

July 2006

Fundraising Update

Offering documents are available for **Private Equity Partners III** ("PEP III"). PEP III will be similar to PEP II, with commitments to ~15 venture capital funds and ~10 buyout funds. We have warehoused commitments to top tier funds, including Alta Partners VIII, De Novo Ventures III, Doll Capital Management V, Lightyear II, Madison Dearborn V and Oak XII. We will continue to make commitments as we complete our diligence on prospective funds. The first closing for PEP III is anticipated to be tomorrow (insiders only) followed by an institutional closing in September. Please contact Gretchen Postula to reserve your allocation.

Private Equity Statistics

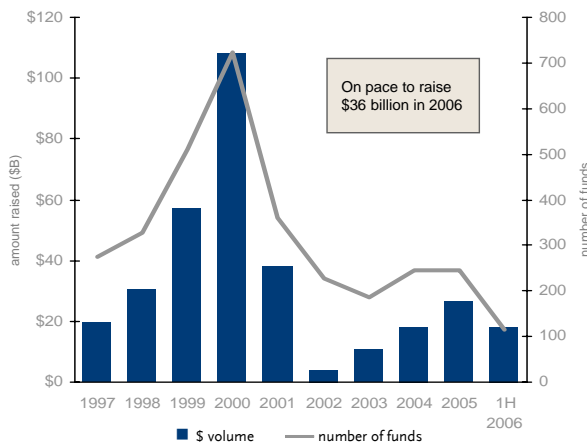
This semi-annual edition of our market update provides statistics for fundraising, valuations and exits in the venture capital and leveraged buyout sectors. Highlights of 1H 2006 activity:

- While difficult to quantify, we clearly are seeing that demand from institutional investors for top tier VC and LBO funds is at the highest point in years. Top LBO firms are able to accommodate such demand by increasing their respective fund sizes amid growing global opportunities for them to invest new capital. VC firms in general are taking a more cautious approach and keeping their respective fund sizes relatively small. Today, many VC funds are 2-3x oversubscribed just from their existing investors. In light of incredible investor demand, such discipline shows the VCs still remember the hard lessons learned from the excesses of 1999-2000.
- VC fundraising is off to a brisk pace and is on track to be the best fundraising year since 2001. Fundraising for 2006 LBO funds is on pace to exceed the record set in 2005. Over half of LBO fundraising in 1H 2006 was attributable to fewer than 10 large LBO funds, which are also setting records for capital raised by individual funds.
- Valuations rose as the large influx of capital in 2005 intensified the competition for deals.
- VC-backed IPOs continued to languish and are on pace to match 2005 levels. However, 41 VC-backed companies were in registration at the end of Q2 compared to 24 at the end of Q1. The pipeline of LBO-backed IPOs continues to be strong and is on track to surpass 2005.
- M&A activity maintained a torrid pace and was the main outlet for liquidity for VC-and LBO-backed companies.

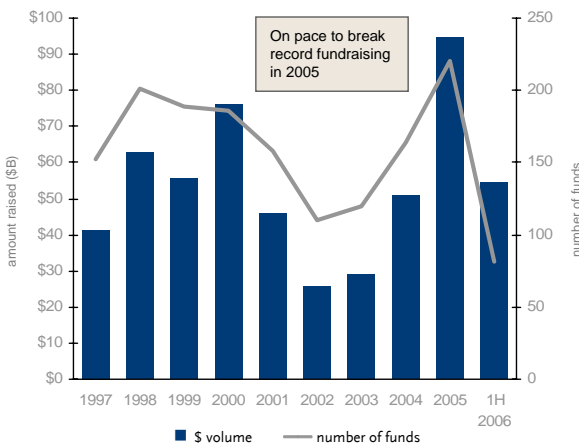
We hope you find this information valuable as you evaluate your private equity investments. We welcome your questions and comments.

Fundraising

Venture Capital (1997 – 1H 2006)



LBO* (1997 – 1H 2006)



* This category includes LBO, Mezzanine, Turnaround and Recapitalization-focused funds.

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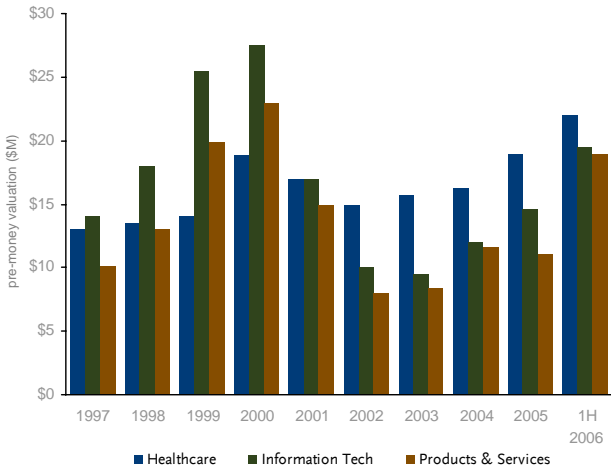
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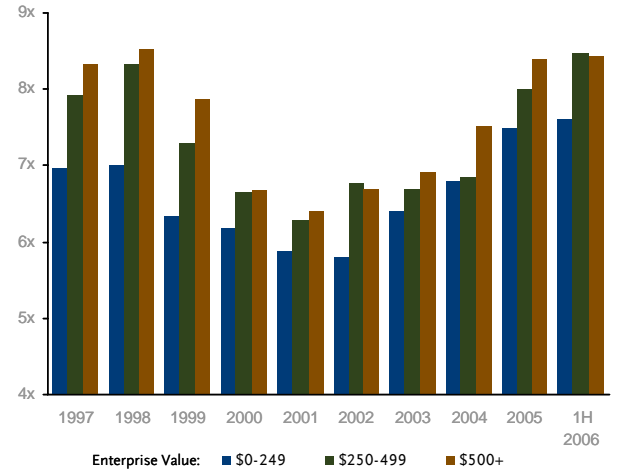
Find us on the web at
piperjaffray.com/fundoffunds

