

PRIVATE EQUITY OVERVIEW

The credit crunch continues to be felt across the financial markets, with differing impact across various segments of private equity. The greatest impact remains in the large buyout segment, as banks are still estimated to have a significant backlog of loans on their books that have not been syndicated. While this backlog remains, and as they deal with other credit-related problems, the large investment banks are not likely to take on large, meaningful commitments to buyouts. However, just recently a \$4.1 billion carve-out from Bristol-Myers by Avista Capital was announced, indicating that there is still a small window of opportunity for the “right” deal, although this is more an aberration than an indication of a trend. The effects of the credit problems continue to be an expected slow-down in new deal activity, lowered performance expectations, and a related slowdown in traditional buyout fundraising. Among venture capital funds, exit activity has been impacted due to weaker financial markets, and investment activity may slow over time with a weaker economy, but the effects remain less prevalent. However, there still remains strong interest in private equity, as institutions and sovereign wealth funds, in particular, have meaningful amounts of capital to deploy in the asset class. However, over the longer-term, the asset class should be able to absorb meaningful asset growth, as private equity still only accounts for approximately 3% of the global equity market capitalization.

The private equity industry has always been flexible to adapt to a changing environment, and it is no different in the current investment landscape. While the deal environment remains difficult for buyouts, which would lead one to expect a much weaker fundraising environment, mezzanine, credit opportunity, distressed and other investment strategies have “filled the gap” in the investment opportunity set, and are better positioned to take advantage of a very different investment environment as compared to traditional buyouts. In addition, private equity firms with meaningful pools of capital to invest in an environment in which it is challenging to do so, are finding creative ways to invest such capital, including considering buying loans from investment banks; these firms are also likely to evaluate PIPEs and other non-traditional investment structures in order to put capital to work. As has always been the case, private equity firms find a way to deploy capital, under very different investment landscapes. While the current investment and exit environment may prove more difficult in the near term for “traditional” private equity, this may be an attractive time to invest. Distressed and other “non-traditional” private equity strategies may benefit from the current dislocations, while “traditional” buyouts and venture capital may benefit from the lower pricing and somewhat decreased competition over the long-term in this more difficult environment.

US Private Equity Performance Index (PEPI)
Investment Horizon Performance through 12/31/2007

Fund Type	1 Yr	3 Yr	5 Yr	10 Yr	20 Yr
Early/Seed	11.4	4.6	4.2	35.4	20.9
Later Stage	29.9	12.0	10.5	9.2	14.3
All Venture	20.4	9.5	8.6	18.3	16.7
Medium	NA	NA	NA	NA	NA
Large	25.4	11.4	15.0	7.9	12.8
All Buyouts	27.9	14.9	14.3	8.3	12.8
All P.E.	25.3	13.0	13.3	10.8	13.7
NASDAQ	10.7	7.7	15.5	5.9	11.8
S & P 500	5.5	8.6	12.8	5.9	11.8

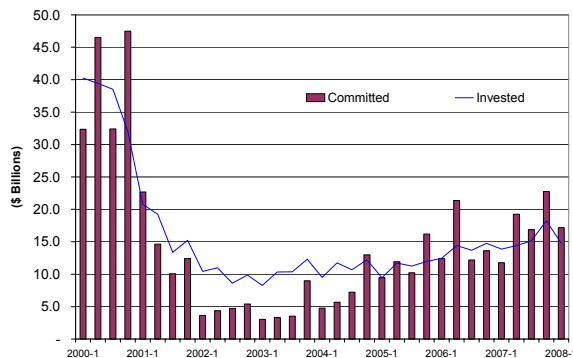
*The PEPI is based on the latest quarterly statistics from Thomson Venture Economics. All returns are calculated by TVE from the underlying financial cash flows. Returns are net to investors after mgmt fees and carried interest.

