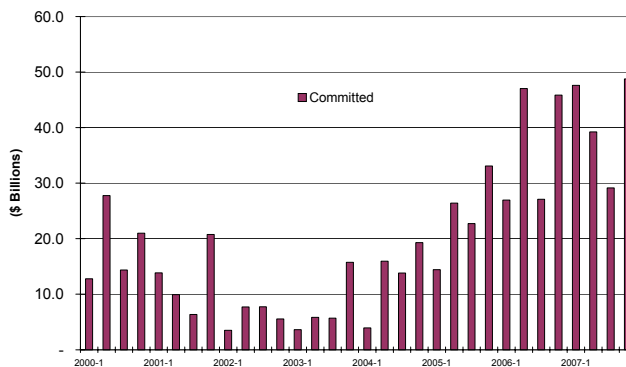
	# of Venture-Backed IPO's	Offer Amt (\$MM)	# of Venture-Backed M&A	Deal Value (\$MM)
2003	29	2,023	306	7,796
2004	93	11,015	345	15,486
2005	56	4,461	365	20,638
2006	57	5,117	380	17,766
2007	86	10,326	342	27,071
1Q07	18	2,191	82	4,540
2Q07	25	4,147	85	3,882
3Q07	12	945	97	10,530
4Q07	31	3,044	78	8,118

Source: Venture Economics



Source: Venture Economics

US Buyouts & Mezzanine Activity

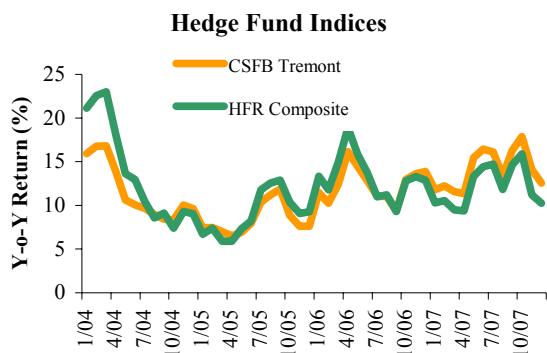


Source: Venture Economics

Buyout Exit Analysis:

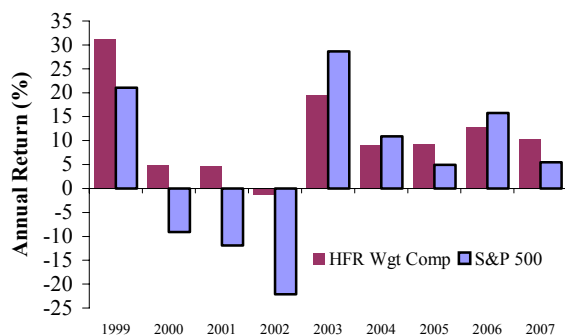
	# of Buyout-Backed IPO's	Offer Amt (\$MM)	# of Buyout-Backed M&A	Deal Value (\$MM)
2003	22	5,038	37	8,572
2004	58	11,407	34	8,975
2005	67	15,764	99	23,130
2006	66	17,451	131	26,224
2007	40	9,627	94	14,331
1Q07	6	1,568	17	3,320
2Q07	10	2,123	16	2,229
3Q07	14	3,344	32	6,939
4Q07	10	2,593	29	1,842

Source: Venture Economics



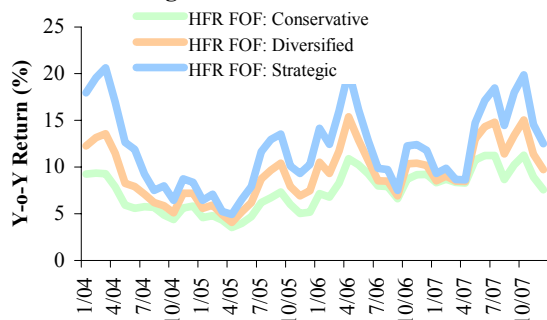
Source: Hedge Fund Research, CSFB Tremont

