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Hedge Fund Market Overview

In one month, the S&P 500 nearly doubled its year-to-date return, rising 6.8% to end 2010 up 15.1%, as shown in Exhibit 1. Equity markets across the globe moved by similar amounts. In Europe, the December rally of 8.4% allowed stocks to end in positive territory for the year. The 2010 return of only 3.9% occurred in a very volatile period which included massive capital flights and swings in the Euro amidst concerns over the health of European banks and certain EU member states. High yield bonds rose 1.8% despite a 100 basis point increase in 10-year Treasury yields, as spreads fell 81bps in a significant tightening. Treasuries fell 1.8% on the interest rate move as positive economic sentiment drove capital into riskier assets.

Hedge funds had a good month, but significantly underperformed the broader markets. The broader HFRI Fund-Weighted Index was up 3.2%, while the Dow Jones Credit Suisse Index added 2.9%. Funds of funds rose 2.1% according to HFRI. Exhibit 2 reviews hedge fund performance by strategy.

Equity long/short and managed futures funds were the best performers in December, both driven by positive exposure to the equity market rally, and in the case of managed futures funds, commodities, which surged 11% in December. Event driven funds also performed well on increased merger activity and tightening spreads on high yield bonds and loans.

Year-end returns did not vary much across strategies. According to the Dow Jones/Credit Suisse indices, discretionary macro funds were the best performers, up 13.5%, with equity long/short funds at the bottom of the list with a 9.3% gain, or 8.9% over LIBOR.

Even this 8.9% return, lowest among strategies, compares favorably with the S&P 500, which generated excess returns of 14.7% in 2010. Using the historical beta of 0.4 of the DJ/CS Equity long/short index to the

S&P 500 implies outperformance of 3%. While this is a somewhat crude measure of alpha, it is relevant to institutional investors who set policy benchmarks and allocations based on the historical market risk exhibited by hedge funds.

Exhibit 1: 2010 Market Performance

| Index | December | YTD 2010 | FYTD* | Calendar | |
|-------------------------|----------|----------|-------|----------|--------|
| | | | | 2009 | 2008 |
| Equity | | | | | |
| Dow Jones 5000 | 6.8% | 17.5% | 24.5% | 28.6% | -37.2% |
| S&P 500 | 6.7% | 15.1% | 23.3% | 26.5% | -37.0% |
| Russell 2000 | 7.9% | 26.9% | 29.4% | 27.2% | -33.8% |
| MSCI EAFE | 8.1% | 8.2% | 24.3% | 32.5% | -43.1% |
| MSCI Emerging Mkts | 7.2% | 19.0% | 26.7% | 78.3% | -53.5% |
| DJ REIT | 4.7% | 28.1% | 21.6% | 28.5% | -39.2% |
| S&P 500 Financials | 10.7% | 12.1% | 16.4% | 17.2% | -56.6% |
| Fixed Income | | | | | |
| Barclays Aggregate | -1.1% | 6.5% | 1.1% | 5.9% | 5.2% |
| Barclays Treasuries | -1.8% | 5.9% | 0.0% | -3.6% | 20.1% |
| Barclays TIPS | -1.6% | 6.4% | 1.9% | 11.4% | -2.4% |
| Barclays High Yield | 1.8% | 15.1% | 10.2% | 58.2% | -26.2% |
| Barclays Bank Loan | 1.5% | 9.7% | 6.8% | 53.8% | -29.5% |
| AAA ABX (Subprime) | 1.8% | 32.3% | 13.4% | -7.8% | -43.2% |
| Barclays Municipals | -1.9% | 2.4% | -0.9% | 12.9% | -2.5% |
| 3 mo.Libor | 0.0% | 0.4% | 0.2% | 0.7% | 3.1% |
| Alternative | | | | | |
| DJ UBS Commodity | 10.7% | 16.8% | 29.2% | 18.9% | -35.7% |
| Hedge Funds | | | | | |
| HFRI Fund of Funds** | 2.1% | 5.6% | 6.9% | 11.5% | -21.4% |
| HFRI Fund Weighted** | 3.2% | 10.5% | 10.9% | 20.0% | -19.0% |
| Dow Jones Credit Suisse | 2.9% | 10.9% | 10.3% | 18.6% | -19.1% |

* Fiscal YTD from June 30, 2010

** Hedge Fund Research, Inc. ("HFR") is the source and owner of the HFR data contained or reflected in this report and all trademarks related thereto.