Source: Thomson Venture Economics/NVCA, Stylus

VENTURE CAPITAL

- Venture capital generated a strong return over 2007, and further distanced itself from the dismal performance of the post-technology bubble era, as evidenced by the improving 5-year return.
- During the 1st quarter of 2008, one hundred seventeen venture capital funds raised \$17.2 billion, down from the one hundred fifty-three funds that raised \$22.7 billion in the prior quarter. This also represents a 11% decrease in the number of funds raised relative to the same period last year, but an increase of 46% in the amount raised over that same period. For the last few quarters, the average fund size has noticeably increased relative to the past few years, which can be attributed to the strong interest in the life sciences and clean technology areas, which tend to be more capital intensive industries. Among the funds raised during the quarter, almost all were follow-on funds with less than 10% consisting of newly established funds.
- Aside from the noticeable increase during the 4th quarter of 2007, investments in venture deals continued the slow pace of quarterly growth that has been in place over the past several years from both a volume and deal flow perspective. In the 1st quarter, \$14.8 billion was invested in 1,966 deals, up 6% and 15%, respectively, versus the same time period last year. However, investment activity was slower as compared to the 4th quarter, when \$18.2 billion was invested in 2,129 deals which represents the strongest for venture activity since the end of the technology bubble.
- Economic uncertainty and market weakness appeared to have impacted venture capital exit activity during the quarter as both venture-backed IPO and M&A activity dropped off dramatically. The exit window practically slammed shut in the 1st quarter as only five venture-backed IPOs were completed which raised a total of \$283 million. This represents the lowest quarterly activity on both the number of IPOs and the total raised since the second quarter of 2003.

US Venture Capital Activity



Source: Venture Economics

VENTURE CAPITAL (Con't)

- Similarly, M&A activity for venture-backed companies was also slower as compared to the prior quarter. Sixty-seven companies were acquired in the quarter, down from eighty-four in the 4th quarter. Deal volume totaled \$3.4 billion during the quarter, which represented the lowest quarterly total since the 4th quarter of 2004 (\$2.9 billion).

BUYOUTS

- The leveraged buyout market is feeling the effects of the global credit crisis, with fundraising declining considerably. Buyout funds raised \$74.8 billion in the 1st quarter, which was down 20% compared to the \$93.8 billion raised in the prior quarter; however this was off just 3% relative to the \$76.8 billion raised in the 1st quarter of 2007. While fundraising dropped meaningfully, it has so far been surprisingly buoyant given the seizing-up of the credit markets.
- Buyouts will continue to face challenges during the year, especially the highly leveraged strategies as the lack of debt and the higher cost of debt have put a strain on deal activity. In some cases, banks are balking at existing loans leading to some broken deals, particularly in the large end of the market. The saga over Clear Channel is the best current example of banks trying to get out of existing financing commitments.
- The exit market for buyout-backed companies slowed considerably during the 1st quarter. There were only 2 IPOs of buyout-backed companies in the quarter which raised \$267 million. This is down from the ten IPOs for \$2.6 billion in the prior quarter. This represents weakest activity since the 1st quarter of 2003.
- Buyout-backed M&A volume was off the pace from the prior two quarters, but was more in-line with the quarterly average over a longer period. Twenty-five buyout-backed companies were acquired in the quarter for \$3.6 billion, down materially from the thirty-three companies acquired in the prior quarter for \$7.5 billion. However, this was still up from the seventeen acquisitions for \$3.3 billion in the 1st quarter of 2007.

