

PRIVATE EQUITY OVERVIEW

While the recent credit issues in the financial markets have caused a stir in the private equity space, the immediate impact has primarily been on large and mega buyouts. It is much more difficult, though not impossible, to finance the largest deals which translates into tighter covenants and better economic terms for investors. Large buyouts of quality companies still can get financed, albeit slowly and with concessions. As an example, \$2.2 billion of First Data bonds were recently sold in the buyout of that company by KKR. However, risks remain as this still represents only a piece of the total financing package for that deal. While it may take time to work out the backlog of existing deals, the system continues to function. We would expect that the quality of the buyout target will play a meaningful role in the extent to which deals can be financed, and the extent to which concessions will need to be offered on deals. Despite the fact that existing deals in the pipeline can be financed, we expect few mega deals to be announced any time soon as the existing backlog is worked through.

The recent credit turmoil has had a much lesser impact on smaller and mid-market buyouts and on venture capital. As smaller buyouts have much smaller financing requirements, they are easier to complete, as single buyers or small syndicates can take down all of the debt. If the current situation remains solely a financial issue and doesn't lead to a meaningful economic slowdown, we would expect this to largely remain the case, but if the economy meaningfully slows, then we would expect a greater impact across all segments of private equity. This is particularly true in the venture capital space, as venture deals don't generally need financing.

It is interesting to note that the mega buyouts that have been completed and/or are in the process of being completed will eventually prove to be some of the largest exits in the history of private equity some time in the future. Reasonably, many of the largest deals are primarily candidates for an IPO given their size, and others will have to be exited through very large M&A transactions. Looking at current buyout exit activity, the sheer volume of future exits based on those mega deals could easily swamp the market's ability to absorb such supply, particularly if a number of them go to market around the same time. While private equity in general, and large and mega buyouts in particular, have generated strong returns recently, given risks related to the credit issues in the market and the issues surrounding the difficulty of exiting some investments, returns may not be as robust over the next several years.

VENTURE CAPITAL

US Private Equity Performance Index (PEPI)
Investment Horizon Performance through 6/30/2007

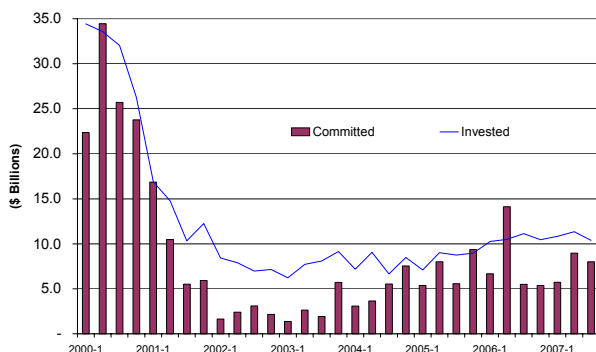
Fund Type	1 Yr	3 Yr	5 Yr	10 Yr	20 Yr
Early/Seed	12.8	7.7	0.7	37.1	20.6
Later Stage	22.9	9.6	6.5	8.9	13.8
All Venture	17.5	10.2	4.6	19.0	16.4
Medium	25.7	14.5	9.1	10.1	13.4
Large	12.1	8.9	11.1	7.6	12.2
All Buyouts	21.1	14.1	11.8	8.4	12.9
Mezzanine	15.6	5.2	5.0	5.8	8.4
All P.E.	19.3	13.0	9.6	10.7	13.9
NASDAQ	20.7	9.1	12.9	6.6	10.4
S & P 500	20.6	11.7	10.7	7.1	10.8