Exhibit 2: Hedge Fund Performance by Major Strategy Category

| Strategy Indexes | December | YTD 2010 | FYTD* | Calendar | |
|---------------------------------|----------|----------|-------|----------|--------|
| | | | | 2009 | 2008 |
| Arbitrage/Relative Value | | | | | |
| HFRI** | 1.3% | 11.7% | 7.7% | 25.8% | -18.0% |
| Dow Jones CS-Convert | 1.2% | 11.0% | 8.1% | 47.3% | -31.6% |
| Dow Jones CS-Fixed Income | 0.6% | 12.5% | 6.6% | 27.4% | -28.8% |
| Event Driven | | | | | |
| HFRI | 2.6% | 11.5% | 8.9% | 25.0% | -21.8% |
| Dow Jones Credit Suisse | 3.9% | 12.6% | 10.6% | 20.4% | -17.7% |
| Equity Long/Short | | | | | |
| HFRI | 3.6% | 10.6% | 12.9% | 24.6% | -26.7% |
| Dow Jones Credit Suisse | 3.4% | 9.3% | 12.9% | 19.5% | -19.8% |
| Global Macro/CTA | | | | | |
| HFRI | 3.9% | 8.6% | 9.8% | 4.3% | 4.8% |
| Dow Jones CS-Macro | 2.7% | 13.5% | 8.9% | 11.6% | -4.6% |
| Dow Jones CS-Managed Futures | 5.4% | 12.2% | 11.9% | -6.6% | 18.3% |
| Multi-Strategy | | | | | |
| HFRI | 1.9% | 13.9% | 9.0% | 24.6% | -20.3% |
| Dow Jones Credit Suisse | 1.7% | 9.3% | 8.8% | 24.6% | -23.6% |

* Fiscal YTD from June 30, 2010

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Private Equity Market Overview

Through the third quarter of 2010, the private equity universe generated strong returns relative to the public markets. As of September 30, 2010, U.S. private equity funds generated a 10.6% return in 2010 while the Wilshire 5000 generated a 5.0% return. Performance for the year was significantly driven by the third quarter, when U.S. private equity funds generated a 5.1% return, as shown in Exhibit 3. (Source: Venture Economics)

Exhibit 3: 2010 Private Equity Performance

| Index | Quarter | Year to | | |
|--|---------|---------|--------|---------|
| | | Date | 5 Year | 10 Year |
| <i>Private Equity Performance¹:</i> | | | | |
| US All Private Equity | 5.13% | 10.57% | 8.49% | 4.41% |
| US Leveraged Buyouts | 5.12% | 13.02% | 8.48% | 7.44% |
| US Venture Capital | 5.14% | 6.99% | 6.00% | -4.09% |
| US Distressed Debt | 4.79% | 12.14% | 8.89% | 7.96% |
| Europe All Private Equity ² | -6.72% | -6.00% | 12.48% | 13.83% |

¹Thomson Financial Inc. is the owner and/or licensor of the Venture Economics data contained or reflected in this material. Proxy for distressed debt performance is represented by a blend of all buyout and turnaround / distressed debt performance as provided by Venture Economics. Returns are time-weighted.

²European performance benchmarks are reported semi-annually by Venture Economics. Returns are as of June 30, 2010.

