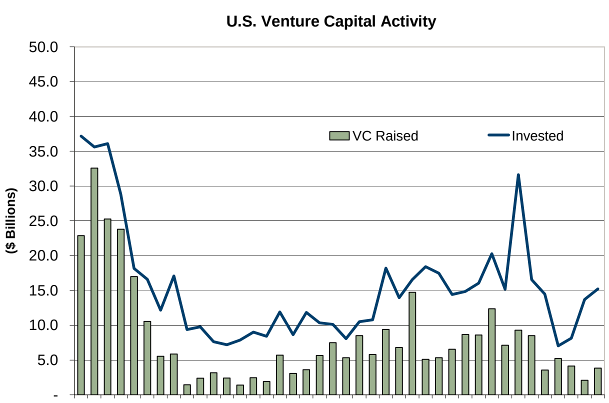
PRIVATE EQUITY OVERVIEW

Private markets are still facing a number of challenges related to the so-called "Great Recession" of the past two or so years. While recent (third quarter) private equity performance has been positive reflecting the strong equity markets over that period, year-over-year performance through September 30 is still negative across virtually all segments. IPO activity in total remains at low levels historically, while M&A activity (excluding one legacy-bubble deal that is accounted for in 2009 – see below) is not especially strong, either. Improving economic conditions and stronger equity markets have helped to improve sentiment, but confidence still appears to be fragile, given the uncertainty surrounding the future. For example, limited partners are not eager to aggressively commit new capital in an environment where distributions are weak, existing commitments have not been materially called over the last year or so, leaving a potential overhang of unfunded commitments, and broad market uncertainty keeps liquidity and the "denominator effect" on investors minds. Additionally, general partners may not be particularly eager to invest quickly in a highly uncertain market, and where the prospect of having a fully invested fund means they must face the arduous task of marketing a new offering sooner rather than later. It is the rare manager that does not face either delayed and/or extended fundraising periods, or reduced targets in this environment.

Still, there are some positive, but fragile, signs of improvement. The IPO market began to crack open over the latter part of 2009, relative to the virtually non-existent activity over prior quarters. This bodes well for quality and more mature companies, as evidenced by the relative strength in buyout-backed IPOs. Still, markets are not as supportive of less-mature offerings, particularly with respect to venture-backed companies. The average deal size of buyout transactions has increased over the course of 2009, suggesting that while financing still may not be easily accessible, it is starting to become more available to a wider variety of transaction sizes. In addition, valuations are still more modest than was the case only a few years ago, which should present more attractive investment opportunities over time. Somewhat stronger recent investment activity reflects this opportunity. Even so, any material economic and/or market weakness over the course of 2010 could put the brakes on any firming in the private equity markets.

US Private Equity Performance Index (PEPI)
Investment Horizon Performance through 9/30/2009

Fund Type	3 Mo	1 Yr	5 Yr	10 Yr	20 Yr
Early/Seed	2.3	(11.5)	2.0	8.3	22.5
Balanced	3.3	(12.5)	8.0	9.2	14.8
Later Stage	1.8	(5.9)	8.2	5.0	14.7
All Venture	**2.6**	**(10.8)**	**5.4**	**7.7**	**17.4**
Medium	1.2	(4.8)	11.3	5.9	10.9
Large	5.0	(5.0)	7.6	5.0	10.5
All Buyouts	**5.4**	**(9.9)**	**6.4**	**4.8**	**9.1**
All P.E.	**6.4**	**(7.9)**	**6.6**	**5.9**	**11.4**
NASDAQ	15.9	2.5	3.1	(2.0)	8.6
S & P 500	15.6	(6.9)	1.0	(0.2)	8.0



Source: Venture Economics

VENTURE CAPITAL

- Commitments to venture capital funds continued to be slow in the 4th quarter of 2009. Thirty-five funds closed on $3.8 billion, which was up meaningfully from the twenty-six funds which closed on $2.1 billion in the prior quarter. While activity was up as compared to the third quarter, it remained among the slowest quarters in several years. Still, this more modest fundraising activity is more healthy for the market, as the opportunity set for venture capital managers is not particularly scalable.