*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, Stylis

- In the 3rd quarter of 2007, sixty-nine venture capital funds raised a total of \$8.0 billion, down from the \$9.0 billion raised by 84 funds in the prior quarter, but up from \$5.5 billion raised in the 3rd quarter of 2006. While venture fundraising has been relatively stable for the last three years, the 3rd quarter total is at the high end of the quarterly range since late 2004, when venture capital recovered from the bursting of the technology bubble.
- The National Venture Capital Association expects the number of venture capital firms raising funds to remain flat or slightly decline during the next year while firms focus on investing existing funds. This is relatively consistent with the recent pattern.
- The total invested in venture capital in the 3rd quarter was down slightly from the prior quarter, at \$10.4 billion versus \$11.3 billion. Investing has remained in a narrow quarterly range between approximately \$10 billion and \$11 billion over the last seven quarters, reflecting a very stable pace of activity. The number of deals was down 8.8% at 879 in the quarter, but well within the normal range of activity for venture investments.
- The Clean Tech industry experienced strong growth in investment activity, with \$844 million invested into 62 deals during the quarter. This was an 80% increase in dollar volume, and a 35% increase in the number of deals versus the prior quarter.
- US venture capitalists invested \$206 million into thirty-one deals in China and \$248 million into twenty-two deals in India. This represents a 52% decline in dollar volume for activity in China, but a greater than 100% gain in dollar volume for investments in India. Over time, we would expect international venture capital investments to grow, both from local and US venture capitalists, but to continue to be volatile over near-term periods.
- The exit market for venture capital was mixed. There were only twelve venture-backed IPOs during the quarter, which raised \$945 million. This was flat versus the comparable quarter of 2006, but down materially relative to the twenty-five IPOs which raised \$4.1 billion in the prior quarter.

US Venture Capital Activity



Source: Venture Economics

VENTURE CAPITAL (Con't)

- There are currently seventy-two venture-backed companies “in registration” for an IPO, up materially from forty-four at the end of the prior quarter.
- Venture-backed M&A had a very strong quarter, as ninety-five companies were acquired for a disclosed value of \$10.3 billion. The disclosed volume of M&A activity was up 270% versus the prior quarter and versus the third quarter of 2006. This was the strongest disclosed volume of venture-backed M&A since the 4th quarter of 2000. However, the largest deal of the quarter, the acquisition of Worldspan for \$1.4 billion, could be characterized more as a buyout.
- There are anecdotal reports that the exit market for venture-backed companies may be more difficult looking ahead, as acquisitions are taking longer to close as corporations become more cautious given the turbulent market conditions.

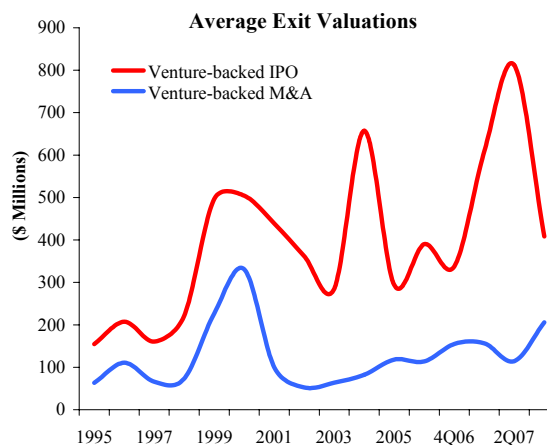
BUYOUTS

- Buyout funds raised \$24.1 billion in the 2nd quarter. This was down 38% versus the prior quarter’s total of \$39.1 billion, and off the very strong pace of the past few quarters which was dominated by mega buyout funds. However, this total remains well within the longer-term trend of the past few years.
- While many of the largest buyout firms have recently raised large funds, and may not need to come back to market soon, indications are that they may not need to meaningfully scale back fundraising efforts in the future, despite the market turmoil. For example, Bain Capital is reportedly seeking to raise \$15 billion for its next series of funds.
- Credit issues in the market have slowed buyout activity particularly among the largest deals while already-announced mega deals are digested by the markets. Small and mid-market deals, however, appear to be less impacted by the ability to get financing. As such, large and mega buyout funds may start to look at smaller deals in the near-term to continue to put capital to work, increasing competition in this space, though.
- The exit market for buyouts was solid during the quarter. There were a total of fourteen buyout-backed IPOs in the 3rd quarter, which raised \$3.3 billion, up solidly from the ten IPOs for \$2.2 billion in the prior quarter. Over a longer-term period, IPO activity was in the middle of the range for the past several quarters.
- The M&A market for buyout-backed companies was relatively strong during the third quarter. There were thirty deals in the quarter with a disclosed value of \$6.9 billion, more than doubling the activity of the prior quarter: fifteen deals for \$2.2 billion. Activity was even stronger than the 3rd quarter of 2006, which had twenty-four deals with a disclosed value of \$5.2 billion.
- Despite the recent credit troubles, the exit market for buyouts has remained solid recently, although the sub-prime issues and related re-pricing of risk may have a somewhat delayed impact on private equity exits. As such, we would not be surprised if exit activity slowed looking forward.