Fundraising totals remained flat year-over-year. According to Venture Economics, worldwide private equity commitments totaled \$121.9 billion in 2010, up 3% from 2009, however still significantly lower than the totals raised between 2005 and 2008. Worldwide buyout fundraising declined 5% in 2010, as 215 funds raised \$54.8 billion. While buyout totals declined, worldwide venture capital fundraising increased as funds raised \$33.5 billion in the year, up 10% compared to 2009. Other private equity funds, including mezzanine, distressed debt and secondary funds, raised \$33.6 billion in 2010, up 27% from 2009.

According to Venture Economics, global disbursements totaled \$219.4 billion in 2010, a 110% increase over 2009. The worldwide total for 2010 is the largest annual aggregate amount of equity invested to date followed by \$211.4 billion in 2007. The average equity investment per deal in 2010 was \$24.0 million, or 41% higher than the previous highest average of \$17.0 million in 2007. According to S&P LCD, leveraged buyouts in the U.S. had an average equity contribution of 44% in 2010, down 7% from 2009, yet significantly higher than the 33% average equity contribution in 2007.

U.S. buyout firms deployed \$144.4 billion in equity over 6,823 buyout deals in 2010, an increase of 86% relative to 2009. The largest closed LBO of the fourth quarter was the \$895 million acquisition of Caritas Christi Health Care by Cerberus Capital Management, which closed on November 9, 2010. It was announced in the fourth quarter that Del Monte Foods will be

acquired by KKR, Centerview Partners and Vestar Capital Partners for \$5.3 billion. The deal is expected to close in the first quarter of 2011 and it would be the largest LBO since the collapse of Lehman Brothers in 2008 (Source: Reuters Buyouts). U.S. venture capital firms deployed \$21.8 billion in 2010, a 19% increase over 2009 (Source: NVCA). 2010 marked the first year that venture capital investment activity rose since 2007. The largest venture capital investment in the quarter was the \$200 million Series F investment in Twitter, led by Kleiner Perkins (Source: Venture Capital Journal).

While investment activity increased in 2010, private equity firms had difficulty finding exits during the year. Total private equity proceeds amounted to \$54.9 billion in 2010, a 10% decrease from \$60.7 billion in 2009 (Source: Venture Economics). The decrease can largely be attributed to buyout-backed exits, which totaled \$29.5 billion, or 36% less than 2009. The largest LBO-backed sale of the quarter was McKechnie Aerospace which was sold to aircraft parts maker TransDigm Group Inc. for \$1.27 billion in cash (Source: Reuters Buyouts). The largest LBO-backed public exit of the quarter was the IPO of LPL Financial Corporation on November 18, 2010. The company raised \$470 million on NASDAQ and is backed by TPG Capital and Hellman & Friedman (Source: Venture Capital Journal). Nielsen Holdings went public on January 26, 2011 with an estimated offering amount of \$1.75 billion, making it the largest private equity-backed IPO in the last four years. The company was acquired in 2006 by Carlyle, Blackstone, KKR, Thomas H. Lee Partners, Alpinvest and Hellman & Friedman for just over \$10 billion (Source: Bloomberg).

There was \$24.4 billion in venture capital-backed exits in 2010, a 71% increase over 2009 (Source: Venture Economics). Thirty-two VC-backed companies went public in the fourth quarter of 2010, nearly three times the number of IPOs seen during all of 2009. The largest VC-backed IPO of the quarter was FleetCor Technologies on December 15, 2010 (Source: Venture Capital Journal). The company raised \$167.8 million on NASDAQ and its largest shareholders were Summit Partners and Bain Capital.

Private Equity in China

Both fundraising and investing activities in China increased in 2010, driven by both RMB and US\$ funds. RMB funds are currently most active in venture capital and smaller growth equity investments. We expect the RMB funds to be increasingly active in larger transactions as both domestic and global private equity firms are raising larger RMB funds. While RMB funds invest in industries restricted to US\$ funds and co-invest with US\$ funds in some instances, they also

compete with US\$ funds which could drive valuations higher.