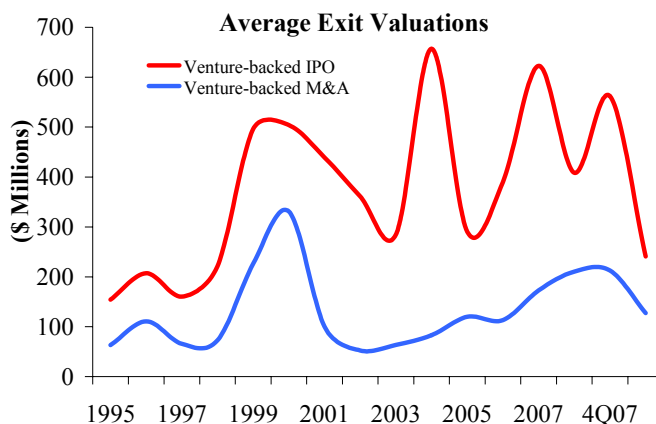
OTHER

- Other private equity strategies have seen increased interest over the recent past, some related to the financial crisis of the past few quarters. Distressed debt funds experienced relatively strong interest starting in 2006, as investors built early allocations in anticipation of a downturn. More recently, activity has been relatively strong based on current economic weakness and financial uncertainty. According to Venture Economics, distressed debt funds raised nearly \$3.0 billion in the 1st quarter, still very small relative to the broader private equity market. However, this number likely understates the actual activity.
- There has been renewed interest in mezzanine funds, as the current financial market uncertainty has made mezzanine more attractive as other forms of financing, including second-lien loans, have dried up to a large extent. Goldman Sachs, for example, is in the market with a \$20 billion mezzanine fund, the largest ever such fund.

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	15,462
2005	57	4,485	365	21,051
2006	57	5,117	381	17,767
2007	86	10,326	349	27,678
2Q07	25	4,147	85	3,882
3Q07	12	945	98	10,530
4Q07	31	3,044	84	8,725
1Q08	5	283	67	3,442

Source: Venture Economics



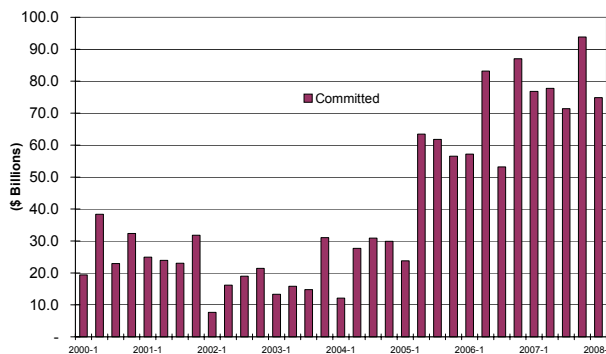
Source: Venture Economics

Buyout Exit Analysis:

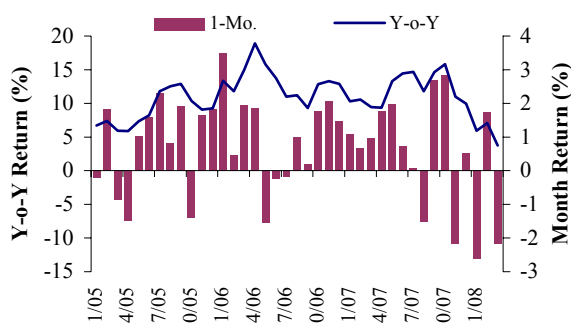
	# of Buyout-Backed IPO's	Offer Amt (\$MM)	# of Buyout-Backed M&A	Deal Value (\$MM)
2003	22	5,038	37	8,572
2004	58	11,407	34	8,975
2005	67	15,764	98	22,736
2006	55	17,451	132	26,224
2007	40	9,627	100	20,032
2Q07	10	2,123	17	2,229
3Q07	14	3,344	33	6,939
4Q07	10	2,593	33	7,544
1Q08	2	267	25	3,558