- Investment activity into venture-backed companies ticked higher in the 4th quarter, continuing on the improvement of the prior quarter. Equity invested in the quarter increased 11% over the 3rd quarter, and 5% over the 4th quarter of 2008. The number of deals also increased 12% versus the prior quarter, but declined 11% relative to the comparable quarter last year.

- After a near drought of exit activity over the latter part of 2008 and into 2009, venture capital exit activity has begun to build some momentum. There were four venture-backed IPOs in the quarter, up from three in the prior quarter, and up from zero in the 4th quarter of 2008. Over the course of 2009, there was double the number of venture-backed IPOs than was the case in all of 2008 (12 in 2009 vs. 6 in 2008); still, with the exception of 2008, 2009 experienced the slowest IPO environment since before the technology bubble.

- Venture-backed M&A activity was mixed in the quarter. While there were seventy-two venture-backed M&A deals in the 4th quarter of 2009, up from sixty-nine in the prior quarter, and sixty-four in the 4th quarter of 2008, 2009 in aggregate was the slowest year in terms of the number of deals since before the technology bubble burst in 2000. Still, in terms of disclosed deal value, the 4th quarter total was extremely strong, and was only surpassed during the decade by the 3rd and 4th quarters of 2007.

BUYOUTS

- Buyout funds struggled with the weakest quarterly fundraising total since the 1st quarter of 2004. Only twenty funds closed during the quarter, down from thirty-five in the 3rd quarter, and down from forty-five in the 4th quarter of 2008. Only $4.7 billion was closed during the quarter, down dramatically from the $7.7 billion and $16.4 billion in the previous quarter and comparable quarter of 2008, respectively.

- Investment activity into buyouts strengthened meaningfully over prior quarters, rebounding as the equity markets moved higher over the last three quarters of 2009. Investment activity increased 71% versus the 3rd quarter of 2009, and more than doubled relative to the comparable quarter of 2008. Significantly, the average deal size also continued to increase in size over the course of 2009. Average deal size declined over 2008 and into the 2nd quarter of 2009, as financing transactions become more difficult, especially for larger deals. This trend has reversed over the latter part of 2009, as financing has improved. Still, the environment remains difficult, especially for larger transactions.

- Similar to the venture capital space, exit activity continued to build momentum. Buyout-backed IPO activity in the 4th quarter showed a marked improvement, as seventeen companies went public, up from two in the prior quarter, and up from one in the 4th quarter of 2008. The quarter was among the strongest in terms of number of IPOs over the past ten years; the 4th quarter of 2006 was the last time there were more. The activity is likely due to the general strength in equity markets over the last three quarters of 2009, and the dearth of activity over most of 2008 and the first three quarters of 2009. Still, with the exception of 2008, the year had the fewest number of IPOs since 2001.

- M&A activity picked up modestly in the 4th quarter, but 2009 still proved weak overall. M&A deals increased from twelve in the 3rd quarter to twenty-one in the 4th quarter, while deal value increased modestly as well. However, the number of deals in 2009 was the lowest since 2004. Notably, the total deal value for the year is skewed by a single transaction; the sale of Alltel accounted for $28.1 billion of the $39.0 billion total.

OTHER

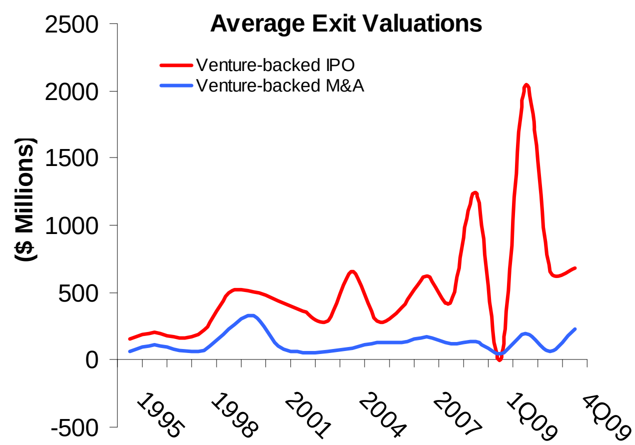
- Private equity activity was weak in other regions in the 4th quarter as well. Fundraising in Europe declined from the prior quarter, down nearly two-thirds, and was down even more dramatically versus the total in the 4th quarter of 2008, which was near the end of the boom period. The number of funds that closed also fell dramatically, down 62% and 89% from the prior quarter and 4th quarter of 2008, respectively.

