LOS ANGELES CITY
EMPLOYEES' RETIREMENT SYSTEM

PORTFOLIO UPDATE
SECOND QUARTER 2005
WITH THIRD QUARTER 2005 HIGHLIGHTS

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PORTFOLIO OVERVIEW

Hamilton Lane was engaged by the Los Angeles City Employees' Retirement System ("LACERS") in January 2005 to select new investments, monitor, and provide advice in accordance with the investment objectives for the alternative portfolio (the "Portfolio") of LACERS. This report represents the review by Hamilton Lane of LACERS' portfolio investments as of June 30, 2005, *with highlights through September 30, 2005*.

The Portfolio did not close on any new commitments in the second quarter of 2005. During the third quarter, the Portfolio closed on $74 million in commitments to five partnerships. Two of the five new investments made, Newbridge Asia IV and Spark Capital, are new relationships to the portfolio:

Apollo Investment Fund VI ($15 million) will employ a flexible strategy of classic buyout investing with a distressed option. During times of economic expansion, Apollo typically seeks to complete classic and corporate partner buyouts, while during a recessionary period, will likely focus on distressed opportunities. The fund will be opportunistic in selecting investments, as the general partner has significant experience across a wide range of industries.

CVC European Equity Partners IV (€20 million, ≈$25 million) will pursue investments in Western European management buyouts, buy-ins, acquisitions, recapitalizations, growth equity investments and related transactions which may involve multi-national components within or extending beyond Western Europe.

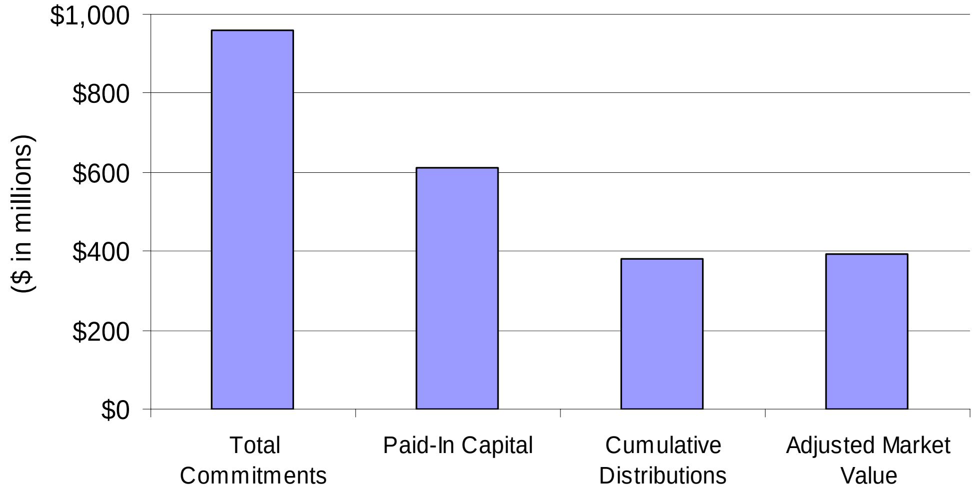
KKR European Fund II ($15 million) will complete controlling buyout investments in Western European companies with enterprise values in excess of €500 million. The majority of investments are expected to represent complex transactions where KKR can create a competitive advantage to limit competition.

Newbridge Asia IV ($10 million) will complete control-oriented private equity investments in companies based throughout Asia. The fund will participate in a variety of transaction types, including buyouts, growth capital, turnarounds and special situations.

Spark Capital ($9 million) will complete early-stage and later-stage venture capital investments in technology, media and entertainment companies based primarily in the United States. Within the technology, media and entertainment sectors, Spark will seek to identify and invest in companies which are driving or taking advantage of the convergence between the three sectors.

As of September 30, 2005, the Portfolio managed by Hamilton Lane consisted of 68 partnership investments with commitments totaling $961.3 million. As shown in the chart on the following page, since inception $610.1 million has been paid-in, representing approximately 63.5% of the total commitments. Cumulative distributions (cash and stock) through September 30, 2005, total $381.6 million, representing 62.6% of the paid-in capital. At the end of the third quarter of 2005, the Portfolio had net invested capital (paid-in capital minus distributions) of $228.5 million and an adjusted market value of $391.9 million, a 1.7x multiple of invested capital.

Portfolio Summary
As of September 30, 2005



PERFORMANCE ASSESSMENT

As of the June 30, 2005, the Portfolio had a since inception net IRR of 9.72%, which was a 125 basis point increase from the March 31, 2005, IRR of 8.47%. The improvement in performance was a result of a net value change of $33.5 million during the quarter. The top performing partnership during the quarter was First Reserve Fund X, L.P., which had a second quarter IRR of 122.38%. When compared to year-end, the Portfolio IRR increased 108 basis points from December 31, 2004, IRR of 8.64%. The chart below presents the performance drivers by investment strategy for the six months ending June 30, 2005.