Venture Exit Analysis:

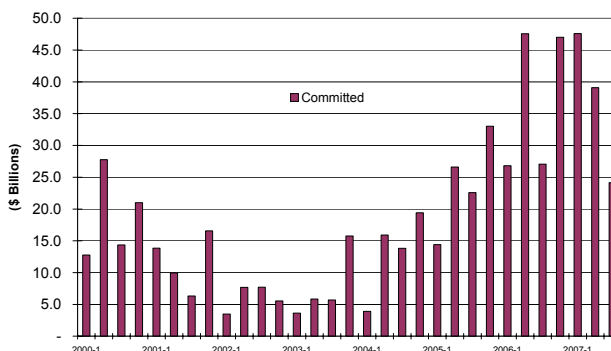
	# of Venture-Backed IPO's	Offer Amt (\$MM)	# of Venture-Backed M&A	Deal Value (\$MM)
2002	22	2,109	341	8,372
2003	29	2,023	306	7,796
2004	93	11,015	345	15,486
2005	56	4,461	365	20,638
2006	57	5,117	368	17,453
4Q06	20	1,631	61	3,867
1Q07	18	2,191	80	4,540
2Q07	25	4,147	82	3,877
3Q07	12	945	95	10,301

Source: Venture Economics



Source: Venture Economics

US Buyouts & Mezzanine Activity



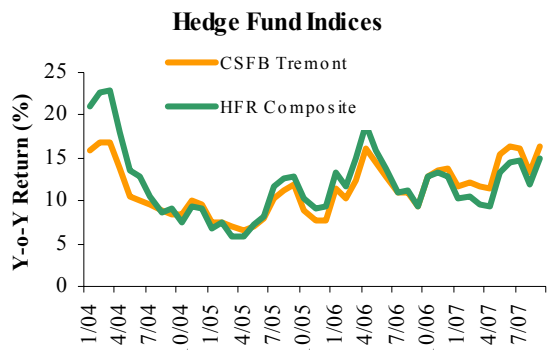
Source: Venture Economics

Buyout Exit Analysis:

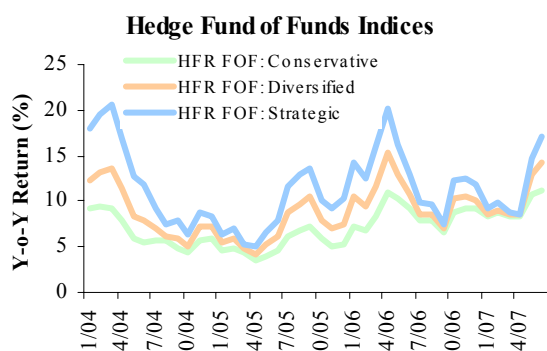
	# of Buyout-Backed IPO's	Offer Amt (\$MM)	# of Buyout-Backed M&A	Deal Value (\$MM)
2002	21	4,366	32	7,681
2003	NA	NA	16	4,913
2004	58	11,407	47	10,699
2005	67	15,764	70	17,718
2006	66	17,451	153	30,150
4Q06	22	6,163	15	2,699
1Q07	6	1,568	16	3,320
2Q07	10	2,123	15	2,229
3Q07	14	3,344	30	6,880