- Activity in Asia was also particularly weak during the 4th quarter. The number of funds closed declined by nearly 80% from the prior quarter, while the total closed into funds dropped by approximately 85%. Relative to the year-ago period, the comparisons are even weaker.

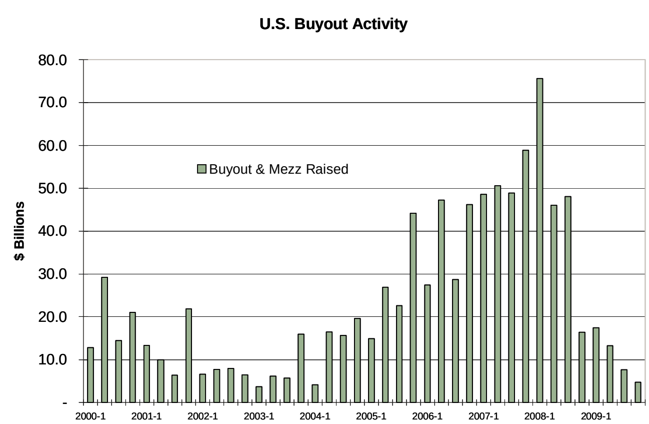
Venture Exit Analysis:

	# of Venture-Backed IPO's	Offer Amt ($MM)	# of Venture-Backed M&A	Deal Value ($MM)
2005	57	4,485	367	22,092
2006	57	5,117	394	19,657
2007	86	10,326	381	29,552
2008	6	470	349	13,775
2009	12	1,642	270	14,068
1Q09	0	0	64	666
2Q09	5	721	65	2,570
3Q09	3	572	69	1,392
4Q09	4	349	72	9,439

Source: Venture Economics



Source: Venture Economics



Source: Venture Economics

Buyout Exit Analysis:

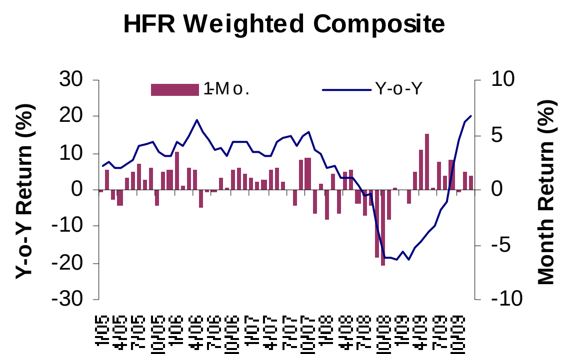
	# of Buyout-Backed IPO's	Offer Amt ($MM)	# of Buyout-Backed M&A	Deal Value ($MM)
2005	67	15,764	102	25,151
2006	66	17,451	151	31,287
2007	39	9,504	192	47,451
2008	6	1,250	153	15,608
2009	20	6,016	64	38,962
1Q09	0	0	14	29,486
2Q09	1	113	17	987
3Q09	2	1,015	12	4,154
4Q09	17	4,888	21	4,335