INVESTMENT STRATEGY	BEGINNING MARKET VALUE	PAID-IN CAPITAL	CAPITAL DISTRIBUTED	ENDING MARKET VALUE	NET VALUE CHANGE	SIX MONTHS ENDED JUNE 30, 2005 NET IRR
Corporate Finance/Buyout	$225,589,561	$41,525,244	$46,387,866	$251,882,059	$31,155,120	13.86%
Special Situation	46,527,497	11,051,121	3,599,692	61,533,606	7,554,680	15.15%
Venture Capital	76,171,432	16,076,545	1,234,088	89,980,643	(1,033,246)	(1.22)
TOTAL PORTFOLIO:	$348,288,490	$68,652,910	$51,221,646	$403,396,308	$37,676,554	10.48%

While the Venture Capital strategy remained relatively flat, the Corporate Finance/Buyout and Special Situation strategies generated strong returns for the six months ending June 30, 2005, with IRRs of 13.86% and 15.15%, respectively. From a net value perspective, the Corporate Finance/Buyout strategy is responsible for nearly 83% of the total appreciation during this period. The net value calculation is very relevant as it takes into account both net cash flow as well as changes in unrealized appreciation of the underlying holdings. Again, the Corporate Finance/Buyout strategy represents more than 65% of the total market value and therefore its strong performance is a positive sign for the health of the Portfolio as a whole. The Special Situation strategy was the strongest performing strategy during the period. The strategy's performance was driven primarily by First Reserve Fund X, L.P., a 2004 vintage year Special Situation partnership focusing on the energy sector. This exceptional performance was driven by the valuation write-up of one of the partnership's portfolio companies, Dresser-Rand, Inc., a worldwide provider of infrastructure equipment to the energy industry, in anticipation of the company's initial public offering ("IPO") and partial realization that occurred in early August. While this early realization is promising, the partnership is currently only 36% funded with all its other investments valued at or near cost.

Over the past six months, many partnerships have performed very well, thus driving the strong performance of the Portfolio as a whole. The chart below shows the top ten partnership investments as measured by IRR over the last two quarters. Leading this group is First Reserve Fund X, as mentioned above. Also noteworthy in this group is Madison Dearborn Capital Partners IV, L.P., with a six-month IRR of 44.95%. Over the past two quarters, the partnership's holdings have increased its value-to-cost multiple from 1.13x to 1.52x, primarily driven by strong operating results of two holdings: Boise Cascade Corporation, a nationwide distributor of paper, wood products and building materials; and Intelsat, a Washington, DC-based provider of fixed satellites communication services.

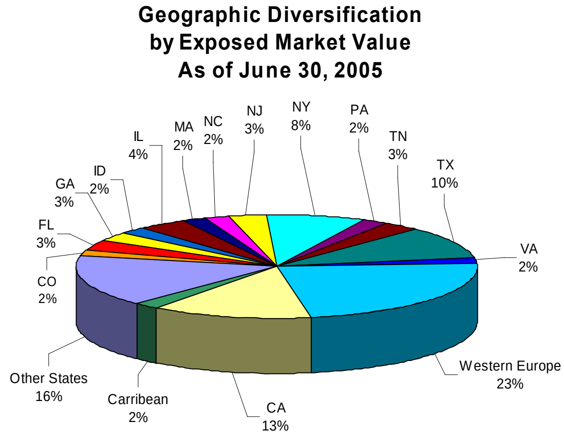
Top 10 Performing Investments
by Internal Rate of Return (IRR)
For the Six Months Ended June 30, 2005

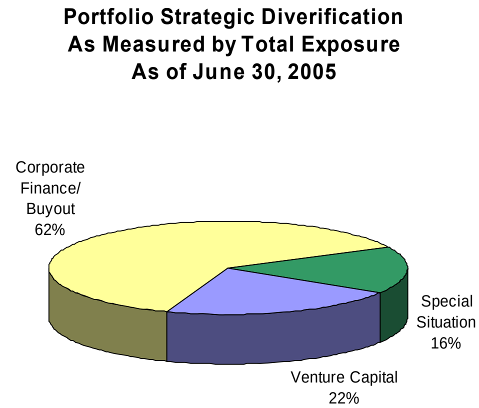
Investment Name	IRR %
1. First Reserve Fund X, L.P.	154.79
2. Madison Dearborn Capital Partners IV, L.P.	44.95
3.Thomas H. Lee Equity Fund V, L.P.	43.51
4. Golder, Thoma, Cressey & Rauner Fund VIII, L.P.	34.56
5. CVC European Equity Partners, LP	33.07
6. Golder, Thoma, Cressey & Rauner Fund VII, L.P.	29.49
7. CGW Southeast Partners III, L.P.	26.67
8. TPG Partners IV, L.P.	26.60
9. OCM Opportunities Fund II, L.P.	24.39
10.CVC European Equity Partners III, L.P.	23.73

PORTFOLIO ANALYTICS

The charts on the following page illustrate the Portfolio's current diversification both by geography and by investment strategy as of June 30, 2005. With respect to geography, the Portfolio is well diversified, with 23% of its underlying market value attributable to companies based in Western Europe. The remaining market value is held within the U.S., with negligible portions in Asia and the Carribean. Of the United States holdings, the largest representation by state is California, with 13% of the aggregate market value of underlying holdings, followed by Texas (10%) and New York (8%).