Source: Venture Economics

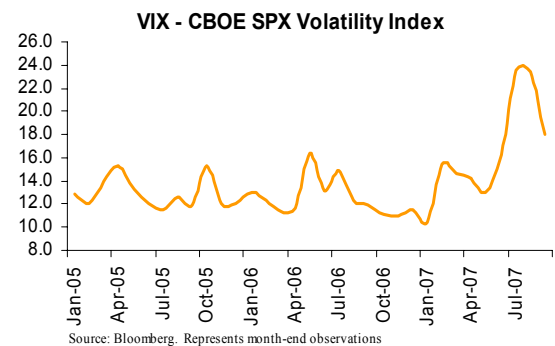
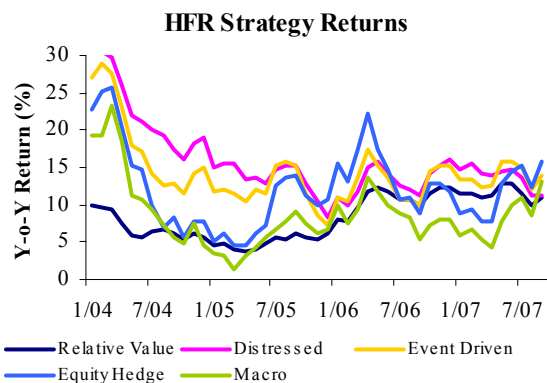
HEDGE FUND OVERVIEW



Source: Hedge Fund Research, CSFB Tremont



Source: Hedge Fund Research, CSFB Tremont



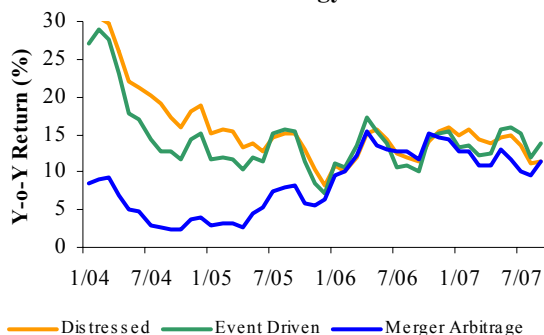
Source: Bloomberg. Represents month-end observations

Hedge fund returns don't tell much of the story for the activity that took place during the 3rd quarter. While the HFR Weighted Composite (+1.36%) and the CSFB Tremont (+1.13%) both produced small gains for the quarter, the performance masks a period in which intra-month volatility hit levels last seen in March 2003. The quarter can be broken down into three distinct periods.

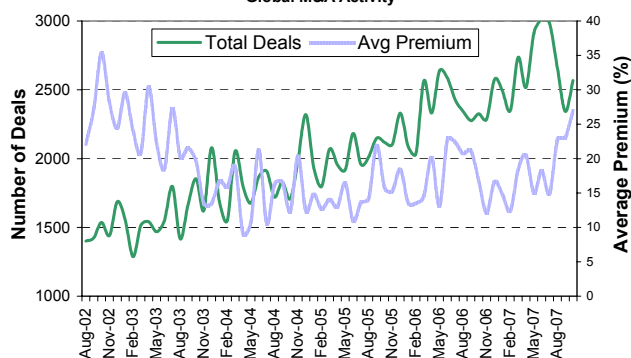
1. The first includes the first three weeks of July, which were basically flat. During this period, investors were primarily focused on sub-prime mortgage issues, such as lingering concern issues such as the blowup of two Bear Stearns funds in June. This concern become more pronounced when Countrywide Financial reported very weak earnings in late July, signaling to the market that the issue was perhaps more pronounced than originally perceived. This precipitated a liquidity crisis and rapid re-rating of risk that extended to other segments of the capital markets.
2. The second period encompasses late July to the middle of August. During this period credit spreads across the board widened and global equity markets sold off dramatically. This was an ugly period, where volatility spiked, liquidity dried up and many managers de-levered their portfolios. Demand for any type of leveraged credit play evaporated. This concern extended all the way into the typically very liquid and relatively low risk commercial paper market, with resulting prices for paper trading from near par to sizable discounts.
3. The third period represents the recovery, and notably started with the Federal Reserve's move to cut the discount rate on August 17 by 50 basis points. From that point forward, credit and equity markets recovered quickly, posting gains for August, and generating more gains in September. The recovery was fueled by the Fed's additional move on September 18 to cut the Fed Funds rate by 50 basis points. Hedge fund manager performance is differentiated across those that reduced exposure and failed to fully participate in the recovery versus those that maintained positions and fully rebounded.