Venture capital funds in China invested \$4.4 billion in 2010, a 65% increase over 2009 (Source: Zero2IPO). Other private equity funds in China invested \$9.3 billion, an 8% increase over 2009. Recent notable transactions in China were the \$1 billion acquisition of China International Capital Corporation by KKR and TPG and Providence Equity Partners' \$214 million equity investment in Television Broadcasts. Chinese companies also had success in the public markets in 2010, as a total of 416 companies completed initial public offerings through November 2010 for a total offering amount of \$91.3 billion, a 67% increase over 2009. A recent notable IPO was Youku, an online video company which had an IPO on the NYSE. The company was backed by Bain Capital, Chengwei Ventures and Sutter Hills Ventures.

We expect the greater supply of capital in China to force private equity managers to look beyond the coastal provinces into the western part of the country where there is relatively less competition. Increasingly, global private equity firms are relocating their investment professionals from Hong Kong to the mainland to strengthen their local presence and deal sourcing capabilities. In addition, as the private equity industry is evolving in China, an increasing number of firms are building up operating capabilities to differentiate themselves in competing for investments and adding value to portfolio companies.

Real Estate Market Overview

While real estate fundamentals continue to be soft, values across all property types showed signs of improvement and stabilization during the fourth quarter. Private real estate valuations narrowed from the 40% peak to trough estimated in the spring of 2009 to the current 20% levels. The majority of the improvement is due to cap rate compression over the past six months, helped by investor appetite for yield and healthier capital markets. Occupancy for the apartment and hotel sectors have improved significantly while office and retail assets still experience high levels of vacancy. Operating income is stabilizing but will have a slow recovery that lags the broader economy. There continues to be performance disparities based on property type and geographic locations. High quality assets with secure income streams have experienced valuation increases while other assets are showing marginal improvement from trough valuations.

For the 4th quarter of 2010, the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index produced a total return of 4.62%

(1.60% from income return, 3.02% from capital return). This was the highest quarterly return since the fourth quarter of 2005, and represented a fourth consecutive positive total return for the index. The Apartment sector continued to lead the property sectors with a total return of 6.29%. Retail assets showed the most improvement during the quarter returning 4.77%. Cities reflecting this improvement included Boston, Chicago and Houston. The office and industrial sectors also improved, returning 3.93% and 3.42%, respectively. Regionally, the East which returned 5.30% during the quarter, continued to benefit from strong returns from New York City and Washington, DC properties. Exhibit 4 illustrates private and public market performance as of December, 31 2010.

Exhibit 4: Historical Private and Public Market Performance ending December 31, 2010

| Index | Year to | | | |
|---|---------|-------|--------|---------|
| | Quarter | Date | 5 Year | 10 Year |
| <i>Private and Public Real Estate Performance</i> | | | | |
| NCREIF Property Index | 4.6% | 13.1% | 3.5% | 7.4% |
| NFI - ODCE Fund Index | 5.0% | 16.4% | -0.2% | 5.2% |
| NAREIT Equity REIT Index | 7.4% | 28.0% | 3.0% | 10.8% |
| S&P 500 Index | 10.8% | 15.1% | 2.3% | 1.4% |
| Russell 3000 Index | 11.6% | 16.9% | 2.7% | 2.2% |
| Barclays Capital Gov't Bond Index | -2.3% | 5.5% | 5.5% | 5.4% |
| Barclays Capital Gov't/Credit Index | -2.2% | 6.6% | 5.6% | 5.8% |
| Treasury Bills (3-month) | 0.0% | 0.1% | 2.3% | 2.3% |

Fundraising activity has increased modestly over the past six months. While a return to the fundraising levels of 2006 and 2007 will likely not happen in the foreseeable future, there are encouraging signs for fund managers. Many investors that spent much of the past two years on the sidelines are returning and plan to make new commitments to real estate funds over the next 12 months. There are approximately 403 funds currently seeking an aggregate of \$132 billion in capital commitments. For the calendar year 2010, 45 funds, focused primarily on North America investments, raised \$22.5 billion in capital commitments. This compares to 19 funds in Europe and 24 funds in Asia and the rest of the world that raised \$3.4 billion and \$10 billion of capital commitments, respectively.