With respect to investment strategy, the chart shows the diversification as measured by total exposure, which includes both market value and unfunded commitment to accurately reflect how the Portfolio would look as outstanding commitments are drawn down. The focus, as mentioned above, remains with Corporate Finance/Buyout, which make up 62% of the Portfolio's total exposure. In addition, the Venture Capital strategy represents 22% of the exposure, but will likely level off as more than 71% of commitments have been paid-in and the fact that larger recent commitments have been made to the Corporate Finance/Buyout investment strategy.





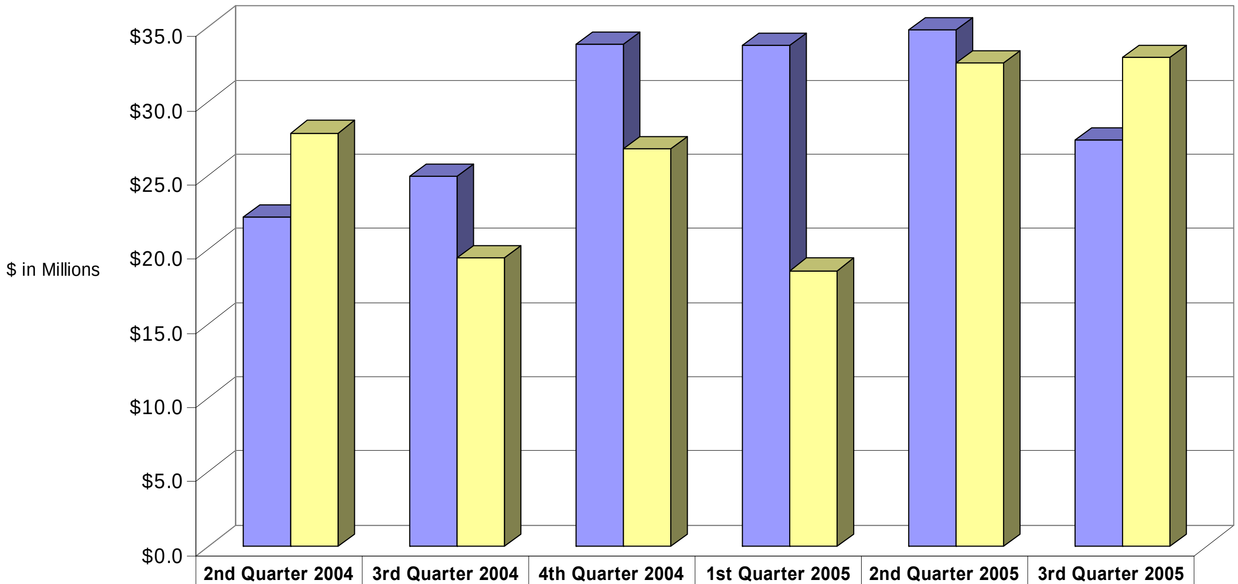
Top Ten Portfolio Holdings

The chart below shows the top ten portfolio holdings as measured by exposed market value. These holdings represent 12.1% of the total reported market value of the Portfolio as of June 30, 2005. All of the top ten holdings are valued above cost, generating an aggregate value-to-cost multiple of 3.80x. The largest company holding by exposed market value is Dresser-Rand, Inc., with a value-to-cost multiple of 3.87x. Of the ten holdings, seven are publicly traded with a combined value-to-cost multiple of 4.25x. This is a testament to the increasing receptiveness of exits via IPOs and the success general partners have been experiencing by way of this avenue for realization. Details regarding material events within these partnerships can be found in the *Portfolio Highlights* section of this report.

PORTFOLIO COMPANY	INVESTMENT NAME	EXPOSED COST	EXPOSED VALUATION	MULTIPLE	PUBLIC/PRIVATE STATUS
Dresser-Rand, Inc.	First Reserve Fund X, L.P.	$ 2,273,497	$ 8,789,201	3.87	Public
Packaging Corporation of America (PCA Holdings)	Madison Dearborn Capital Partners III, L.P.	1,443,885	6,017,776	4.17	Public
Boise Cascade Corporation (AKA: Forest Products)	Madison Dearborn Capital Partners IV, L.P.	2,513,925	5,944,002	2.36	Private
Syniverse Technologies, Inc.	Golder, Thoma, Cressey & Rauner Fund VII, L.P. Golder, Thoma, Cressey & Rauner Fund VII-A, L.P.	2,970,106	4,729,540	1.59	Public
Herbalife International, Inc.	Whitney V, L.P.	-	4,432,681	N/A	Public
Lifecare Holdings, Inc.	Golder, Thoma, Cressey & Rauner Fund V, LP	416,738	4,318,619	10.36	Private
VeriFone, Inc.	Golder, Thoma, Cressey & Rauner Fund VII, L.P.	12,152	4,060,210	334.11	Public
Centennial Communications	Welsh, Carson, Anderson & Stowe VII, LP Welsh, Carson, Anderson & Stowe VIII, L.P.	1,519,100	4,049,147	2.67	Public
Swift Advances plc (Kestrel Holding)	Alchemy Investment Plan (LACERS)	1,689,602	3,574,234	2.12	Private
New SAC (Seagate Technology)	TPG Partners III, L.P.	110,987	3,323,083	29.94	Public
TOTALS:		$ 12,949,993	$ 49,238,493	3.80	