- The Hedge Fund Research (HFR) Weighted Composite Index gained 0.10% in July, lost 1.52% in August and finished with a 2.82% gain in September. August was the first month since the May to July stretch last year to produce a negative return. The CSFB Tremont Index produced similar monthly results: flat in July, down 1.53% in August and was up 2.71% in September.
- Hedge fund of funds, as represented by the HFR Fund of Funds Index gained 0.24% during the quarter, which is considerably lower than the return of the HFR Weighted Composite. There was a sizeable performance differential between conservative funds of funds (HFR FOF Conservative: -0.44%) and more directional funds of funds (HFR FOF Strategic: +1.18%) fueled by the strong equity market performance, especially in Asia and the emerging markets.
- The best performing HFR strategy Indices for the quarter were Emerging Markets (+4.70%), Macro (+2.29%) and Equity Hedge (+1.72%), while the laggards were Distressed (-1.62%) and Event Driven (-0.82%). While not easily captured in the HFR indices, some of the quarter's best returns were posted by managers and funds emphasizing short sub-prime exposure. Some managers that had implemented this type of positioning benefited hugely from the rapid sell-off in sub-prime paper. This can also be seen in the performance of several of the fund of funds. Those with a short sub-prime allocation generally outperformed.

HFR Event Strategy Returns

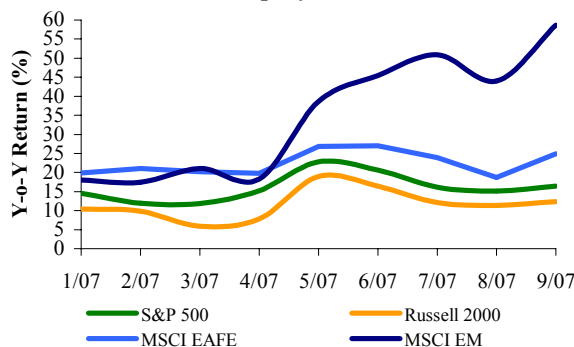


Global M&A Activity

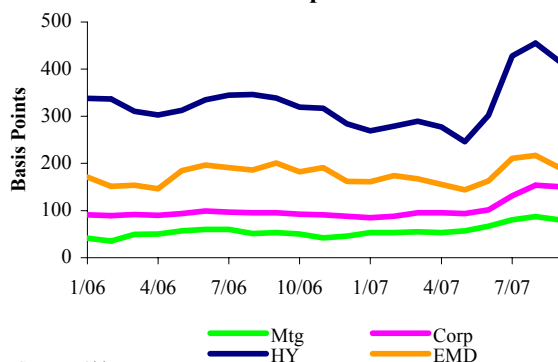


Source: Bloomberg

World Equity Markets



Sector Spreads



Source: Citigroup

NON-DIRECTIONAL STRATEGIES

- Somewhat surprising was the performance of several quantitatively-oriented Market Neutral managers during the quarter. Much of the intra-quarter chaos that occurred in hedge funds took place in these typically less volatile strategies, with the most publicized declines coming from funds managed by Goldman Sachs. In general, the HFR Equity Market Neutral Index declined -0.32% for the quarter. Despite the report of some sizable losses, especially intra-month in August, the index was down only 1.16% for the month. Equity Market Neutral is one of the worst performing hedge fund strategies over the past year, generating a gain of only 6.58%, with Fixed Income Arbitrage (+5.02%) the only strategy lagging over that timeperiod.
- In decomposing the trading activity during the quarter, especially the period in early August, many quantitative market neutral managers suffered as market participants started to de-lever positions in response to rapidly rising equity market volatility. Normally this should not be a problem for a market neutral portfolio, only in this case it became apparent that managers were buying and selling the same stocks. Managers were caught in a position of selling positions as they were falling, and buying positions as they were rising. This had a knock on effect to other managers that didn't have to de-lever as the trades listed above typically translated to buying low quality and selling high quality, thus adversely impacting managers with a quality bias in their portfolio.