Source: Venture Economics

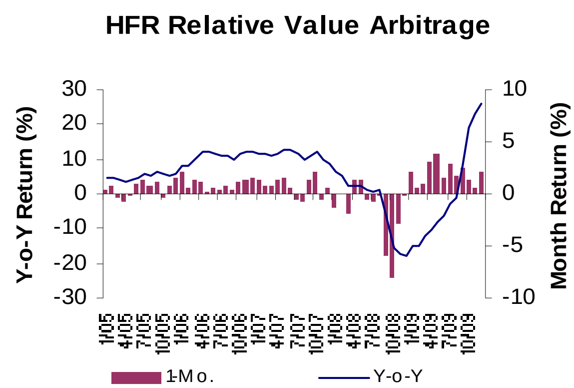
HEDGE FUND OVERVIEW

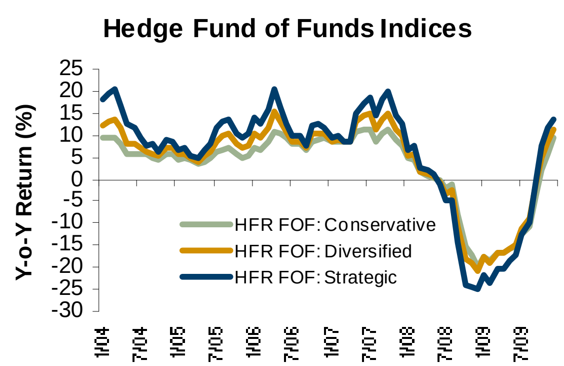
The global equity and credit markets rallies continued in the final quarter of the year. For the full year, 2009 saw a significant rise in market participants' appetite for risk, as the weakened global economy was supported by fiscal and monetary stimuli and corporate earnings recovered. US equities (S&P 500: +26.46%), non-US equities (MSCI EAFE: +31.78%) and bonds (BC Agg: +5.93%) were all positive for the year after a difficult 2008. The credit markets rallied through the fourth quarter and finished the year on a high note with the BC Credit index up 16.04% and the BC High Yield index up 58.21%. The beta movements in the equity and credit markets helped hedge fund managers rebound after a difficult 2008. For the quarter, the HFR Weighted Composite Index gained 2.73%, and finished the year up 20.14%.

Fund of Funds managers, as represented by the HFR FOF Index, were up 1.54% for the quarter and up 11.55% for the year. However, the spread between hedge funds and hedge fund of funds managers was approximately 8.59%, which was the largest divergence since 1995, when it was 10.4%. The differential stemmed from a majority of fund of funds managers holding cash in portfolios (in the range of 10-15%) for client redemptions, which in turn was a drag on performance. Across the fund of funds space, portfolios with more equity long/short exposure performed better as the HFR FOF Strategic Index was up 13.44% for the year versus the HFR Conservative Index, up 9.55%, which has exposure to only relative value strategies.



Source: Hedge Fund Research





Source: Hedge Fund Research, CSFB Tremont

NON-DIRECTIONAL STRATEGIES

- Non-directional strategies performed very well this year with the exception of market neutral. The rally in the credit markets provided these strategies with a solid rebound with the biggest winner being convertible arbitrage. This strategy was down 33.73% in 2008 and was up 60.15% in 2009 as much needed liquidity came back to the market. The worst performing strategy for the year was Equity Market Neutral (+1.37% for the year), but it was one of the best performers last year, when it was down only 5.91%.

- The HFR Convertible Arbitrage Index gained 4.49% for the quarter, and was up an impressive 60.15% for the year. Throughout the quarter, long-only and crossover buyers provided stability to the convertible market. The positive performance was tempered by the near default of Dubai World's Real Estate developer as its convertibles (due to mature in 2011) fell more than 30% in November. Still managers remain bullish going forward due to less competition in what they believe will be a credit-pickers market.

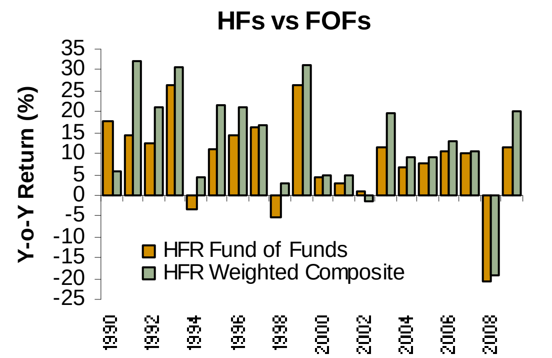
- The HFR Relative Value Arbitrage Index was up 4.09% during the quarter, and was up 25.97% for the year. The continued rally in high yield provided a favorable environment for these managers to perform well.

- The HFR Equity Market Neutral Index was up 0.40% for the quarter, and was only up 1.73% for the year. Managers saw strong performance accrued from quality factors.