Valuations

VC Median Pre-Money Valuations (1997 – 1H 2006)

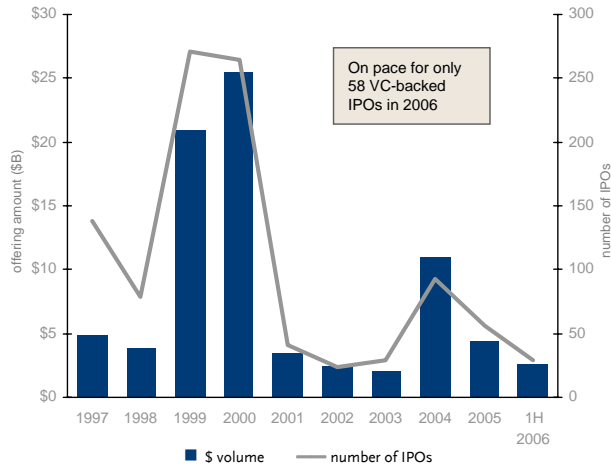


Avg. LBO Purchase Price (Multiple of EBITDA) (1997 – 1H 2006)

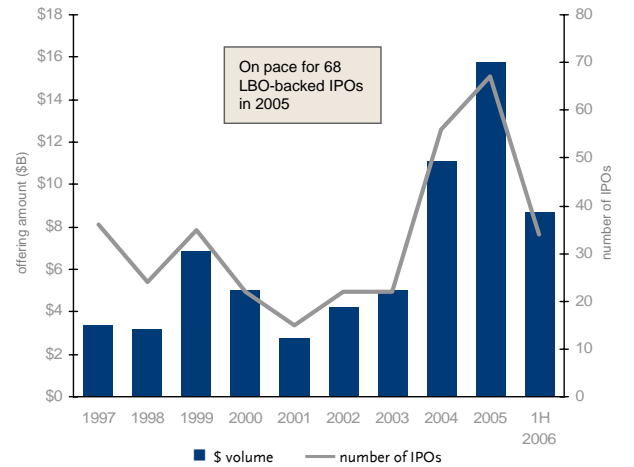


Exits

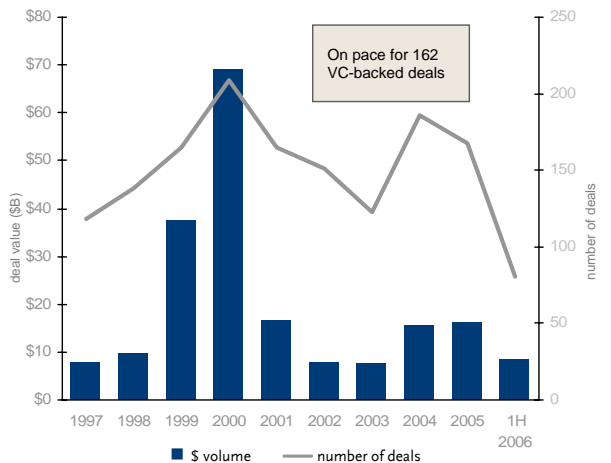
VC-backed IPO Market (1997 – 1H 2006)



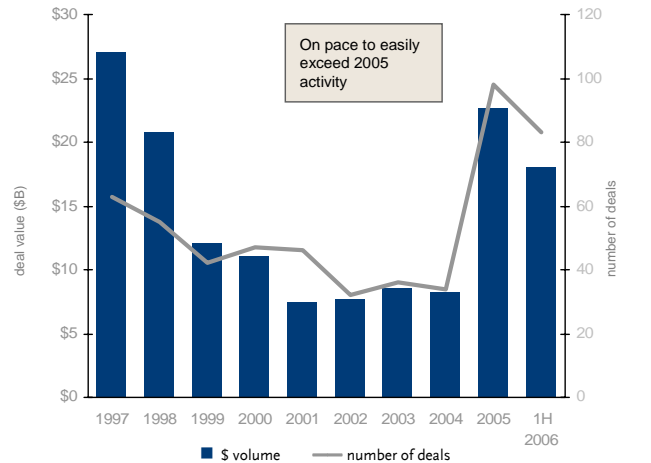
LBO-backed IPO Market (1997 – 1H 2006)



VC-backed M&A Market (1997 – 1H 2006)



LBO-backed M&A Market (1997 – 1H 2006)



Data only includes disclosed deals

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Sources: Thompson Venture Economics, National Venture Capital Association and Standard & Poor's Q2 Leveraged Buyout Review. All data as of 6/30/06, run as of 7/26/06.