The commercial real estate debt markets continue to recover as investors seek alternatives to the sub 3% yield on the 10-year Treasury. Life insurance companies, domestic and foreign banks are pursuing new loan originations on high-quality assets while federal agencies are actively originating multi-family loans. For well-located and well-leased properties, managers are able to secure financing with 50 to 70% loan-to-value (LTV) ratio at spreads of 150 to 250 basis points over Treasuries. Despite continued risk from defaults, the CMBS markets have shown signs of life. Owners of cash flowing properties are

obtaining CMBS financing at 5% to 5.5%, compared to 6.5% just six months ago. While issuance volume was modest during the second half of 2010 and estimated to have reached close to \$10 billion for the full year, there are expectations of approximately \$40 billion in multi-issuer offerings in 2011. We remain encouraged by the recovery in the lending markets, however we are mindful of refinancing maturities that are expected to escalate over the next several years.

The pace and quality of real estate transactions has picked up over the past quarter. Fund managers are drawing capital and transaction volume is expected to increase in 2011, particularly in opportunistic/distressed acquisitions. This is primarily attributable to the willingness of lenders to foreclose on and/or dispose of higher quality assets; distressed owners' ability to take on losses and sell assets; and the improved capital markets. The market is witnessing increasingly aggressive bids, almost exclusively for high quality assets. Buyers appear to have lowered their required expected return hurdles due to very low returns from the fixed income market and/or due to increased availability of financing at record-low levels. Apartments are most in demand based upon abundant financing and good fundamentals. Improved financing is creating a sellers' market in cities like Boston, New York, Washington, D.C., and San Francisco, for properties with stable cash flow. Core office properties are also in demand as investors seek higher yields. In contrast, lesser quality transitional assets continue to face wide bid-ask spreads.

During the quarter, REITs rallied in concert with the broader equity market. The NAREIT equity index returned 7.4% in the fourth quarter and gaining 28% for the full year 2010. Equity issuance totaled \$9.2 billion during the quarter which was primarily used to fund acquisitions and \$25.7 billion for the full year. With access to both equity capital and unsecured corporate debt, REITs continue to be viewed as the group that is best positioned to take advantage of acquisition opportunities. Most real state securities investors agree that REITs in the U.S. are trading at an approximate 20% premium to net asset value (NAV) while better valuations exist in Asia, specifically Hong Kong and Japanese Real Estate Operating Companies (REOCs). REITs in the United Kingdom and Australia also appear to be trading at a discount to NAV.

While sovereign credit issues are likely to remain for a number of European Union countries, fundamentals improved steadily during the quarter due to robust economic growth in core countries such as the U.K. The London office market has experienced an increase in demand and achieved rental growth recovery of 25% in 2010 following significant declines. Retail sales remain modest due to reduced household

spending; however, international expansion is driving demand for new space. Growth in Asia Pacific markets remained strong during the quarter. Office rents for Grade A properties in Hong Kong increased by nearly 30% over 2010 and are expected to continue to increase in 2011, albeit at a slower pace. Retail sales in Hong Kong grew by 18% from a year earlier and will continue to benefit from strong visitor arrivals from mainland China. Residential sales increased in Singapore while volume in Hong Kong and China moderated during the quarter as a result of government tightening measures to discourage property speculation.

There are limitations to how much core real estate valuations can continue to improve given the upcoming wave of refinancing needs. Additionally, capitalization rates could come under pressure as interest rates inevitably rise while operating fundamentals remain stabilized but stagnant. We are confident that experienced managers will be able to capitalize on the upcoming opportunities; however, a meaningful recovery in job growth is needed to support sustainable improvements in operating fundamentals and asset values. We remain cautiously optimistic that this will take hold in 2011.