CASH FLOW ANALYSIS

In the third quarter of 2005, the Portfolio paid-in $27.4 million while receiving $33.0 million in distributions. As seen in the chart on the following page, this represents the first time since the second quarter of 2004 where the Portfolio was cash flow positive (distributions exceeding paid-in capital). During the quarter, LACERS received $6.3 million in proceeds from their investments with CVC Capital Partners, a general partner which the Portfolio has supported since its first partnership (raised in 1996) through its latest partnership, having made a €20 million commitment to the recently closed CVC European Equity Partners IV. In addition, Golder, Thoma, Cressey, another general partner group which LACERS has supported since 1997, generated more than $8.2 million in distribution proceeds through two partnerships, Golder, Thoma, Cressey & Rauner VI and Golder, Thoma, Cressey & Rauner VII and VII-A. Further details regarding particular partnership events can be found in the *Portfolio Highlights* section of this report.



	2nd Quarter 2004	3rd Quarter 2004	4th Quarter 2004	1st Quarter 2005	2nd Quarter 2005	3rd Quarter 2005
Paid-In Capital	$22.2	$25.0	$33.9	$33.8	$34.9	$27.4
Capital Distributed	$27.9	$19.5	$26.8	$18.6	$32.6	$33.0

PORTFOLIO HIGHLIGHTS

Apollo Investment Fund IV, L.P.

During the second quarter of 2005, the partnership distributed $319.0 million for the realization of Buhrmann N.V. The distribution was a result of the company repurchasing all the outstanding preferred shares. From this distribution LACERS received $0.6 million.

During the third quarter of 2005, the partnership distributed $573.0 million from the sales or partial sales of Hexion Specialty Chemicals ($145.0 million), Wyndham International ($315.0 million) and National Financial Partners ($113.0 million). LACERS received $0.7 million related to these realizations.

Though the partnership has struggled in terms of performance, the general partner has taken an active role over the last twelve months and made a substantial effort to turn around numerous portfolio companies. At present, the companies that were in danger of becoming write-offs or significant losses for the partnership last year are now exceeding expectations and will generate positive returns, in some cases several multiples of invested capital; improving the partnership's IRR by 70 basis points.

CVC European Equity Partners II, L.P.

During the second quarter of 2005, the partnership sold Verdugt, a specialty chemicals group, to strategic buyer Kemira for an enterprise value of €145 million. The partnership received proceeds of €48 million.

In addition to this, Polimoon was floated on the Oslo stock exchange. The partnership redeemed 128 million preferred shares and also placed 53% of its ordinary shares through a secondary placement. An additional 23% of ordinary shares were also placed through a green-shoe arrangement. The partnership will retain between 11% and 21% of ordinary shares.

Also in May 2005, Massive completed a recapitalization which generated proceeds of €51 million for the partnership.

In June 2005, the partnership's advisory board approved the sale of Wavin to CVC European Equity Partners IV. At the same time, the general partner also announced its intention to sell Kwik-Fit to PAI Partners for an enterprise value of £800 million. LACERS received $2.9 million from the partnership via these transactions.

The general partner has added two investment professionals to its team; Michael Lavrysen joined the Brussels team and Giorgio de Palma joined the team in Italy.

CVC European Equity Partners III, L.P.

During the second quarter of 2005, the general partner invested a total of €31.4 million in Betafence, a Belgium-based manufacturer and seller of wire fencing systems. The investment was completed together with other CVC partnerships, with the partnership contributing approximately €29 million.

The partnership also completed a number of realizations. IG Group was floated on the London Stock Exchange. All preferred shares and shareholder loans were redeemed, and approximately 40% of the partnership's ordinary shares were sold, resulting in proceeds of £100 million. Additionally, refinancings of two other portfolio companies took place. Massive completed a recapitalization which generated proceeds of €73.0 million for the partnership, and Debenhams completed a recapitalization which generated proceeds of approximately £243 million.

Subsequent to the second quarter, the general partner acquired a 22% stake in Post Danmark. The partnership invested approximately DKK 495.0 million. Also in June 2005, the general partner announced its intention to sell Kwik-Fit to PAI Partners for an enterprise value of £800 million. This is expected to result in distributions of £222.0 million.

First Reserve Fund X, L.P.

During the first quarter of 2005 the general partner invested in Quintana Maritime Limited, a company focused on marine shipping of coal. The partnership invested approximately $33.3 million for a 48.6% ownership interest. In June, Quintana filed a registration for an initial public offering, one that is expected to bring in $230 million sometime in the third quarter.

Subsequent to the quarter the general partner distributed proceeds of $329.1, of which LACERS received $2.9 million, from the IPO of Dresser-Rand which came after a $260 million initial investment from the partnership.

The general partner has also made two staffing changes, adding Mr. Bing Feng Leng as an Assistant Vice President and promoting Mr. Rahman D'Argenio to Assistant Vice President. Both have experience in the private equity industry specifically focused on the energy sector.

Golder, Thoma, Cressey & Rauner Fund VII, L.P.