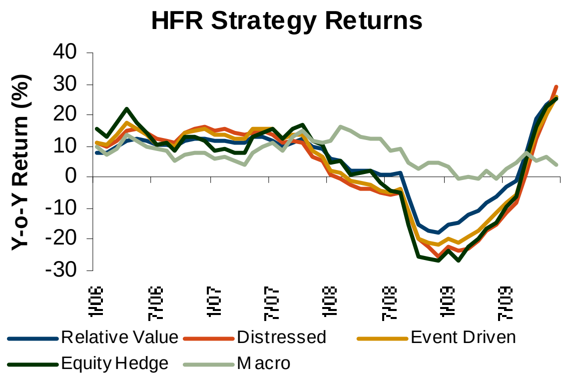
- The HFR Fixed Income Index was up 2.68% for the quarter and was up 24.45% for the year. U.S. High Yield, as measured by the Merrill Lynch High Yield Master II Index, was up 6.04% for the quarter and was up 57.51% for the year. Managers profited from exposure to the front-end of the curve and positions in asset backed securities. On the short side, gains came from short volatility and short duration positions.

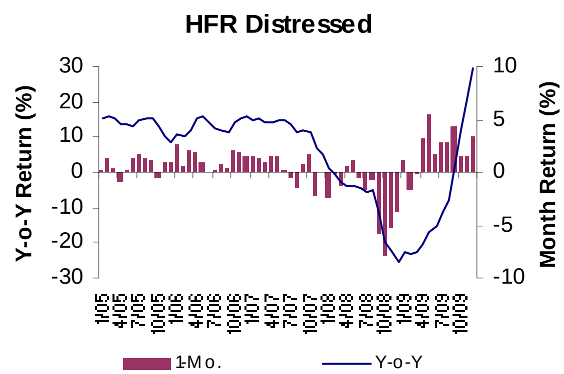
EVENT DRIVEN STRATEGIES

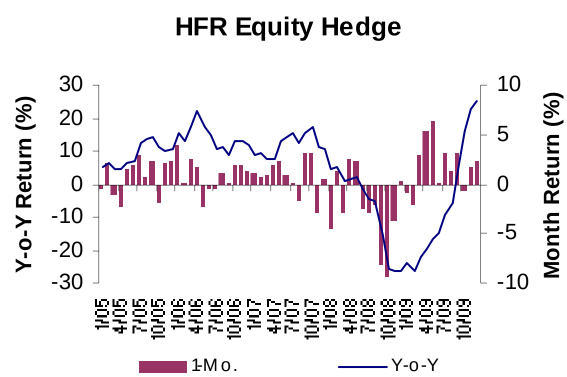
- Event Driven strategies performed well again this quarter, up 4.92%, and finished the year up 25.9%. All primary segments within Event Driven – Distressed, Special Situations and Merger Arbitrage – generated positive returns during the quarter and the year.



Source: Hedge Fund Research







EVENT DRIVEN STRATEGIES (Con't)

- The HFR Distressed Index was up 6.59% for the quarter, and was the best performing strategy in the fourth quarter. Distressed has rallied significantly after being down 0.67% in the first quarter, finishing the year up 29.23%. Strong credit markets provided a favorable background for distressed managers holding net long positions. During the quarter, CIT group filed for bankruptcy protection and managers holding debt positions were beneficences of this action. In addition, CIT Group Canadian bonds rallied on news that holders would receive better terms in an out of court restructuring. Gains were also seen through post-reorganization equity positions in a US auto-parts marker and short positions in sovereign bonds, particularly in Greece, as prices fell on fears that the country may default on its debt.

- The HFR Merger Arbitrage Index gained 2.03% for the quarter, and was up 11.59% for the year. Deal flow slowed in the fourth quarter, but could increase in 2010 as potential bankrupt companies become targets.

DIRECTIONAL STRATEGIES

- Equity markets had a solid quarter, after a very strong third quarter. The HFR Equity Hedge Index was up 3.25% for the quarter, and was up 24.96% for the year. The S&P 500 Index gained 6.04% for the quarter, while small caps, as measured by the Russell 2000 Index, gained 3.88%. Managers maintained their gross and net market exposure during the quarter, but have a cautious outlook on the equity markets for 2010. During the quarter, managers made money by being positioned net long in favorable sectors. Solid performers for the quarter were materials, industrial and healthcare stocks. Materials performed well as metal prices surged. The weakest sector was financials during the quarter losing 3.32%, while all others were positive. On the short side, managers were hurt as the markets rallied. This was a consistent theme throughout the year as short bias managers suffered. Short-biased managers, represented by the HFR Short Bias Index, were down 24.03% for the year after being up 28.4% in 2008.