HFR Weighted Composite vs S&P 500



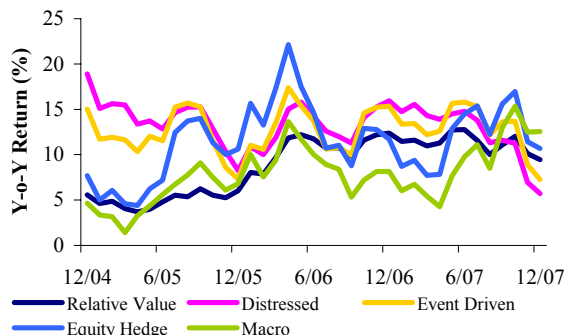
Source: Hedge Fund Research

Hedge Fund of Funds Indices



Source: Hedge Fund Research, CSFB Tremont

HFR Strategy Returns



HEDGE FUND OVERVIEW

- Large swings in strategy returns continued into the 4th quarter, driven by increases in equity and fixed income market volatility. Similar to the 3rd quarter, the 4th quarter was marked by several distinct periods. October was a strong month, with a relief rally in equity markets globally following actions by the U.S. Fed in August and September to shift to a looser monetary policy. The action was welcomed by the equity markets, with the S&P 500 (+6.97%) and MSCI EAFE (+7.78%) indices both up. November was an ugly month, with many strategies falling as a result of sharp increases in market volatility and further deterioration in credit markets. This was sparked by renewed concerns over sub-prime exposure within investment banks and other financial institutions. Many U.S. investment banks reported sizable write-offs as a result of sub-prime positions. The irony within the hedge fund world was the fact that fixed income was positive. The HFR Fixed Income Index was up 28 basis points in November. This may well reflect the balanced credit exposure managers migrated to, with offsetting long and short positions rather than large, directional trades.

- The HFR Weighted Composite Index (+1.38%) bested the return in the 3rd quarter by 17 basis points, while the CSFB Tremont Index (+2.39%) produced a gain of more than double the 3rd quarter's. The month-by-month breakdown of performance for the Weighted Composite is representative of the type of performance pattern produced by many of the underlying strategies. The Composite was up 2.87% in October, down 2.05% in November, the worst monthly decline since July 2002, and finished up 0.61% in December.

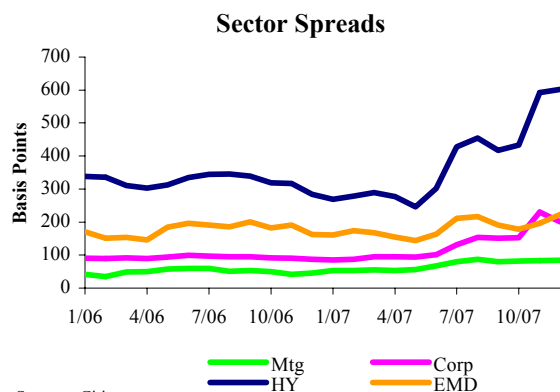
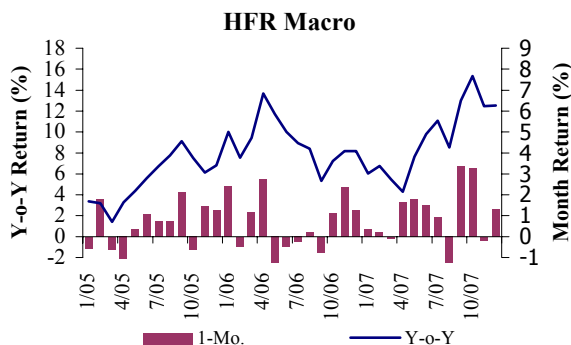
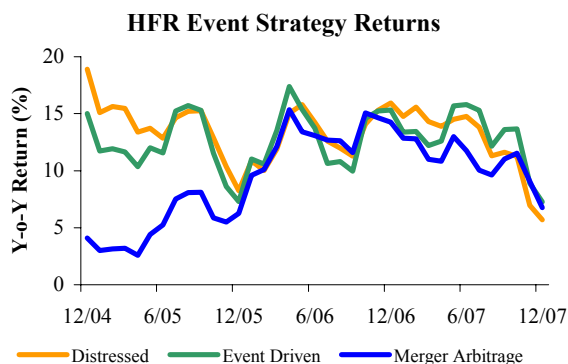
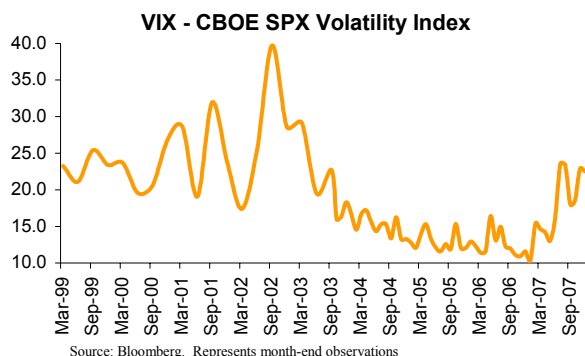
- Hedge Funds of Funds performed relatively well in the 4th quarter, producing returns that rivaled the HFR Weighted Composite Index. Generally, funds of funds captured much of the upside in October, protected better in November, and were generally up in line with the underlying strategies again in December. The HFR Funds of Funds Index was up 1.85% for the quarter, helping the index achieve a double digit gain of 10.12% for the year. The gain was just shy of the 10.4% return achieved by the funds of funds index in 2006, a period in which volatility was much lower. Fund of funds performance was heavily influenced by whether they entered the year with long or short sub-prime exposure.