Source: Venture Economics

US Buyouts & Mezzanine Activity

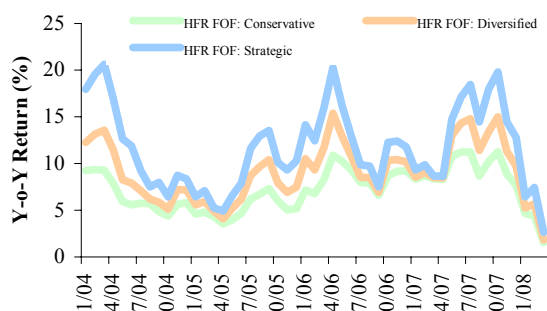


HFR Weighted Composite



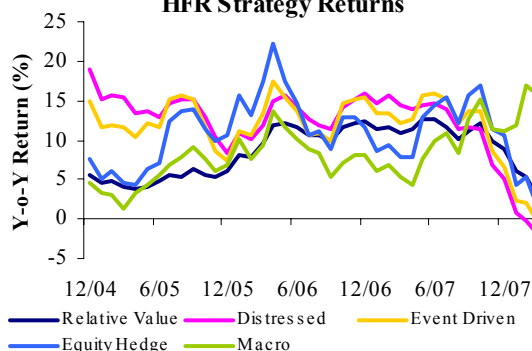
Source: Hedge Fund Research

Hedge Fund of Funds Indices

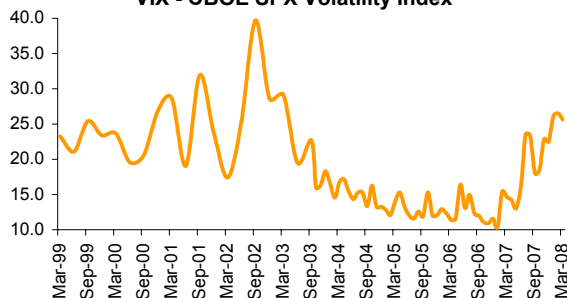


Source: Hedge Fund Research, CSFB Tremont

HFR Strategy Returns



VIX - CBOE SPX Volatility Index



Source: Bloomberg. Represents month-end observations

HEDGE FUND OVERVIEW

- Much like the stomach turning vicissitudes of a roller coaster ride, hedge fund returns made investors sick from the quarter's wild gyrations. For most hedge fund strategies January produced severely negative numbers, with a modest rebound in February, before diving lower in March. The name hedge fund seemed a misnomer as strategies fell along with declines in equity markets and widening credit spreads. Simply put, preservation of capital was an oxymoron. The trouble started in January when equity markets around the globe collapsed. The S&P 500 was down 6.00%, MSCI EAFE (\$) was off 9.24% and the MSCI Emerging Markets index declined 12.45%. Hedge fund strategies with equity beta in their portfolio, including event driven, distressed and equity hedged, were all off significantly. February saw a modest rebound for most strategies, before March produced more problems with the bailout of Bear Stearns, and the Federal Reserve's 75 basis point rate cut, capturing headlines.

- Hedge funds suffered their worst showing since the 3rd quarter of 2002, with the HFR Weighted Composite (-3.06%) and the CSFB Tremont Index (-2.01%) both down for the quarter. The performance of the HFR Weighted Composite represents the 4th worst quarterly performance this decade, highlighting the severity of the declines. All strategies, as measured by HFR, posted losses for the quarter except for Macro, which managed to produce a very attractive gain of 4.70%.