Real Asset Market Overview

Cliffwater classifies real assets as investments that have a high correlation to inflation and are tangible. We classify private partnerships in energy, infrastructure, timberland, and agriculture as real asset investments. Performance benchmarks for private energy, timberland, and agriculture are available while a private based benchmark for infrastructure has yet to be developed.

Private (Illiquid) Real Assets

The private energy and agriculture sectors produced positive performance during the third quarter 2010 while timberland performance was flat. Energy partnership valuations as measured by the Cliffwater Private Energy Index¹ increased by 7.14% during the third quarter 2010 while timberland valuations as measured by the NCREIF Timber Total Return Index were mostly flat during the quarter generating a -0.10% return. Private agriculture investments generated a 1.03% return for the third quarter 2010 as measured by the NCREIF Farmland Index. Public markets real asset performance returned positive results across all sectors during the third quarter 2010. The Russell 3000 Energy Index outperformed private energy partnerships during the third quarter 2010, though significantly underperformed over the five and ten year periods ending the third quarter 2010. U.S. inflation as measured by the CPI-U index increased 0.66% during the third quarter though on an

annualized basis remains below its 2% long term average. Exhibit 5 illustrates private and public market performance as of September 30, 2010.

Exhibit 5: Historical Private and Public Market Performance ending September 30, 2010

| Index | Quarter | Year to | | |
|---|---------|---------|---------|---------|
| | | Date | 5 Year | 10 Year |
| <i>Private Real Asset Performance:</i> | | | | |
| Cliffwater Private Energy Index | 7.14% | 5.12% | 17.10% | 25.78% |
| NCREIF Timberland Index | -0.10% | 0.64% | 9.62% | 6.86% |
| NCREIF Farmland Index | 1.03% | 2.84% | 16.91% | 13.44% |
| Russell 3000 Energy Index | 22.20% | 27.20% | 7.60% | 8.20% |
| Alerian MLP Index | 9.50% | 18.33% | 5.45% | 10.28% |
| S&P GSCI - Total Return | 8.26% | -3.87% | -10.22% | 1.20% |
| UBS Global Infrastructure & Utilities Index | 12.67% | 1.46% | 4.60% | 7.87% |
| Barclays Capital U.S. TIPS Index | 2.47% | 6.96% | 5.48% | 7.49% |
| CPI-U | 0.66% | 0.52% | 1.90% | 2.32% |

¹ The Cliffwater Private Energy Index includes energy funds classified as Upstream, Midstream, Downstream, Energy Services, and Renewable Energy. Performance is calculated using a quarterly "pooled IRR" methodology.

Fundraising

Private energy partnership fundraising continued at a slow pace during 2010, decreasing from the prior year and well below the sector high set in 2006. During 2010, 14 funds closed on \$8.2 billion of commitments, down by 50% compared to 2009 and down 63% compared to 2006². Compared to previous years, fundraising activity has been slow. Several multi-billion dollar funds were raised during the two year period ending 2008. Many of these funds are still investing with an estimated \$30 billion of "dry powder,"³ or undrawn capital commitments. Additionally, there were fewer funds in the market in 2010, and on average these funds are smaller when compared to prior years.

Infrastructure funds raised \$27.3 billion during 2010, a 250% increase from the prior year but below the record \$44.5 billion raised during 2007⁴. More than 55% of total closed commitments were raised by five of the 25 funds closed during 2010. There are now 122 infrastructure funds seeking \$86 billion of commitments⁵. Initially, most infrastructure funds were sponsored by large investment banks. The investment bank sponsored funds had the potential for conflict of interest between their advisory business and investment business which raised investor concern. As a result, independently owned and operated management companies of infrastructure funds are gaining in number and popularity.

Timber Investment Management Organizations ("TIMOs") continue to find a difficult fundraising market. Of the five institutional TIMOs currently fundraising, two have been in the market for several years and are likely to be forced to close on existing

commitments or offer separate accounts to interested investors.