- The Emerging Markets was the second best performing strategy for the year next to convertible arbitrage. The HFR Emerging Market Index was up 4.57% for the quarter and up 40.46% for the year after a substantial drawdown in 2008. Managers realized gains from consumer and commodity-related stocks in China and India. Materials, financials, consumer discretionary, consumer staples, industrials, and energy all performed well for the year. For the year, the MSCI Emerging Market Index was up 79.02%.

- Global macro lagged again this quarter, up 0.17% and finished the year up 4.19%. The strategy had a strong November which saved the quarter's performance from being negative. Managers saw gains from long bond and interest rate positions, as well as commodity positions. Performance was hurt by currency trades that sustained price reversal during the quarter, specifically the JPY/USD trade. In addition, short US dollar positions were also negative contributors to performance.

REAL ASSET OVERVIEW

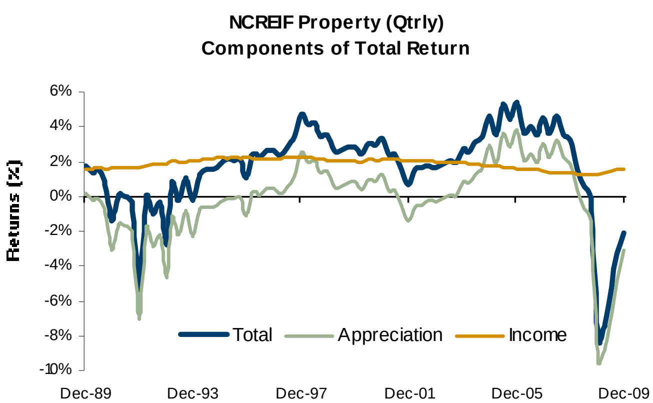
After hitting a peak in the first half of 2007, the commercial real estate ("CRE") market managed to stay afloat through the early part of the global recession; starting in the latter part of 2008, the market began its precipitous decent. Values continued to sink throughout 2009, but the pace of decline has been gradually subsiding more recently. While weak transaction activity has limited visibility into pricing, CRE prices have plunged over 27% from the peak through December 31, 2009, as represented by the NCREIF Property Price Index. Even with recent positive GDP growth, commercial real estate still remains susceptible to a range of macro risks, and job growth (unemployment is still near double digits) will be a significant factor in the rate of recovery, particularly as it relates to the demand for space. Real estate property fundamentals, which generally lag the real economy, remain in a downward trajectory with occupancy, rents, and cashflow expected to continue to fall into 2010. With uncertainty surrounding the sustainability of an economic recovery, the outlook for real estate remains cloudy.

Although the credit crisis and economic recession have already led to severe real estate losses across markets and property types over the past few quarters, there may be additional challenges ahead, as owners struggle with debt loads and upcoming maturities in an environment of weak fundamentals. Recently, Tishman Speyer (and partner BlackRock) defaulted on their investment in Stuyvesant Town and Peter Cooper Village, the 80-acre complex on the east side of Manhattan, which was acquired for a record $5.4 billion. Declining values and weakening fundamentals impaired cashflows to the extent Tishman was unable to service its debt (of $4.4 billion), forcing the firm to turn over the property to lenders. Such situations are likely to continue to be the case in 2010, particularly for over-leveraged deals. At least for those borrowers that can currently cover debt service, lenders are often willing to buy time by extending and modifying loans. While parts of the credit market stabilized during the year, the CMBS market remains dormant and banks continue to focus more on existing commercial real estate holdings as delinquencies, defaults and foreclosures mount. In addition, balance sheet lenders with available capital remain selective with respect to CRE lending in addition to tightening terms.