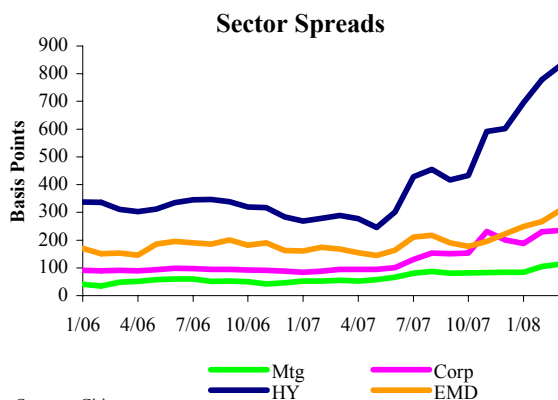
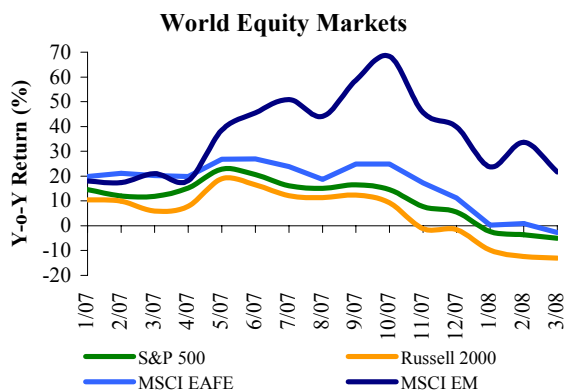
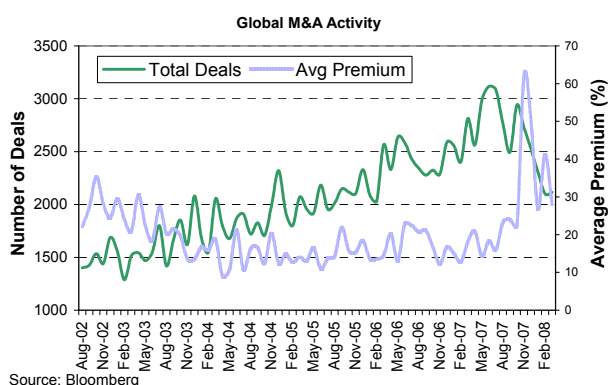
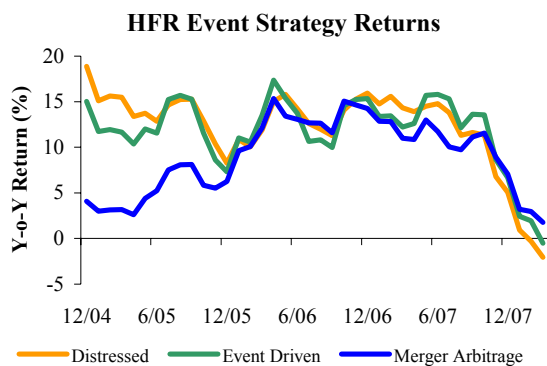
- Hedge Funds of Funds were heavily influenced by two primary factors: The size of their allocations to Equity Long/Short and Macro managers. Many funds of funds have either avoided altogether, or maintain a minimal allocation to, Macro managers. As a result, these groups are likely more heavily weighted to Equity Long/Short, and other strategies that have directional beta exposure, which resulted in worse performance for these managers. The HFR Funds of Funds Index was down 4.28% for the quarter, dropping the year-over-year gain to just 2.30%. The loss during the quarter was the worst this decade. This is mostly explained by the profile of the funds of funds today, which have been hit by a double whammy: generally more Equity Long/Short managers in the portfolio, and higher net exposures among the underlying managers in that category. Many Equity Long/Short managers entered the quarter close to all time highs on gross and net allocations. While considerable gross and net reduction occurred during the quarter, considerable damage was done within the first three weeks of the year.

NON-DIRECTIONAL STRATEGIES

- Equity Market Neutral held up remarkably well during the quarter, falling only 0.26%, but has produced a mediocre year-over-year return of just 2.93%. This was a result of the poor showing in the 3rd quarter of last year when many of the quantitative market neutral managers were forced to quickly delever their portfolios.

- Convertible arbitrage, as represented by the HFR Convertible Arbitrage Index (-6.88%), was among the worst performing strategies on the year. Aggressive selling of convertibles in March, coupled with imperfect hedges, contributed to the decline from convertible managers.

- The HFR Fixed Income Index finished the quarter down 3.51%, and is one of the few strategies down on a one-year basis (-3.62%). Many managers were forced to delever as market volatility increased and prime brokers and other lenders increased margin and/or borrowing requirements.



EVENT DRIVEN STRATEGIES

- Event-related strategies, comprised of Merger Arbitrage, Distressed and Multi-Event, continued to struggle in the 1st quarter. The HFR Event Driven Index, the catch-all for broad-based corporate event-focused managers, was down 3.01% for the quarter, and is negative for the one-year period (-0.51%).
- The HFR Merger Arbitrage Index fell 1.77% in the 1st quarter, and is up only 1.76% on a year-over-year basis. Merger managers have found it difficult to operate in an environment where deal volumes are down, while transaction spreads have widened on increased risks and concern that more deals will fall through as terms become unattractive or capital difficult to secure for LBO transactions. Notable deals during the quarter include JP Morgan/Bear Stearns, Electronic Arts/Take Two and the Chicago Mercantile Exchange/New York Mercantile Exchange.
- Distressed managers were not able to buck the negative trend, with the HFR Distressed Index falling 3.26%. This decline pushed the index into negative territory for the one-year period (-2.05%). March was the sixth consecutive negative month for distressed. Managers that have been initiating positions have been hit by declining credit quality and technical selling in the senior secured portion of corporate capital structures.