During the second quarter of 2005, the partnership distributed $269.5 million from the sales or partial sales of Cellnet Technology, Inc. ($22.5 million), Genpass, Inc. ($23.8 million), Synagro Technologies ($91.4 million), Transaction Network Services, Inc. ($74.7 million) and Verifone Holdings ($57.1 million). LACERS received $3.2 million from these realizations.

During the third quarter of 2005, the partnership alongside Golder, Thoma, Cressey & Rauner Fund VII-A, L.P. distributed $307.6 million from the secondary offerings of Transaction Network Services, Inc. ($139.0 million), VeriFone, Inc. ($127.7 million) and Infohighway Communications Corporation ($40.9 million). In total, LACERS received $3.2 million from both partnerships.

Golder, Thoma, Cressey & Rauner Fund VII-A, L.P.

During the second quarter of 2005, the partnership distributed $122.0 million from the sales or partial sales of Cellnet Technology, Inc. ($90.0 million) and Transaction Network Services, Inc. ($32.0 million). LACERS received $1.4 million from these realizations.

The partnership also invested $6.9 million in Ovation Holdings. Ovation Holdings provides health research services.

Kelso Investment Associates VII, L.P.

During the second quarter of 2005, the partnership invested $324.9 million in Axle Holdings II, LLC ($97.4 million), CBP Holding Corp. ($138.7 million) and Coffeyville Resources, LLC ($88.8 million). Axle Holdings II, LLC is a holding company for Insurance Auto Auctions, the leading US auto salvage company that auctions off cars declared a total loss for insurance purposes. CBP Holding Corp. manufactures tile setting grout and adhesives. Coffeyville Resources, LLC owns and operates an oil refinery.

During the third quarter of 2005, the partnership distributed $43.6 million from the IPO of Eagle Bulk Shipping, Inc. (NASDAQ: EGLE), representing a $43.1 million return of principal plus interest of approximately $500,000.

OCM Opportunities Fund III, L.P.

The partnership distributed 9.5% of the contributed capital as part of an unspecified transaction during the second quarter. Subsequent to the second quarter, the partnership distributed an additional 1.7% of the contributed capital as part of an unspecified transaction, bringing the aggregate distributions up to 1.3x invested capital.

The general partner is in the process of raising $1.5 billion for OCM Opportunities Fund VI, L.P.

Providence Equity Partners V, L.P.

During the second quarter of 2005, the partnership invested $183.1 million in MGM, Inc. MGM, Inc. produces and distributes movies through its Metro-Goldwyn-Mayer Studios subsidiary. This represents the first investment made by the partnership.

During the third quarter of 2005, the partnership called $310.0 million for an investment in SunGard Data Systems. This is one the largest deals ever announced in private equity. The transaction is valued at approximately $11.5 billion. SunGard is a global leader in integrated software and processing solutions primarily for financial services. LACERS will also gain exposure to this transaction through TPG Partners III and TPG Partners IV.

Thomas H. Lee Equity Fund V, L.P.

During the second quarter, the value of the partnership's portfolio increased by 30%, from $5.9 billion to $7.8 billion, this was due, in large part, to the appreciation of several underlying investments. During the 18-month period ending June 30, 2005, the partnership has invested $2.7 billion in nine companies, sold or has agreements to sell investments which will generate realizations of $3.7 billion, and has completed two IPO's resulting in $1.8 billion of publicly traded securities.

In May, the partnership completed the initial public offering of Warner Music Group at a price of $17.00 per share. After the IPO, $45.0 million in dividends were distributed to limited partners, bringing total Warner Music distributions to $550.4 million. The partnership continues to hold all of the original shares of Warner, and in the aggregate, the company has generated 2.5x the original cost.

In May and August, the partnership exited two of the portfolio's three insurance companies. The remaining shares of AXIS Capital were sold and generated $296.0 million of proceeds, resulting in a 2.1x return. The partnership also sold its holdings in Endurance Specialty Holdings, resulting in proceeds of $287.0 million. LACERS received $1.2 million through these realizations.

Subsequent to the end of the second quarter, there was substantial exit activity, as the partnership sold TransWestern Publishing, which generated $430.0 million in proceeds, and National Waterworks, which generated $296.2 million in proceeds. The partnership also announced that ProSiebenSat1 has reached a sale agreement which will close by year-end. Refco Group Ltd. also priced its IPO at $22.00 per share on August 10th, compared to the partnership's cost of $8.03 per share.

TPG Partners III, L.P.

During the second quarter of 2005, the partnership invested $137.8 million in MGM, Inc. ($98.1 million) and Lenovo Group, Ltd. ($39.7 million). MGM, Inc. produces and distributes movies through its Metro-Goldwyn-Mayer Studios subsidiary and Lenovo Group, Ltd. manufactures and sells desktop computers, notebook computers, mobile handsets, servers and peripherals in China.

The partnership also distributed $359.1 million from investments in Debenhams plc ($300.4 million), Findexa ($14.3 million) and Seagate Technology ($44.4 million).
During the third quarter of 2005, the partnership called $71.2 million for an investment in SunGard Data Systems, Inc. SunGard is a global leader in integrated software and processing solutions primarily for financial services.

The partnership distributed approximately $409.6 million from the sales or partial sales of Burger King ($90.9 million), Endurance Specialty ($132.9 million), New SAC ($121.4 million) and MEMC Electronic ($64.4 million).