NON-DIRECTIONAL STRATEGIES

- Equity Market Neutral, a strategy that stole the headlines during the 3rd quarter, was much more stable during the year's final quarter, with managers in this area gaining 1.54%. The deleveraging of portfolios that occurred during the 3rd quarter resulted in generally less gross exposure heading into the 4th quarter. This helped the strategy post only marginal losses during November (-0.19%), a period that was clearly one of the toughest in recent memory for hedge fund managers. For the year, Equity Market Neutral was up 5.95%, a return that was generally in line with the S&P 500.

- Convertible arbitrage managers, as represented by the HFR Convertible Arbitrage Index (+0.29%), found the 4th quarter market environment to be a tricky one. While a noted rise in volatility should have been beneficial to convert pricing, the blow out in credit spreads offset the advantage. Performance dispersion across convertible managers, particularly in an environment where return differences are extreme, is usually a result of the level of credit exposure within the covert portfolio. For the year, the Convertible Arbitrage Index was up 5.03%.

- The HFR Relative Value Arbitrage Index was up 2.76% for the quarter, a gain that was among the best during the period. The strategy closed the year with a 9.46% gain.



Source: Citigroup

NON-DIRECTIONAL STRATEGIES (Con't)

- The HFR Fixed Income Index produced surprisingly good returns for the quarter (+1.86%), but was the worst performing strategy for the year (+4.03%). The strategy struggled during the 2nd and 3rd quarters due to a variety of factors, the most significant being the increase in investor risk aversion and credit spreads.

EVENT DRIVEN STRATEGIES

- Event-related strategies, comprised of Merger Arbitrage, Distressed and Multi-Event, continued to struggle in the 4th quarter. The market environment was not kind to many of these strategies, as concerns over deal financing widened merger spreads and held up a number of corporate transactions. The HFR Event Driven Index, the catch-all for broad-based corporate event-focused managers, was up 0.04% for the quarter, and 7.25% for the year, the worst return since 2002.
- The HFR Merger Arbitrage Index fell 0.06% in the 4th quarter after gaining just 0.49% during the 3rd quarter. For the year, the Index was up 6.76%. Merger and acquisition activity continued at a good pace, but many deals saw spreads widen in November and December. Several major LBO-led deals were closed during the period, helping offset some of the spread widening. With deal spreads wider, the return potential over the near term is more attractive, but the risk of deals closing has clearly increased. Acquirers are going to find it more difficult to secure financing in an environment where lending has come to a halt.
- Distressed returns were a disappointment for the quarter, with the HFR Distressed Index gaining just 0.02%. This resulted in the index being up just 5.70% in 2007. Similar to Event Driven, 2007's gain was the worst since 2002. Distressed managers were negatively impacted by widening credit spreads. The opportunity set remains limited but the expectation is for opportunities in both asset-backed securities and corporate debt to begin to emerge. As it relates to the sub-prime fallout, we are seeing managers create credit funds to take advantage of valuation anomalies in that space. Additionally, managers have indicated they are adding to cash reserves in anticipation of the wash out in corporate debt.