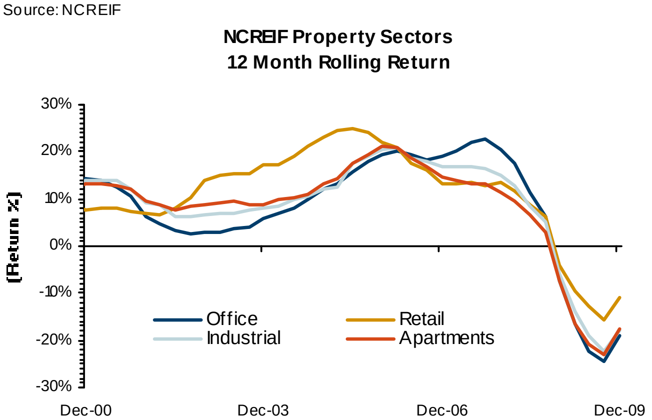
Asset Class Performance (% Annualized Returns)

As of 12/31/09	1 Year	3 Years	5 Years	10 Years	20 Years
NAREIT (US)	28.0	(12.4)	0.4	10.6	9.9
EPRA/NAREIT (Global)	38.3	(12.4)	2.0	9.2	NA
NCREIF Property	(16.9)	(3.4)	4.8	7.3	6.5
NFI-ODCE Index (Gross)	(29.8)	(9.8)	0.7	5.0	5.3
NCREIF Timberland	(4.8)	7.3	10.9	7.3	11.8

