PRIVATE EQUITY PARTNERS | MARKET UPDATE

March – April 2008

Affect of Recession on Asset Allocation

As a critical component of our livelihood, the Piper Jaffray Private Capital team is in constant dialogue with the country's top consultants and with institutional investors big and small. After all, in order to best meet your alternative investment needs, we need to know what is on your mind. One issue occupying mindshare today is the prospect of recession, so we thought it timely to comment on that topic.

For brevity and in keeping with our core area of expertise, we will skip discussions of the housing slump, the falling dollar, declining consumer confidence, Bear Stearns and the price of oil and get right to the question of "How does the prospect or reality of a recession impact what we are doing today in private equity?"

General Private Equity Observations

- The IPO window narrowed significantly after Q3 2007. However, we are seeing a growing backlog of high quality VC-backed companies and expect conditions to improve when public equity markets rebound.
- Private equity investors are experiencing a longer time to liquidity on their investments. Broadly speaking, private equity liquidity expectations have increased by 12 or more months due in part to the narrowing IPO window, the cessation of most mega buyout activity and the decreased currency value of public companies that would otherwise be looking to make stock-for-stock acquisitions.
- We have seen a reduced pace of capital calls from larger buyout funds, though deal activity from VC funds and lower middle market and middle market buyout funds remains fairly steady.
- There has been a substantial uptick in cross-border M&A activity. With the falling dollar, U.S. companies are relatively cheap from a global perspective. This is especially true in the healthcare sector where we have seen Big Pharma become very active (e.g., Japan-based Takeda Pharmaceutical recently bought U.S.-based Millennium Pharmaceutical).

Trouble Spots vs. Bright Spots

We recognize that investors with broad exposure to the capital markets are dealing with several trouble spots in their existing portfolios, including significant decreases in the value of their U.S. public equity holdings and illiquidity in subsectors of the municipal bond market. These trouble spots require attention. We also recognize that it is human nature to focus on such trouble spots, perhaps to the exclusion of "bright spots"— or areas of opportunity. We believe buyouts are one of those bright spots today (so are CleanTech and emerging markets, though we will reserve comment on those). Finally, we understand that if allocation percentages to each asset class in a portfolio remain constant and the portfolio suffers losses in one asset class, the amount of capital available for all asset classes will fall.

Currently, losses suffered in public equity portfolios are reducing the cash available for other asset classes, including private equity. Some investors will take a short-term view and not make private equity allocations this year as a result. As the problems in public equity markets are resolved, these investors will find themselves under-allocated to private equity and will have missed what is likely to be a good time to invest in buyouts. Sophisticated investors, however, will look through the recession to the other side and act accordingly.

Buyout Returns Post-Recession

Historical data shows that top-quartile buyout returns are very strong coming out of a recessionary period (see chart below). During a recession, acquisition multiples tend to contract, allowing buyout firms to acquire portfolio companies more cheaply than during healthy economic periods. For example, the average LBO acquisition multiple from 2001-2003 was 6.6x EBITDA compared to an 8.9x EBITDA average LBO acquisition multiple from 2005-2007[1]. Those same companies are generally held during a period of robust economic expansion, which acts as a tailwind for portfolio company growth. Following a 3-5 year typical holding period, portfolio companies are often exited in a stronger (non-recessionary) market at a premium to the entry multiple, leading to above average returns.