EVENT DRIVEN STRATEGIES

- Event Driven strategies took one on the chin in August, and produced lackluster results for the third quarter. The HFR Event Driven Index was down (-0.82%) for the quarter, which was the first down quarter since September 2002. Despite the decline, Event Driven is still an above average strategy over the one-year period, generating a 13.98% gain.
- The credit and liquidity crunch was the real culprit for the quarter, with the market concerns in the sub-prime space, and the general de-leveraging of the industry, resulting in a lack of capital to finance transactions. Deal spreads widened materially during August, and remained wider at the end of the quarter than at the start of the quarter. Despite this, the HFR Merger Arbitrage Index (+0.86%) was the best strategy within the event driven arena.
- Distressed managers performed very poor relative to merger arbitrage, and has failed again to keep pace with the strength seen in the broad hedge fund index. The HFR Distressed Index posted a -1.62% loss for the quarter, but remains an above average strategy for the one-year period (+11.29%).

DIRECTIONAL STRATEGIES

- The HFR Emerging Markets Index produced the largest losses in August (-2.70%), as the MSCI Emerging Markets Index suffered a 2.37% decline during the month. These managers then rebounded to be the best performing hedge fund strategy in September (+4.6%) as the emerging markets index soared higher by 9.79%.
- Macro posted the second best return for the quarter (+2.29%) raising the strategy to an above average performer for the one-year period (+13.19%). The quarter was saved by a strong September, with stronger commodity prices and a weakening dollar boosting many portfolio returns.

REAL ASSET OVERVIEW

The private real estate market continues to show resiliency in the face of adversity. Through three full quarters of 2007 the NCREIF Property Index (NPI) has generated strong returns, so far outpacing last year's performance (11.8% vs. 11.2%). The same could not be said for the public real estate market, which has been more adversely affected by the recent turmoil in the financial markets. The FTSE/NAREIT Equity REIT Index is down 3.46% over the same time frame. However, the private market has started to show signs of cooling with transaction volumes down recently and the availability of debt decreasing. Outside of the residential sector, though, underlying real estate fundamentals, including demand, supply and vacancy rates, remain largely healthy. Some of the disconnect between public and private real estate, however, is due to the lag effect in the appraisal process of private real estate, and although values are expected to adjust according to changing fundamentals and capital markets factors over time, the private market should not be haunted by the grim reality of what happened to REIT's during the summer months. Part of any adjustment in the private markets will come from capitalization rates which have leveled off in most property types and are anticipated to rise over time, thus pressuring values. However, the continued strength of capital flowing into the private sector, along with anticipated income yield growth should spread the correction over time and help mitigate any sudden collapse in values in the near-term. If fundamentals deteriorate materially, which would likely be caused by a slowing economy, the risks would be elevated. Timber and commodities both performed well during the quarter, with double digit gains seen from the S&P Goldman Commodity Index. Demand for other real assets appears to be on the rise, as institutional investors look to diversify traditional holdings.

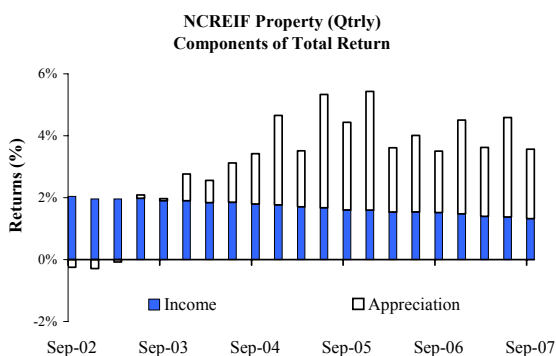
Asset Class Performance (% Annualized Returns)

