Private Equity Partners | market update

September 2004

This is the first in a series of periodic private equity updates that we will distribute to our growing network of friends in the industry. If you have any questions or comments, please contact Scott Barrington.

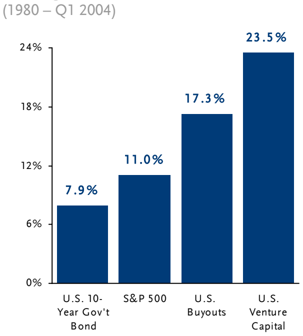
LBO & VC Fundraising Activity

We are in the middle of a tremendous fundraising cycle for both venture capital (VC) firms and leveraged buyout (LBO) firms. Due to the furious investment pace of 1998-2000, many firms were raising a fund every year, but we have since returned to more traditional timelines where firms raise a new fund about every 3 years. Many firms raised large war chests in 1999-2000, and they are now returning to raise new funds en masse. Many reputable funds have already passed by: Kleiner Perkins, NEA, Oak, TCV, Sequoia, Three Arch, De Novo and Doll Capital (to name a few VC firms) and Hellman & Friedman, Silver Lake, GTCR, Kelso, Code Hennessy, Riverside, Golden Gate and Bain (LBO firms). And many of these firms, particularly VC firms, are raising much smaller funds than they did last time, which has made it even more difficult for the average investor to secure an allocation. Still, many other fine firms are readying new funds as part of this current fundraising cycle, including: Battery, Greylock, Insight, IVP, InterWest, Sprout and USVP (VC) and ABRY, Cortec, First Atlantic, Genstar, Odyssey, Three Cities and Weston Presidio (LBO).

Conditions for New Investments

Historically, private equity returns have bested public market returns over the long-haul. And they should, given the higher degree of risk and illiquidity associated with private equity investments. In recent years, VC and LBO returns have suffered along with public market returns, but we think significant opportunity lies in making VC and LBO investments at this relatively low point in the economic cycle. Series A round VC valuations are once again at 1995 levels and LBO valuations are similarly at 1996 levels. The capital overhang that existed after the Internet bubble burst has largely dissipated. Such capital was used for new investments or management fees, reserved for follow-on investment, or reverted (unused) back to investors as investment periods expired or firms right-sized their funds. Competition remains fierce but inefficiencies in the market will continue to be exploited by the best and the brightest firms to create strong relative returns. Firms leading the way will be those that attract the highest quality investment opportunities and that add the most value to their portfolio companies through hands-on interaction, industry expertise, market savvy and their national and international networks of executive, marketing and manufacturing talent. While we see that strong firms are having no trouble attracting top CEOs and other talented professionals to their portfolio companies, lesser firms are struggling to do so as executives weigh heightened risk v. lower expected rewards due to stock option uncertainties (new FASB rules and pending Federal legislation), a slow IPO market, the economy in general, increased liability from SOX, and the relative safety of jobs with more mature companies. This further underscores the importance of choosing the right managers for your portfolio.

Average Annual Returns
(1980 – Q1 2004)



Sources: U.S. Federal Reserve, FactSet and Thomson Financial Venture Economics / NVCA. Prior results are no guarantee of future performance. Buyout and VC data based on net IRRs for funds formed from 1980-1998, not all of which were fully realized as of 3/31/04. Later funds are not yet mature and were therefore excluded.

*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 and currently are offering our next fund of funds, **Private Equity Partners II**, to institutional investors. This innovative fund offers a unique structure within the fund of funds industry. **First**, we already have identified funds sponsored by premiere LBO and VC firms for possible commitments. Several of these hard-to-access firms have reserved allocations for us in their next funds, including Weston Presidio, TA Associates and De Novo. **Second**, we offer total allocation flexibility. Investors may allocate their commitments to LBO funds, VC funds or both, in any proportion that they choose. **Third**, management fees are billed at cost (and capped at 20-40 bps), resulting in comparatively higher net returns to investors.*

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