² Venture Economics

³ RBC Richardson Barr

⁴ Preqin Ltd.

⁵ Preqin Ltd.

Deal Activity

Private energy investments totaled \$5.2 billion during 2010, passing the previous record of \$4.9 billion set in 2008 and an increase of 148% compared to 2009. Investment activity started off slowly during the year but increased dramatically beginning with the second quarter. During the third quarter of 2010, a record \$2.2 billion in disbursements were made. Much of the activity can be attributed to significant acquisition activity of major oil and gas companies in unconventional resources. In order to acquire these properties, the major oil and gas companies divested conventional assets which were acquired by private energy funds.

Infrastructure deal activity remained relatively constant throughout 2010, averaging 47 deals per quarter⁶. Compared to 2009, infrastructure deal activity decreased by 13%. Infrastructure funds continue to seek private transactions, specifically energy midstream assets, as core portfolio positions. Infrastructure funds have historically relied on significant amounts of debt to structure investments in large public assets. Prior to the credit crisis, infrastructure funds were able to obtain debt in the project finance capital markets. Post the credit crisis, infrastructure funds were still able to obtain debt though in smaller amounts and at higher terms. As an alternative, some funds have used Private Public Partnerships ("PPP") to structure investments. PPPs are contracts where a government body agrees to make payments to a private investor (infrastructure fund) to manage, improve, and operate specific public assets. PPPs have been popular in Europe and Australia and are beginning to gain popularity in the U.S. though still remain a small portion of fund investments. Deal activity should increase as the project finance markets recover and PPPs gain acceptance.

Deal activity in the timber industry has remained stagnant. The housing market has remained depressed and pulp markets are expected to decline in 2011. Biomass power generation continues to grow as a source of timber demand, though it is not meaningful when compared to total timber supply. The lack of meaningful demand has pressured timberland sellers to reduce pricing. However, both retail and institutional timberland investors use little or no leverage. Without the pressure of debt service, timberland owners are able to sit on the sidelines and wait for better pricing.

⁶ Preqin Ltd.

IPO & M&A Activity

Corporate merger and acquisition (“M&A”) activity rebounded in 2010 with total transaction value exceeding \$45 billion. The majority of these transactions were executed by major oil and gas companies divesting their conventional assets and acquiring unconventional assets⁷. Chevron acquired Atlas Energy for \$3.2 billion in November 2010. The acquisition gives Chevron access to unconventional resources located in the Marcellus shale. The increased activity includes joint ventures in unconventional resources where sellers were looking to share capital costs and risk with buyers who were looking to access reserves and expertise. Energy companies based outside of the U.S. were responsible for 60% of the joint venture activity. The international companies are seeking transactions to secure natural resources for their home countries and to gain experience with new technology being used. Chesapeake Energy Corporation and China National Offshore Oil Company Limited (“CNOOC”) entered a joint venture in November 2010 on an Eagle Ford shale project. CNOOC paid \$1.1 billion to Chesapeake in return for a 33.3% ownership in Chesapeake’s 600,000 leasehold acreage position in the Eagle Ford shale. Additionally, CNOOC agreed to fund 75% of Chesapeake’s share of drilling and completion costs up to \$1.1 billion through 2012. Transactions in the Marcellus and Eagle Ford shale plays accounted for \$20 billion of joint venture activity.

⁷ Raymond James

Investment Trends

Private energy investment activity has reached record highs. The activity can be attributed primarily to the technological advancements in horizontal drilling and rock fracturing techniques. The advancements have opened up previously known oil and gas resources that were previously uneconomic to recover. As a result, the U.S. now has an estimated 50 plus year supply of natural gas. This is changing the energy investment value chain. For example, downstream power generation assets are switching to natural gas, new midstream infrastructure is required in unconventional basins, and upstream exploration, production, and related services activity has reached record levels. Investment opportunities in all of these areas are and will likely continue to be executed by private energy funds.