As of 9/30/07	YTD	1Year	5 Years	10 Years
Real Estate				
NAREIT (US)	(3.5)	5.7	21.5	12.2
NCREIF Property	12.2	17.3	14.8	13.1
Timber				
NCREIF Timberland	8.3	15.3	12.1	8.6
Commodities				
DJ-AIG Commodity	11.0	17.0	14.1	7.6
S&P GSCI Commodity	18.8	13.5	13.1	6.6
Inflation				
US Inflation (CPI-U)	3.3	2.7	2.9	2.6

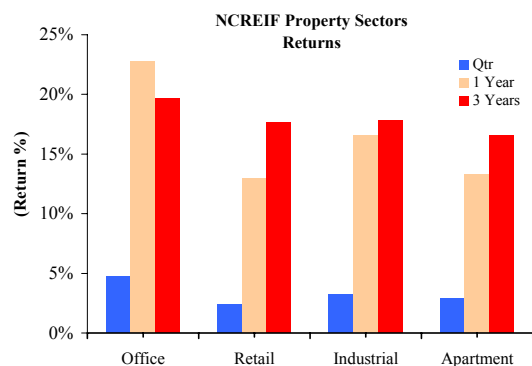
Source: NCREIF, NAREIT (Equity Only), Bloomberg

PRIVATE REAL ESTATE

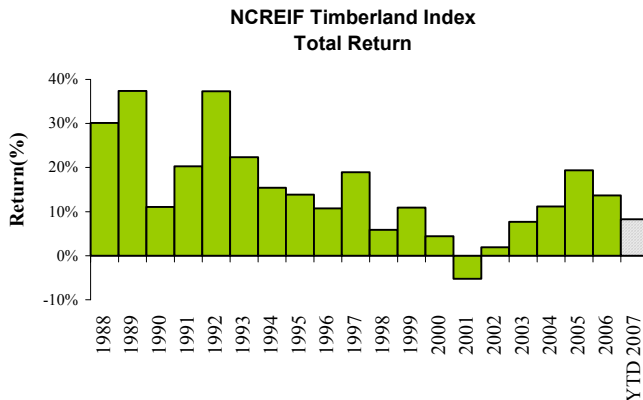
- Despite chaos in the credit markets, which adversely affected the public REIT market (as well as the broader market), the direct property market, as represented by the NCREIF Property Index, held strong with a 3.6% total return for the 3rd quarter of 2007. Although down from the 4.6% return in the prior quarter, the Index is on track to enjoy another double-digit annual performance, up 12.2% year-to-date as of September 30, 2007. Performance for the NPI continues to be driven by the office sector, which makes up 37% of the total Index.
- The disparity in returns across the major property sectors is evident, with the office segment pulling away from the others. Leading the Index for the fifth consecutive quarter, the office sector posted a positive 4.8% total return (+16.1% year-to-date). The appreciation component (+3.5%) of office total return nearly tripled its income piece (+1.3%) as the flow of capital continued into this sector, exerting downward pressure on cap rates in some markets. Despite the solid performance, fundamentals remain very strong in this sector.
- While the office sector continues its strong performance, other property types have generated more moderate, but still positive, returns. Although the industrial sector lagged the Index during the third quarter (+3.2%), it ranks second in total return over the past five quarters relative to the other major property types. As with the office sector, industrial properties experienced some downward pressure on cap rates, especially in markets associated with global trade that have benefited from the strong global economy. However, continued cap rate compression is not expected to continue over time.
- The apartment sector is the one segment that may have benefited from sub-prime lending defaults as homeowners have become renters. Falling home prices and past condo conversions have created more demand and less supply in the rental space. However, cap rates appear to have leveled off in the apartment sector, and so has NOI growth although it remains at healthy levels. The sector finished the quarter up 2.9% and up 13.3% over the one-year time period.
- The retail sector was the worst performing sector of the four major property types on a relative basis, for both the quarter (+2.4%) and one-year (+12.9%) time periods. Fundamentally, the supply of space has outpaced demand and rent growth has decelerated.