DIRECTIONAL STRATEGIES

- The HFR Macro Index was up 4.42% for the quarter, producing the best annual return for the strategy (+12.54%) since 2003. The sharp increase in volatility and the ability of short term traders to rotate quickly helped the group. Additionally, there remain several key trends in place that have persisted for an extended period. Specifically, the sharp rise in oil, gold and other commodities, combined with well defined trends in currencies (short dollar), helped many managers during the year. Additionally, many macro managers have been able to implement trades designed to take advantage of flight-to-quality flows into areas such as short term government securities and gold.
- Equity long/short managers, as represented by the HFR Equity Hedge Index, were up considerably in October, down almost as much in November, and marginally positive in December. For the quarter, the index finished with a 0.83% gain. The increasingly large monthly returns are a direct result of high net market exposures in many of the managers portfolios, coupled with sharp increases in market volatility. Given the rise in volatility, and the uncertainty regarding economic conditions in both the U.S. and overseas, net exposure is on the decline. We have seen managers reduce net exposure from an average level north of 50% to below 30% in just a few months time.

REAL ASSET OVERVIEW

With valuations reaching peak levels in early 2007, the public REIT market was bound for a correction, and the credit crisis served as a catalyst that started the decline. As such, the direct property markets (as represented by the NCREIF Property Index (“NPI”)) are expected to experience a re-pricing as well, as capitalization rates stop falling and start to move higher. However, with transaction volumes down considerably, this process will likely be drawn out over a period of time due to the lack of liquidity in the NPI as compared to the REIT index. The magnitude of the decline is uncertain but is anticipated to be more prominent within lower quality assets in secondary markets, and less so in high quality assets in “top-tier” geographies and locations. As the era of cap rate compression came to an end in 2007, commercial real estate faces a challenging environment in 2008 with the U.S. economy weakening against the backdrop of a fragile credit market. Still, for the most part, commercial real estate fundamentals have remained favorable (healthy demand / modest supply) across the major property types; however, continued difficulties in the financial markets and economic uncertainty will have a meaningful impact on fundamentals going forward.

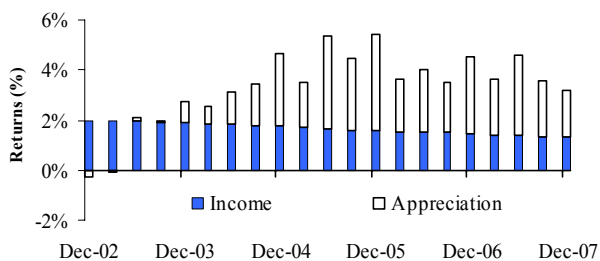
Managers that focus on value-added and opportunistic real estate strategies may find the current environment attractive, taking advantage of capital markets inefficiencies, especially those with the ability to participate across the entire capital structure through both equity and debt financing. These managers may be able to capitalize on distressed situations where investments may be experiencing financial (and/or operational) issues, by providing equity for recapitalizations or mezzanine-debt for the highly levered borrower.

