Private Equity Partners | market update

March 2006

Observations on Asia Private Equity Investing

Asia is increasingly becoming an important arena for venture capital investing. We intend to modestly raise our allocation to firms investing in China, Japan, India, Korea and Singapore based on a number of key factors.*

Large populations and growing middle class

- A population of approximately 2.5 billion people
- An emerging middle class of 500 million people

Tremendous demand for consumer goods, technology and energy

- Asia is expected to add over 30 million new Internet users each year through 2009
- 218 billion text messages sent last year
- Online gaming generated over $1 billion in revenue in 2004, up 30% over 2003
- China is the world's second largest energy consumer (after the U.S.)

Fast growing economies

- For the past two decades, China has grown an astounding 10% a year and India has grown by 6%
- Factors such as the youthful population, high savings rate and demand for general modernization mean China and India can sustain economic growth rates of 7-8% for decades

Improved conditions for foreign investments

- VC investing continues to be robust – firms invested $15.2 billion in 2005, a 29% increase over 2004
- Liquidity events increased 25% to 188 in 2005, versus 150 in 2004. Exits returned $19.8 billion of capital to investors in 2005 – Japan accounted for nearly half this, followed by China and India.
- Asian capital markets have become an attractive alternative to the U.S. for IPOs

Certain U.S. based VC and LBO firms have sufficient local ties, capabilities and know-how

- For example, Pacven Walden has been investing continuously in Asia since 1987
- Other U.S.-based firms, such as Doll Capital Management, Mobius, Warburg Pincus and Ripplewood, have more recently proven themselves in Asia
- Many successful Asian immigrants to the U.S. are returning to their homeland to launch their next ventures

Our Asia Investment Strategy

We are seeking top tier managers with long track records and local Asian ties versus "momentum money" that is chasing returns. We prefer firms like Pacven Walden with nine offices in six countries rather than country specific firms. This allows them to select the best investment opportunity regardless of country – a subtle but important distinction from the many "me-too" China or India funds in the market today. Significant Asian investment experience and relationships are required to navigate the many underlying risks, including prior unwelcome government intervention and currency fluctuation.

Fundraising Update

We recently began marketing **Private Equity Partners III** ("PEP III"), our third diversified fund of funds. PEP III will be similar to PEP II, with commitments to 10 venture capital funds and 10 buyout funds. We already warehoused our first buyout commitment to Madison Dearborn V and expect to soon warehouse Alta VII, Oak 12 and Apax VII.

In addition, we are midway through raising and investing a "cleantech" fund of funds for certain of our family office and foundation clients. **Piper Jaffray CleanTech Ventures** will invest in solar, wind, biomass, fuel cell, advanced materials and water companies. We are the only U.S. fund of funds dedicating resources to this increasingly important sector, which accounted for 10% of all VC investments in Q4 of 2005. This fund will close to new investors in 60-90 days.

If you would like additional information on either of these funds, please contact Gretchen Postula.

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, ***Private Equity Partners.***

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* Sources: Centre for Asia Private Equity Research Ltd., Time magazine, Business Week, World Economic Forum.

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