In addition, assets in the Gulf of Mexico (“GOM”) are being opportunistically sought by several private energy funds. As production continues to be restricted by uncertain regulatory and safety standards, public exploration and production (“E&P”)

companies are finding it difficult to hold on to their GOM assets which is creating some distressed investment opportunities. Private energy partnerships with a contrarian view are taking advantage of discounted GOM asset pricing. Their expectation is that production will come back to normal levels in the next one to two years.

Major oil and gas companies maintained high drilling activity in unconventional resource plays despite weak natural gas pricing throughout 2010 with rig counts reaching historic highs. Much of this activity was driven by the requirement to drill in order to maintain leases on newly acquired properties. The drill to hold activity is expected to slow during 2011. As a result of high drilling activity, natural gas pricing is expected to remain flat for the next 12 months. Pricing should increase once supply at storage facilities decreases and drilling of unconventional resources slows. Oil pricing continues on a stable path and oil rich proved reserves are in high demand. Opportunities for applying horizontal drilling fracture technology to conventional oil reserves is becoming common and will increase reserves of resources previously uneconomic to extract.

Cliffwater expects private energy investors to continue to take advantage of opportunities using new technology in both conventional and unconventional resources. Globally, Asian countries will continue to seek joint ventures with U.S. based companies in order to acquire natural resources and gain experience with horizontal drilling and rock fracturing technology. Additionally, GOM assets are being acquired at discounts by those buyers able to wait out the restrictive production environment. Oil and liquid rich natural gas reserves will continue to command premiums. In the near term, natural gas prices will remain flat due to the abundant amount of natural gas being extracted from unconventional resources.

Public (Liquid) Real Assets

Commodities futures posted very strong returns in the fourth quarter (Dow Jones-UBS Commodity Index +15.8%; Goldman Sachs Commodity Index +13.4%), led by softs and agriculture (GSCI Softs TR +36.7%; GSCI Agriculture TR +25.0%). Adverse weather conditions in key growing regions this past summer, combined with low inventories in many of the grains, softs, and oilseeds led to steadily appreciating agricultural prices. Livestock, energy, precious metals, and industrial metals lagged somewhat, but every commodities sector experienced positive returns during the quarter (GSCI Livestock TR +2.6%; GSCI Energy TR +11.6%, GSCI Precious Metals TR +12.2%; GSCI Industrial Metals TR +12.5%).

TIPS produced a small negative return during the quarter (-0.7%), but significantly outperformed nominal treasuries, as inflation expectations ratcheted back up somewhat during the fourth quarter. The Federal Reserve's latest round of quantitative easing, along with strong U.S. growth projections for 2011 both played a role in increased inflation expectations. As of December 31, 2010, ten-year and 20-year breakevens stand at 2.28% and 2.48% respectively, each up approximately 50 basis points during the quarter.

Natural resource equities had another very strong quarter, returning 21.3%. This phenomenon was global; materials and energy were two of the highest-returning sectors in the MSCI World index. MLPs also continued their strong performance, returning 9.3% for the third quarter, and 35.9% YTD. Current yield for the sector is 6.2%, thanks to strong distribution growth. This is significantly higher than other income sectors against which MLPs are often compared, including utilities, REITs, and most sectors of the fixed income market.

Cliffwater Research

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| Survey of State Pension Fund Investments in Hedge Funds | Jan 2011 |
| Cliffwater 2011 Asset Allocation Report | Jan 2011 |
| The Better Deal: Hedge Funds or Private Equity | Nov 2010 |
| Private Equity in Asia | Oct 2010 |

Update on Cliffwater

Cliffwater's first annual Hedge Fund Conference was held on January 19, 2011, in New York City.

The conference successfully brought together over 130 participants, including plan sponsors, hedge fund managers and Cliffwater investment professionals, for an informative day of presentations and panel discussions.

Please contact us if you would like to receive copies of the materials presented at the conference.

We look forward to hosting the event again in 2012.

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