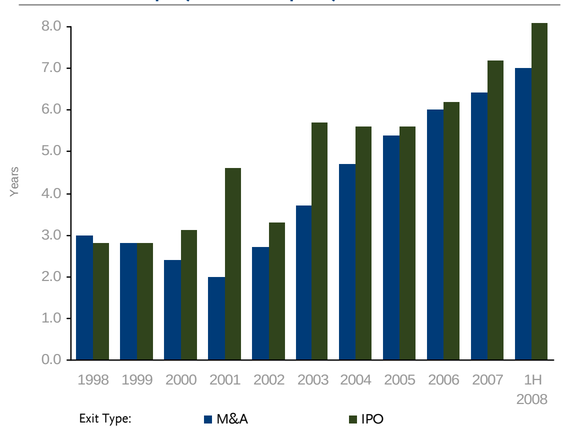
PRIVATE EQUITY PARTNERS | MARKET UPDATE

July-August 2008

A Case for Late Stage VC

VC-Backed Company Time to Liquidity (1998 – 1H 2008)



Late stage venture capital has fallen out of favor with some LPs in the past few years due to a belief that venture-like returns can only come from early stage funds. While one likely will only get "Google-like" returns by investing in seed and early stage companies, we believe venture-like IRRs can be achieved in late stage funds due to a conflux of market factors.

Lack of liquidity events are increasing demand for late stage capital. There were no VC-backed IPOs in the second quarter of 2008 – the first such quarterly void since 1978. In addition, the number of VC-backed M&A deals in the second quarter of 2008 was the lowest level in at least a decade. As a result, exit timing expectations have been extended for many VC-backed companies and a large subsection of those companies are in need of additional capital today or will be soon. Due to the credit crunch, many of the traditional bridge financing sources like bank, mezzanine and venture debt are less available. Even hedge funds are playing a smaller role as leverage has become scarce. This is creating very good conditions for late stage VCs, enabling them to invest at increasingly favorable valuations and terms.

Strong companies in the pipeline. Despite the fatigued investments from 1999-2001 that are still working their way through VCs' portfolios, there is a large and growing number of newer late stage opportunities in the pipeline. In 2004, there was approximately $4.7 billion invested in 676 early stage companies. Many of those companies are now squarely in the sights of late stage VCs. In 2005 and 2006, there was $5.7 billion and $5.6 billion invested in 782 and 797 companies, respectively. Late stage deal flow is therefore of increasing quantity and, more importantly we believe, quality and maturity.

Public market weakness is pushing late stage private valuations lower. Late stage private valuations are falling as the value of their public market comparables falls. Comparable are down by 20-30% in many subsectors and our underlying managers are confirming that flat and down-rounds are becoming more common at the late stage—a good thing for these late stage investors.

Conclusion. At Piper Jaffray, a well-diversified portfolio has always been the foundation of our investment strategy. Our VC portfolio includes prudent allocations to seed, early and late stage VCs, as well as industry-sector diversification and geographic diversification beyond Sand Hill Road. We remain steadfast in our commitment to invest across the seed to late stage spectrum. Today, we see excellent opportunities with seed and early stage managers who are disciplined with respect to valuation and capital efficiency. As discussed above, we are also very bullish on late stage VC opportunities, and we think today's late stage VCs will generate high IRRs when exit conditions improve.

Private Capital

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Investments Underway for Private Equity Partners IV

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 CleanTech investment opportunities. Investors may allocate their capital to any of these four components.

PEP IV highlights:

- VC Fund of Funds
  - Emphasis on small, capital efficient managers and select late stage funds, plus exposure to Asia
  - 4 of 10 expected commitments have been completed
- LBO Fund of Funds
  - Focus on smaller funds doing lower middle-market buyouts plus appropriate exposure to Europe/Asia and distressed managers
  - 1 of 10 expected commitments have been completed (2nd is pending)
- CleanTech Fund of Funds
  - Follow-up to the first U.S.-based CleanTech FFs, which we launched in 2005
  - Global in scope, emphasis on late stage, growth equity and buyouts
  - 4 of 12 expected commitments have been completed (5th is pending)
- CleanTech Direct (co-investment) Fund
  - Growth equity focus, low/no technology risk, often revenue generating, global in scope
  - One investment completed (numerous other deals under active review)

The next closing is scheduled for September 30. If you would like additional information about PEP IV, including information on the commitments made to date, please contact Gretchen Postula at (612) 303-6331 or gretchen.s.postula@pjc.com.

Upcoming Events

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

- **September 4-5, 2008:** Beyond Oil: Transforming Transportation, Microsoft Executive Conference Center, Redmond, WA www.cascadiaproject.org
- **October 13-16, 2008:** Solar Power International 2008, including Piper Jaffray Event on October 15, at the San Diego Convention Center in San Diego, CA www.solarpowerconference.com
- **October 26-29, 2008:** The 19th Annual SRI in the Rockies Conference at the Fairmont Chateau Whistler, Whistler, British Columbia www.fairmont.com/whistler
- **November 20-21, 2008:** Ernst & Young's Israel Green Economy Conference 2008 at the Hilton Hotel in Tel Aviv, Israel www.ey.com/global/Content.nsf/Israel/CleanTech_Conference_2008

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.