Asset Class Performance (% Annualized Returns)

As of 12/31/07	Qtr	1Year	5 Years	10 Years
Real Estate				
NAREIT (US)	(12.7)	(15.7)	18.2	10.5
NCREIF Property	3.2	15.8	15.1	12.9
Timber				
NCREIF Timberland	9.4	18.4	14.0	8.6
Commodities				
DJ-AIG Commodity	4.7	16.2	14.3	9.0
S&P GSCI Commodity	11.6	32.7	14.9	9.3
Inflation				
US Inflation (CPI-U)	0.7	4.1	3.0	2.7

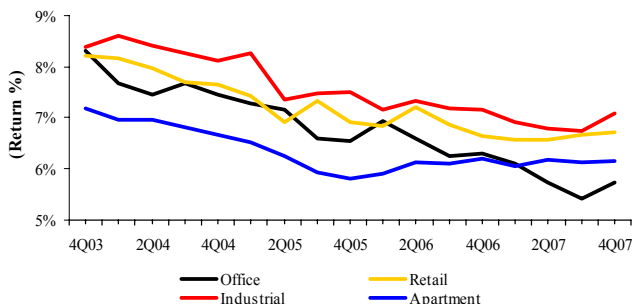
Source: NCREIF, NAREIT (Equity Only), Bloomberg

**NCREIF Property (Qtrly)
Components of Total Return**



Source: NCREIF (Data as of 12/31/07)

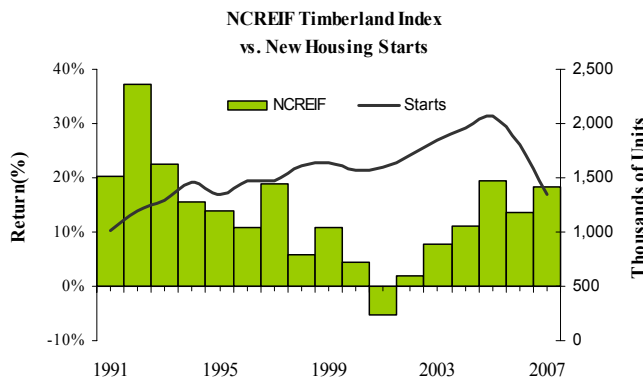
**NCREIF Property Sectors
Average Cap Rates**



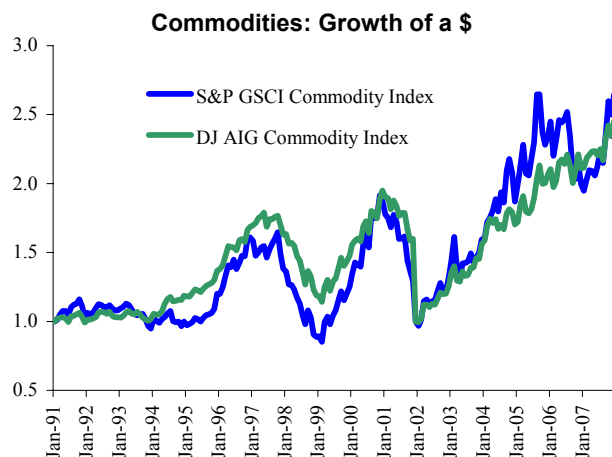
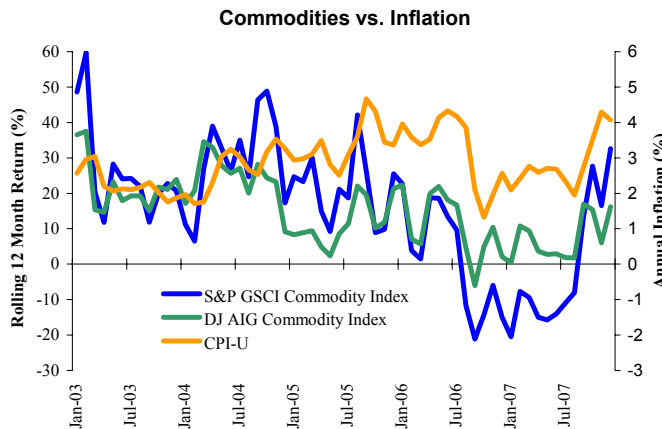
Source: Real Capital Analytics and RREEF Research