Source: NCREIF, NAREIT (Equity Only), Bloomberg



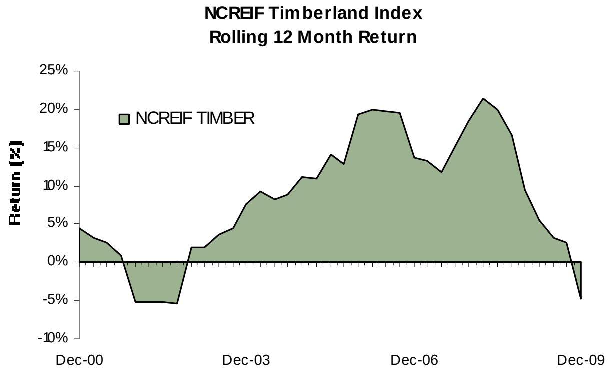
Source: NCREIF



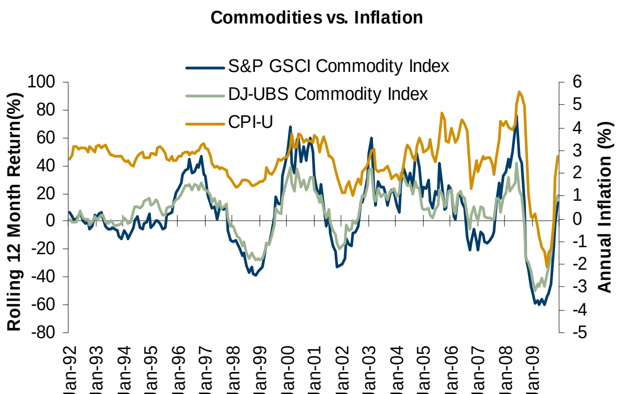
Source: NCREIF

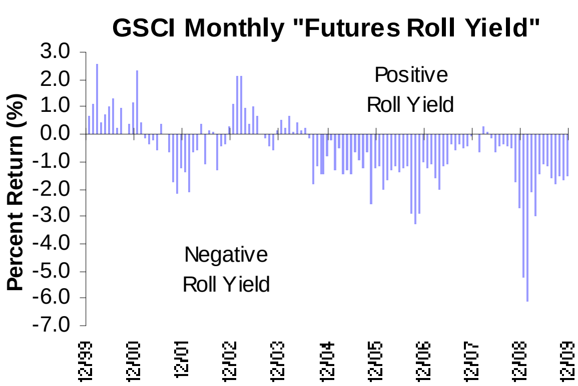
PRIVATE REAL ESTATE

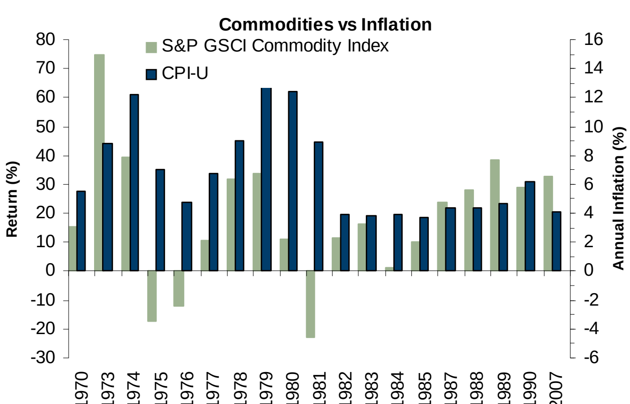
- The NCREIF Property Index produced its worst total return on record, down 16.9% for the year, comprised of a +6.2% income return and a -22.0% appreciation return. On a levered basis, the NFI-ODCE proved even worse, recording an annual gross return of -29.8% for 2009. While redemption requests appear to have moderated to some extent, most core open-end funds will continue to work through very large redemption queues well into 2010.
- The national office vacancy rate hit a five-year high during the fourth quarter, and rents in some markets are down by 30% (according to AEW Market Research). A slow recovery is expected in this sector, as employers will likely be cautious in hiring until solid evidence of an economic recovery is established. During the quarter, the office segment was down -2.8% (down 19.1% for the year).
- Once the job market shows signs of improvement, demand for apartments should begin to improve as well. This sector is struggling due to lack of demand caused by mass layoffs and economic uncertainty. Additionally, low interest rates, more attractive home pricing, as well as a government tax credit have reduced demand from the sector as would-be renters are more-inclined to buy given these incentives. The sector declined 1.8% during the 4th quarter, and was down 17.5% for the year.
- Retail property fundamentals continue to be negatively impacted by diminished consumer demand. Within this segment, grocery-anchored centers have held up better than discretionary retailers. For the quarter, the retail sector declined -0.9% and is down 10.9% over the one-year period, and is the best performing sector in the Index.
- The pull back in consumer demand (due to the global recession) continues to unfavorably impact property conditions for the industrial sector. Availability rates during the fourth quarter reached their highest level on record (according to Torto-Wheaton). The sector declined 2.6% during the quarter, and was down 17.9% for the year.



Source: NCREIF







*High inflation: CPI greater than 3.5%

TIMBER

- During the fourth quarter, the NCREIF Timberland Property Index suffered its second worst quarterly return in the history of the Index, declining 4.6%. Timberland was also negative for the year, down 4.8% in 2009.
- Slow demand kept timber price increases mild even after the market experienced challenging weather conditions during the quarter, which would generally force prices up given the lack of supply. Furthermore, housing starts remained moderate, giving the lingering uncertainty in the broad economy. In addition, according to Forest Investment Associates, transaction values appear to be down between 10% and 20% from 2008.
- While transaction activity remains slow, select deals are getting done through individual negotiations rather than public market auctions, and mostly for small to medium sized properties. The fourth quarter was the most active during the year, particularly for non-US transactions.

OTHER

- Declining values and investor sentiment for illiquid strategies affected fundraising for infrastructure managers during the year. According to Preqin, roughly 10 infrastructure funds reached a final close in 2009, which also represented an 82% decline from the aggregate capital raised the previous year. As with the vast majority of private equity structures, fundraising has been extended by most managers currently in the market.

COMMODITIES

- Commodities had a strong quarter as energy and metal prices increased during the quarter. The S&P GSCI was up 8.42% for the quarter, while the DJ-UBS Commodity Index was up 9.03%. For the year, the two indices were up 13.49% and 18.91%, respectively, but did not keep pace with the equity and credit markets. These returns appear low given the headlines of increased demand for oil, gold and other commodities on the part of investors – both retail and institutional. These returns also appear inconsistent with the gains for the year seen in spot prices for gold (+24.36%) and oil (+77.94%). The difference is partly explained by the structure of the commodity indices and how these indices roll futures contracts, going from front month to next available month near expiration of the front month contract. This current negative roll yield is substantial and is highlighted in the chart to the left.
- Inflation, as measured by the Consumer Price Index (CPI-U), registered a +2.72% annual rate as of the end of December. Inflation has increased significantly from the -1.29% annual rate as of the end of the third quarter, and could continue to tick higher as recent inflation statistics show the CPI-U to have been positive in ten of the past twelve months. The chart shown on the left exhibits how commodities have historically performed in high inflation environments. Using the S&P GSCI as a benchmark, commodities have outperformed stocks, bonds, and inflation when inflation is greater than 3.5%.