Among its portfolio companies, the general partner identified Seagate and MEMC as having outperformed their peers, while Gate Gourmet continues to undergo a debt and operational restructuring. Overall, the partnership appears healthy and continued near-term liquidity events are likely.

TPG Partners IV, L.P.

During the second quarter of 2005, the partnership called a combined $400.7 million to complete investments in Metro-Goldwyn-Mayer ($166.7 million) and Mobilecom AG ($234.0 million). Metro-Goldwyn-Mayer is one of seven major Hollywood movie studios and the last remaining major independent studio. The partnership participated in this investment with Sony Corporation, Providence Equity Partners, Comcast Corporation and DLJ Merchant Banking. Mobilecom AG is Germany's second largest mobile provider with a customer base of 4.6 million subscribers.

In April 2005, the partnership distributed $166.7 million from the €2.4 billion recapitalization of Eutelsat. The distribution represents a full return of the partnership's cost basis in the company.

This 2003 vintage partnership is off to a fast start and has deployed almost 50% of its committed capital to date. The general partner has stated that TPG's investment in Neiman Marcus is expected to be the final cross-fund investment between the partnership and its predecessor partnership, TPG Partners III.

2005 Second Quarter Market Update

U.S. Performance

The Buyout market continued to perform well while the venture capital market slowed, with a decline in one-year and five-year investment horizons. Three-year returns increased marginally during the quarter. The total private equity asset class (venture capital, buyouts and mezzanine) gained 13.8% for the year ended March 31, 2005, versus a one-year gain of 18.6% through December 31, 2004. Buyout was the best performing sub-asset class during this period with a one-year return of 18.8%. A less active IPO market compared to prior quarters contributed to lower one-year venture return, which fell from the prior quarter's 18.1% to 4.3%. Over the same period, the mezzanine one-year return fell slightly from 9.7% to 8.5% The all private equity three-year return continued to improve, gaining 5.5% and venture capital losing -1.3% for the three-year period ended March 31, 2005 versus gains of 4.5% and losses of -2.7%, respectively, for the three years ended December 31, 2004. The three-year buyout return moved modestly positive, gaining 8.6% through March 31, 2005, after a positive return of 8.1% for the three years ended December 31, 2004. The chart below details the annualized performance of various U.S. private equity sub-asset classes through March 31, 2005.

US Private Equity Performance Index Returns Through 3/31/2005

Fund Type	1 Yr	3 Yr	5 Yr	10 Yr	20 Yr
Early/Seed VC	1.8%	-5.6%	-8.6%	45.8%	19.8%
Seed Stage VC	8.1%	-6.9%	-5.3%	15.7%	10.7%
Early Stage VC	1.5%	-5.5%	-8.7%	47.5%	20.7%
Balanced VC	6.6%	1.6%	-3.9%	17.2%	13.0%
Later Stage VC	0.0%	0.6%	-6.6%	15.2%	13.7%
All Venture	**4.3%**	**-1.3%**	**-6.1%**	**25.5%**	**15.6%**
Small Buyouts	25.7%	6.2%	2.0%	8.9%	26.7%
Med Buyouts	20.1%	5.2%	-2.7%	10.8%	17.8%
Large Buyouts	16.3%	9.5%	1.0%	10.9%	14.6%
Mega Buyouts	19.1%	9.0%	2.7%	7.7%	9.7%
All Buyouts	**18.8%**	**8.6%**	**1.8%**	**8.7%**	**13.0%**
Mezzanine	8.5%	3.7%	1.8%	6.9%	9.2%
Buyouts and Other PE	18.6%	8.5%	2.4%	8.6%	12.2%
All Private Equity	**13.8%**	**5.5%**	**-0.4%**	**12.6%**	**13.8%**
NASDAQ	**0.8%**	**3.2%**	**-14.9%**	**9.8%**	**10.3%**
S&P 500	**6.7%**	**2.7%**	**-3.1%**	**10.8%**	**12.3%**

Source: Thomson Financial Venture Economics / NVCA, Bloomberg as of September 6, 2005

European Performance

European buyout funds continued to experience significant gains, with a preliminary Venture Economics return of 39.5% for the year ended March 31, 2005. For much of 2004, European performance was more attractive to US-based investors due to foreign currency gains, as the Euro gained ground against the dollar. However, after opening 2005 at $1.35/€, the Euro has depreciated slightly with the exchange rate decreasing to $1.21/€ by the end of June. The chart below details the annualized performance of various European private equity sub-asset classes through March 31, 2005.