PRIVATE REAL ESTATE

- The U.S. direct property market (as represented by the NCREIF Property Index) performed well during 2007, gaining 15.8%, even while the U.S. REIT market (as represented by the FTSE/NAREIT Equity REIT Index) suffered one of its worst annual performances, down 15.7%. NCREIF even gained 3.2% during the 4th quarter, when the NAREIT suffered its weakest quarter of 2007. The differential is at least partly due to the smoothing of the appraisal-based NCREIF Property Index.
- Leading the NPI Index during the year was the office sector which posted a positive 20.5% total return (+3.8% for the quarter). The office sector enjoyed a strong run over the past few years in terms of cap rate compression, bottoming out in the 3rd quarter; cap rates have been slowly rising since. Fundamentals remain relatively healthy in this sector with low vacancies and modest new supply, although an economic slowdown could meaningfully change the outlook.
- Although the industrial sector did not keep up with the broader Index for the quarter (+2.6%), it earned a solid performance for the year, gaining 14.9% in 2007. Interest in warehouse properties was healthy last year, however new supply entering the market and a slowing economy may impair fundamentals. Cap rates in the sector also bottomed out in the 3rd quarter, but did not approach the same low levels as was the case in the office sector.
- The retail sector rebounded off its relatively weaker 3rd quarter performance (+2.4%), gaining 3.9% during the 4th quarter. The sector was up 13.5% for the year. Consumer confidence will continue to affect the sector, as retail sales growth has slowed considerably. Although this sector has seen only a modest increase in cap rates recently, rent growth is expected to be weakest in retail.
- The apartment sector, which is suffering from the mixed effects of the volatile housing market, failed to beat the broader Index on both a quarterly (+1.9%) and yearly (+11.4%) basis. Price declines in over-built “boom” markets with excess inventory have stalled rent growth, whereas in other markets, prices for homes have yet to come down to levels where home ownership outweighs renting, thus prolonging rent growth in these areas. Cap rates appear to have leveled off in the apartment sector, and so has NOI growth, although it remains at high levels.



Source: NCREIF (Data as of 12/31/07)



Data Sources: Hedge Fund Research, CSFB Tremont, Venture Economics, NCREIF, NAREIT, Citigroup, GSCI, DJ-AIG, Bloomberg

TIMBER

- Enjoying a fourth straight year of double-digit returns, the NCREIF Timberland Property Index gained 18.4% in 2007. The Index performed exceptionally well in the 4th quarter, up 9.8%.
- The pulp & paper markets performed well during the year, largely driven by strong global demand for paper products. A weak U.S. dollar and higher prices in European regions provided an increase in exports during the year.
- On the negative side, slow lumber demand and drought conditions continue to hamper saw timber prices, particularly in the southern states, as U.S. housing starts plunged by 25% in 2007; this was after a drop of 13% in 2006. Current difficulties on the housing front have yet to materially impact lumber prices, but the expectation is that they will eventually fall as demand slows.

COMMODITIES

- Commodities were the only consistent gainers during the four quarters in 2007. The 4th quarter saw continued strength in gold, oil, corn and soybeans, helping the commodity indices post dramatic gains for the year. During the quarter, the Dow Jones-AIG Commodity Index was up 4.73% (+16.23% for the year), while the S&P GSCI gained 11.64% (+32.67% for the year).
- Throughout the year the story consisted of rising energy prices, most notably crude oil, higher demand for corn and soybeans, partly driven by lofty goals for ethanol production, and strong demand for industrial metals in the context of Chinese and emerging market industrialization and infrastructure development. Crude oil started the year at \$61 per barrel and finished at \$96, a 57% rise, while corn and soybeans were up 16.7% and 75.4%, respectively, for the year. Copper, the most widely used industrial metal, climbed a more modest 6.18% on the year. Finally, gold showed strong performance, particularly late in the year, as flight to quality flows pushed prices above \$835 per ounce.
- The Growth of a \$ chart at the left highlights the performance of the commodity indices since 1991. The data shows that commodities have been in a strong upward trend since the start of 2002. Prior to that period, commodities surged in 1995 through 1997, but collapsed during the 1997 Asian Crisis and the following year's Russian debt default. They rallied again from 1999 through 2000, before retreating sharply in 2001, the peak of the economic slowdown in the U.S. With talk of U.S. recession, and a global slowdown in economic growth, commodities may be at risk.

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