PRIVATE CAPITAL

PRIMARY CONTACTS

Scott Barrington
612 303-1110
scott.l.barrington@pjc.com

Mark Austin
612 303-6168
mark.d.austin@pjc.com

Danny Zouber
612 303-0410
danny.a.zouber@pjc.com

Mike Pohlen
612 303-6718
michael.e.pohlen@pjc.com

Gretchen Postula
Investor Relations
612 303-6331
gretchen.s.postula@pjc.com

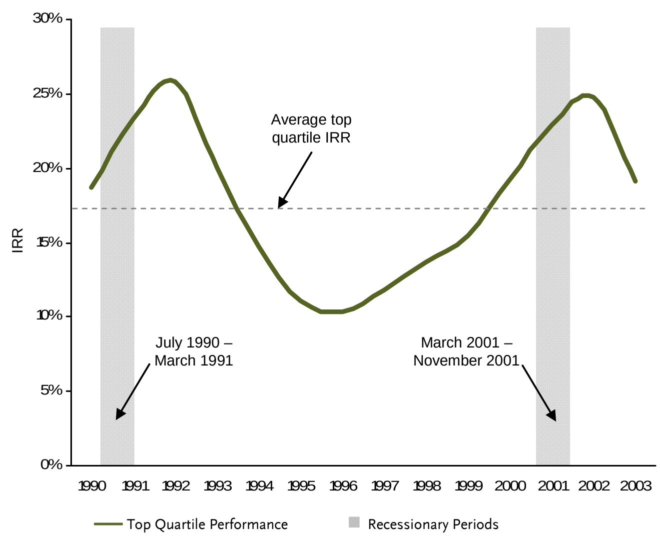
OFFICES

Minneapolis
New York
Boston
Chicago
San Francisco
Palo Alto
Charlotte
London
Beijing
Shanghai
Hong Kong

Find us on the web at
piperjaffray.com/fundoffunds
and
cleantechfundoffunds.com

Key Takeaway – Steady as She Goes
Stick to your long-term asset allocation plan and put money to work in private equity this year (and every year). Do not focus on the troubled parts of your portfolio to the exclusion of areas of investment opportunity.

LBO Performance [2] (1990 – 2003)



Footnotes:

[1] Source: Standard & Poor's Q4 2007 Leveraged Buyout Review, includes transactions with >$50 million EBITDA

[2] Recessionary Periods: July 1990 to March 1991 and March 2001 to November 2001.

Note: Top Quartile Performance represents the three-year moving average of top quartile buyout returns (e.g. the return for 1990 is the average of the top quartile returns for 1990, 1991 and 1992 vintage LBO funds) and is intended to simulate the performance of a fund of LBO funds. We typically target three years of vintage diversification in each of our fund of funds. Benchmark data as measured by Thompson Venture Economics as of 12/31/07.

Fundraising Update for Private Equity Partners IV

We held the first closing for PEP IV on March 31. The second closing is scheduled for June 30. If you would like additional information about PEP IV, please contact Gretchen Postula at (612) 303-6331 or gretchen.s.postula@pjc.com.

PEP IV affords investors the opportunity to access highly sought after Venture, LBO or CleanTech managers through fund of funds structures. PEP IV also offers a Direct Investment fund that is strategically positioned to invest alongside the top CleanTech managers worldwide, as well as in other proprietary investment opportunities. Investors may allocate their capital to any one or more of these four components.

Fund commitments are well underway:

- 3 of 10 planned commitments have been completed for our Venture fund of funds,
- 1 of 10 planned commitments has been completed for our LBO fund of funds, and
- 3 of 10 planned commitments have been completed for our CleanTech fund of funds.

The Direct Fund expects to draw from a pool of 400-600 companies to make 10-20 investments over the life of the fund. We are actively reviewing several investment opportunities at the moment. To review more details on PEP IV's diversification strategy and commitment pipeline, click here.

Upcoming Events

We are regular speakers and attendees at key industry conferences. We hope to see you at one of the upcoming conferences:

- **May 18-22, 2008:** Mark Austin will be speaking at the NCPERS Conference in New Orleans, Louisiana www.ncpers.org
- **June 10-12, 2008:** Scott Barrington will be speaking at the Venture Capital Investing Conference in San Francisco www.ibfconferences.com

Piper Jaffray was established in 1895 and has grown to become a nationally and internationally recognized firm serving growth companies and growth company investors. We have a significant commitment to alternative assets through our series of fund of funds and direct investment program.