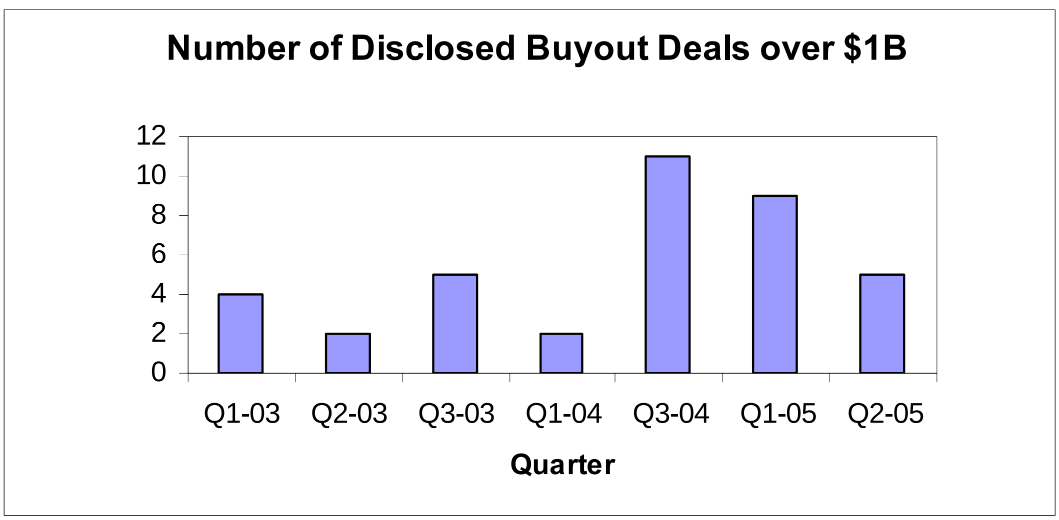
European Private Equity Performance Index Returns Through 3/31/2005					
Fund Type	**1 Yr**	**3 Yr**	**5 Yr**	**10 Yr**	**20 Yr**
Early Stage VC	-1.5%	-8.4%	-5.9%	-0.5%	0.3%
Balanced VC	-10.8%	-3.9%	-1.6%	10.2%	7.7%
Development Stage VC	0.0%	-3.8%	0.0%	10.2%	8.5%
All Venture	**20.7%**	**-5.4%**	**-2.5%**	**6.5%**	**6.0%**
Small Buyouts	37.7%	1.2%	3.7%	11.2%	11.0%
Med Buyouts	0.0%	5.8%	8.1%	21.1%	17.3%
Large Buyouts	0.0%	-5.4%	0.3%	23.5%	20.2%
Mega Buyouts	0.0%	4.7%	5.9%	6.2%	6.2%
All Buyouts	**39.5%**	**2.6%**	**4.7%**	**12.3%**	**12.0%**
Generalist	0.0%	-4.7%	-3.3%	10.0%	8.7%
All Private Equity	**36.3%**	**-0.6%**	**1.5%**	**10.3%**	**9.4%**
Source: Thomson Financial Venture Economics / NVCA, Bloomberg as of September 6, 2005					

Note: Performance return data is directly from the Venture Economics website. Hamilton Lane has no means to verify the accuracy of index returns provided.

Deal Activity

U.S. Buyouts/Corporate Finance

The size and pace of buyout transactions continued to be impressive during 2004 and into the first half of 2005. According to *Buyouts*, the aggregate value of all LBO deals completed in 2004 reached $137 billion, eclipsing the previous year's total of $94 billion. During the second quarter of 2005, 203 deals comprising $38 billion of aggregate value were completed, bringing the half year total to a record $77 billion. Two of the more notable deals announced during the first half of 2005 were Providence, TPG, DLJ Merchant Banking and Sony's $5.0 billion buyout of Metro-Goldwyn-Mayer and Apax, Apollo, and Madison Dearborn's buyout of Intelsat for $5.0 billion.

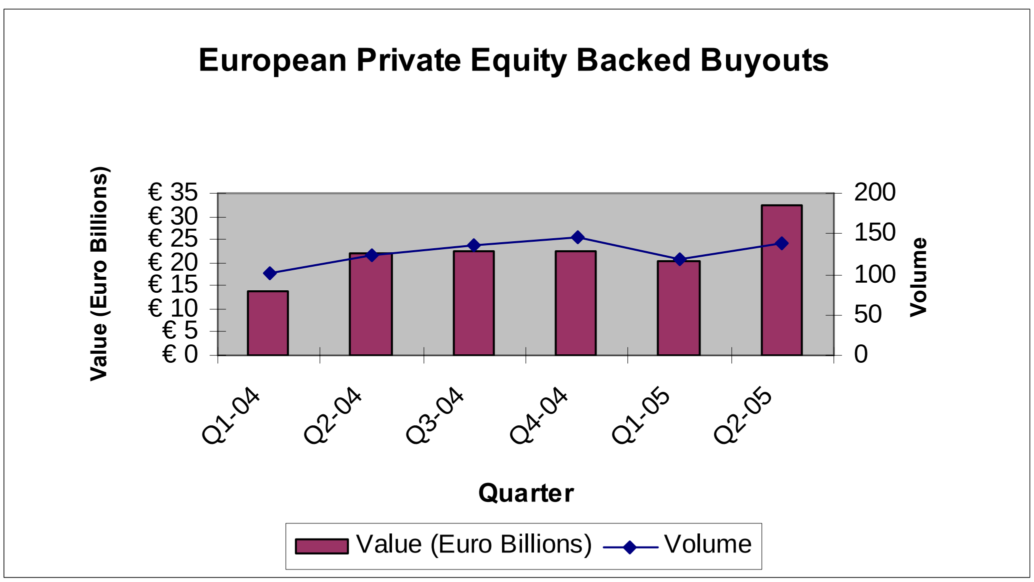


Source: Buyouts

"Club deals", where multiple GPs form a bidding consortium, continued to be commonplace in the first half of 2005, especially in the mega-deal category. The largest transaction announced during this period is Silver Lake Partners teaming with six other firms including Bain Capital, The Blackstone Group and Kohlberg Kravis Roberts & Co. to purchase SunGard Data Systems for $11.3 billion, $3.5 billion in equity. This transaction represents the largest technology privatization as well as the second largest leveraged buyout ever completed.