DIRECTIONAL STRATEGIES

- Directional strategies produced quarterly results at both ends of the return spectrum. Equity Long/Short managers were hard hit as equity markets, both in the U.S. and abroad, sold off. The largest declines were seen from the emerging markets, which had been among the best performing over the past several years. At the other end of the spectrum, Macro managers produced attractive gains thanks predominantly to systematic traders that rode pronounced trends in commodities, currencies and equity indices.
- The HFR Equity Hedge Index declined 5.71% for the quarter. A 4.41% loss in January was the largest monthly decline in this area since November 2000. Long/short managers captured more of the downside than they have historically due to the elevated level of gross and net exposure entering the period. Both measures are starting to decline, but the pace of adjustment for the broad universe has been slow. Additionally, many managers have expanded their opportunity set to include non-U.S. exposure. This contributed to the recent sizable losses as non-U.S. markets have fallen more dramatically than the U.S., with significant losses seen from Asian and emerging economies. The HFR Emerging Markets Index was down 7.53% for the quarter.
- The HFR Macro Index was up 4.70% for the quarter. Macro managers were up in January and February, before heading lower in March. This pattern matches the performance profile of many commodities, which moved sharply higher in both January and February, before pulling back following the Fed's rate cut mid March. Aside from commodities, many Macro managers continued to benefit from a long-standing downward trend in the U.S. dollar. The dollar fell 7.8% versus the euro, 12.4% versus the Swiss franc and roughly 11% versus the yen. Sentiment regarding the direction of the dollar going forward appears to be modulating somewhat, and we are starting to see managers reduce the degree to which they are short the dollar. Still, the short dollar position remains a sizable trade.

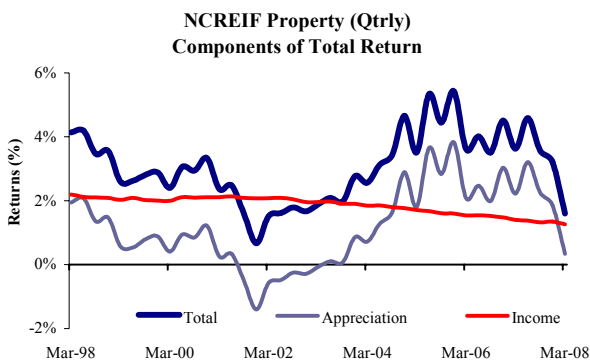
REAL ASSET OVERVIEW

With the equity REIT market having experienced one of its steepest declines in its history over the trailing one-year (down 17.37%), commercial property finally began to show signs of the widely expected market correction in the private sector during the first quarter. After earning solid quarterly returns over the past four years (3.95% on average ending 12/31/07), performance for direct private real estate (as represented by the NCREIF Property Index) suffered its worst quarterly performance since 2002, albeit positive with a 1.60% total return in the first quarter. Performance during the quarter was driven mainly by income (+1.26%), with barely any signs of appreciation across any property type. If the REIT market was a foreshadowing of what to expect in the direct market, declines will continue. However, to what degree valuations fall in the private sector remains uncertain, as the lack of transaction activity has partially prolonged this assessment. For example, Real Capital Analytics tracked \$30 billion in transactions (>\$5 million) that closed during the first quarter, this compared to the nearly \$140 billion that traded in the same period last year.