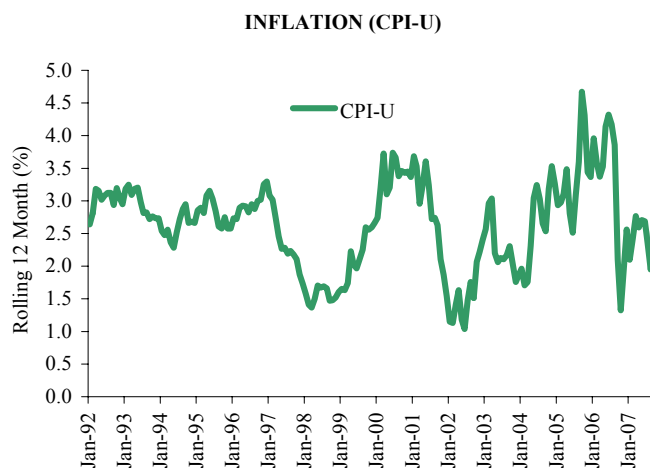
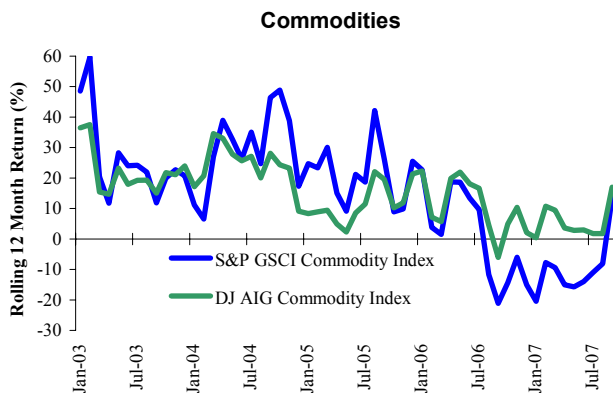
Source: NCREIF (Data as of 9/30/07)



Source: NCREIF (Data as of 9/30/07)



Source: NCREIF (Data as of 9/30/07)



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

TIMBER

- The performance of the NCREIF Timberland Property Index for the third quarter was strong, up 3.9%, totaling 8.3% for the year as of the end of the 3rd quarter, which is ahead of last years pace, when the Index was up 6.8% at the same point. High prices for some transactions (including Campbell's purchase of the Ohio Teachers portfolio) helped to boost performance in the quarter.
- Strong demand for pulpwood from the paper and packaging industries and opportunities in the export markets have helped to offset weakness in saw-timber and lumber markets.
- The weak housing market continues to impact the North American lumber industry with lumber prices falling due to weakening demand for wood products. As lumber prices slide, mills continue to close in an effort to adjust production to meet reduced demand levels.
- In contrast, the plywood markets remain healthy, and since lumber and plywood mills compete for the same raw material, the demand for plywood has kept stumpage (prices of standing timber) from falling even lower.

COMMODITIES

- Commodities moved dramatically higher during the third quarter, with the Dow Jones-AIG Commodity Index rising 6.24% and the Goldman Sachs Commodity Index (GSCI) cruising higher by 11.47%.
- Surging crude oil prices contributed significantly to the index gains. Crude oil started the quarter near \$70 per barrel, and closed the quarter near \$82. Crude has continued its surge into the 4th quarter, and recently broached the \$94 level. Natural Gas, on the other hand, bounced around during the quarter, falling sharply following the Fed's mid-August discount rate cut, before moving higher over the final three weeks of the quarter. Other commodities that also contributed to the quarter's strong performance include Wheat, Coffee, Silver and Gold. Not all commodities moved higher, though, with even an oil derivative product – Unleaded Gasoline – declining marginally. Others moving lower include Aluminum and Nickel, which declined on concerns of slowing global growth.
- Gold, which typically performs well during periods of market stress and flight of capital to quality, did not move materially during August, but did gravitate higher in September.
- Despite the strong price appreciation seen in the third quarter, U.S. consumer inflation, as measured by the Consumer Price Index, does not appear to be problematic at the current time. While this should give the Federal Reserve sufficient latitude to consider additional rate cuts, any sign of a pick up in inflation will likely sway monetary policy back toward a neutral policy stance over the near-term.

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