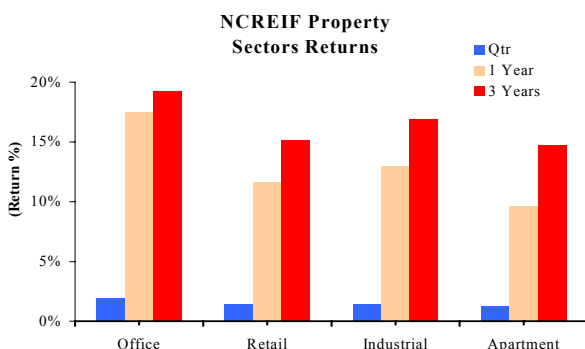
Despite the a slowing economy and rumbling in the capital markets, real estate fundamentals are holding steady in most sectors, although going forward are expected to deteriorate as each property sector has passed their cyclical peaks. In addition, the housing slump and subprime impact may affect fundamentals further in sectors and regions with greater exposure to these crises. Broadly, tenant demand in the major markets has moderated with vacancy rates steady or rising slightly across most property types. The overall lack of construction over the past few quarters has supported vacancy levels to some extent. However, properties in secondary markets and regions with some excess supply may experience higher vacancy increases. Furthermore, although at healthy levels, rental growth is expected to slow as demand pulls back, thus affecting net operating income assumptions going forward. Overall, capitalization rates have leveled-off across most sectors, but are expected to increase to reflect the slower growth prospects. That being said, returns for the direct private real estate market are expected to retract to normal levels during the year, mainly driven by income yield.

Asset Class Performance (% Annualized Returns)				
As of 3/31/08	1 Year	3 Years	5 Years	10 Years
NAREIT (US)	(17.4)	11.7	18.3	10.7
EPRA/NAREIT (Global)	(17.3)	14.9	23.3	NA
NCREIF Property	13.6	16.8	15.1	12.6
NCREIF Timberland	21.5	18.2	14.9	8.8

Source: NCREIF, NAREIT (Equity Only), Bloomberg



Source: NCREIF (Data as of 3/31/08)

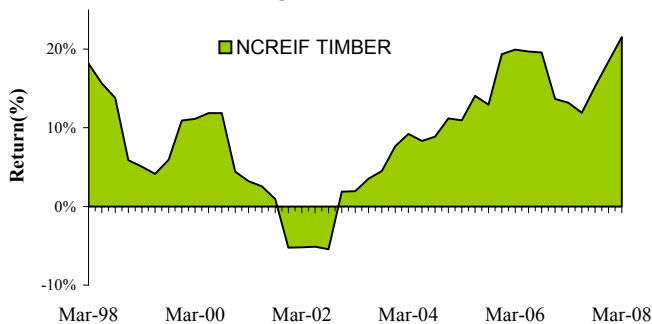


Source: NCREIF (Data as of 3/31/08)

PRIVATE REAL ESTATE

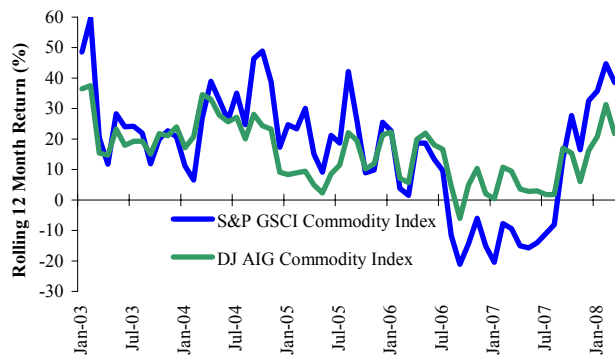
- Private real estate, as represented by the NCREIF Property Index (“NPI”), generated a 1.60% total return during the first quarter, and is up 13.60% for the trailing one-year period.
- The office sector drove returns for the NPI during the quarter with a 1.96% total return. Office continued its relative strength, outpacing the other major property types for the quarter, one- and three-year time periods. Vacancy rates are expected to increase in this sector, more so in areas with higher concentrations of financial services and housing-related jobs. However the lack of supply in most major markets may limit substantial increases. Property income in the office sector is still expected to outpace inflation, as expiring leases will roll over to current market rates.
- The industrial sector failed to beat the broader Index during the quarter, posting a 1.44% total return (+13.0% for the year). Appreciation was flat for industrial properties during the quarter as income yield drove 100% of the return. Although a slowing economy may diminish U.S. warehouse import inventories, the weak dollar is increasing exports which flow through these warehouses to major U.S. ports. As such, this sector is expected to perform at a slow but steady pace going forward.
- Retail sector performance matched that of industrial, earning 1.44% for the quarter, and is up 11.60% for the year. The slowing economy and lack of consumer confidence will likely put a strain on sales growth, which will materially affect income in this sector. Areas where new construction was planned with expected housing starts may see even weaker performance.
- The apartment sector performance was the weakest compared to its sub-sector counterparts during the quarter with a 1.26% total return. Although performance lagged on a relative basis, going forward, the apartment sector should hold up well as renter demand is expected to increase over the next few years, producing healthy rent growth projections for the sector.

NCREIF Timberland Index
Rolling 12 Month Return

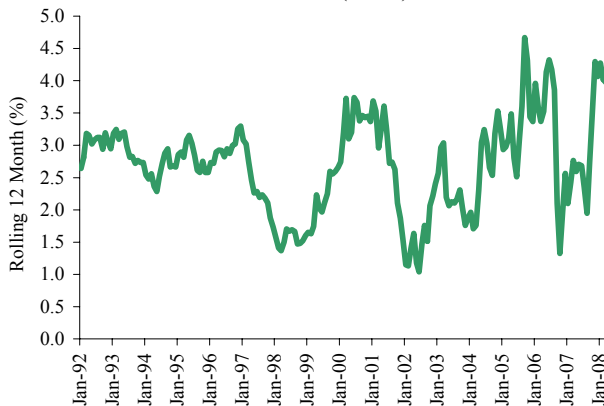


Source: NCREIF (Data as of 3/31/08)

Commodities



INFLATION (CPI-U)



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

TIMBER

- The NCREIF Timberland Property Index returned 4.50% during the first quarter, its strongest performing first quarter ever. For the one-year ending March 31, 2008, the Index produced its highest in 14 years, peaking at 21.50%.
- Strength in the pulp and paper market advanced the Index during the quarter, as strong demand and healthy export activity drove up prices in an otherwise stagnant forest products market. The housing slump continued to affect pricing in the lumber market, as housing starts fell to the lowest level of the last 17 years in March, according to data released by the US Commerce Department.
- Investment activity included the sale of 900,000 acres of southern pine timberlands to a Timber Investment Management Organization for \$1.71 billion during the quarter. Another 500,000 of timberland is expected to go to bid later this year.

COMMODITIES

- Commodity prices bounded higher in the quarter, but according to established measures, inflation remains somewhat under control. Despite the backdrop of slowing global growth, and indications from the Federal Reserve that U.S. growth could go negative in the first six months of the year, commodity prices found a way to move higher in January and February, before falling in the 2nd half of March in response to the Fed's move to lower rates aggressively to combat a growing financial crisis. Even with the March retreat, commodity indices posted significant gains for the quarter, with the Dow Jones-AIG Commodity Index up 9.61% and the S&P GSCI up 9.92%. For the one-year period, these two indices are up 21.8% and 38.5%, respectively. Meanwhile, inflation, as measured by CPI, is up only 1.67% annualized for the quarter, and 3.98% for the one-year period.
- Of greatest concern to consumers has been the price increases seen in two key areas: Energy and Food. Crude oil climbed 5.83% during the quarter, with similar rises in Unleaded Gas (+5.67%) and Heating Oil (+15.31%). Meanwhile, crop prices continued to move higher, with Corn (+24.53%) and Wheat (+4.97%) leading the charge.
- Up to this juncture the inflation picture appeared rather benign, thus giving the U.S. Federal Reserve the flexibility to lower short-term borrowing rates in the U.S. That may be changing, as sizable increases in energy and agricultural prices over the past quarter have once again driven consumer prices into 4%+ annualized gain territory. Should inflation remain at these levels, look for monetary policy to shift from an easing to neutral stance.

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