European Buyouts/Corporate Finance

After a decrease in deal volume in the first quarter of the year, the European buyout market has been very active with 139 deals being completed during the second quarter of 2005. The volume of deals is up 18% from the 98 deals that were completed in the first quarter of 2005, but still falls short of the 144 deals that were completed in the fourth quarter of 2004. A record aggregate deal value of €32.6 billion was completed during the second quarter 2005. These figures represent a 59% increase against the value of deals in the first quarter of 2005 and represent a 48% increase in deal value over the second quarter 2004. These increases are largely attributable to an average deal size of €234.5 million, which is 44% larger than the average deal size of the last 5 quarters. The number of secondary buyouts increased from 20 deals in the first quarter 2005 to 37 deals in the second quarter, representing 27% of the market. Buyouts from private sources accounted for more of the market, equaling 36% of total deals. The distribution of deals by size remained relatively stable during the quarter, with deals in the small range (less than €160M) accounting for 71% of the number of deals completed and 14% of the transaction value. Deals in the mid-size range (€160M-€1.65B) accounted for 27% of the number of deals completed and 56% of the transaction value. The number of deals in the large range (greater than €1.65B) increased by one to three in the second quarter, accounting for 2% of the number of deals completed and 31% of the transaction value.



Source: Initiative Europe Barometer

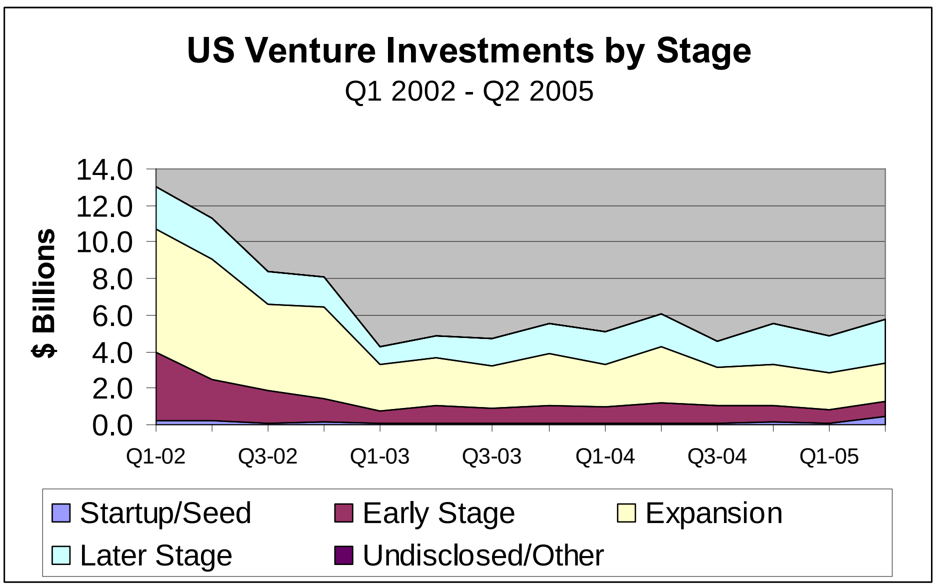
Regionally, the UK continued to dominate the European buyout market, with 46 deals completed in the quarter. Overall, the UK represented 33% by volume and 24% by deal value of the total European market. The Deutsche region only generated 7 buyout deals in the first quarter of 2005, but saw that number nearly triple to 20 in the second quarter of 2005, accounting for 14% of the market. France saw its volume of buyouts increase slightly from 25 in the first quarter of 2005 to 27 in the second quarter. The Nordic region experienced a 31%

increase in the number of buyout deals completed since the first quarter of 2005, with 21 total deals completed. On the other hand, the Benelux region saw a 64% decrease in the number of buyouts in the second quarter and a 18% reduction in the value of its buyout deals, giving it a 8% share of the total value of the European buyout market for the quarter.

U.S. Venture Capital

Venture capital investing accelerated in the second quarter of 2005, with $5.8 billion invested in 750 companies, according to The MoneyTree™ Survey by PricewaterhouseCoopers, Thomson Venture Economics and the National Venture Capital Association. Funding exceeded the first quarter of 2005's amount of $4.9 billion, but fell just short of the second quarter 2004's $6.1 billion. Over the past eight quarters, US Venture firms have invested a total of $42.0 billion.

The Life Sciences sector (Biotechnology and Medical Devices) and the Software Industry received the majority of funding during the quarter, continuing a recent trend. Overall numbers for each sector were up slightly from the prior quarter. There was a total of $1.5 billion invested in 154 Life Sciences companies, which compares to $1.0 billion in the first quarter, and $1.3 billion invested in 231 Software companies, up from $1.1 billion in the first quarter.

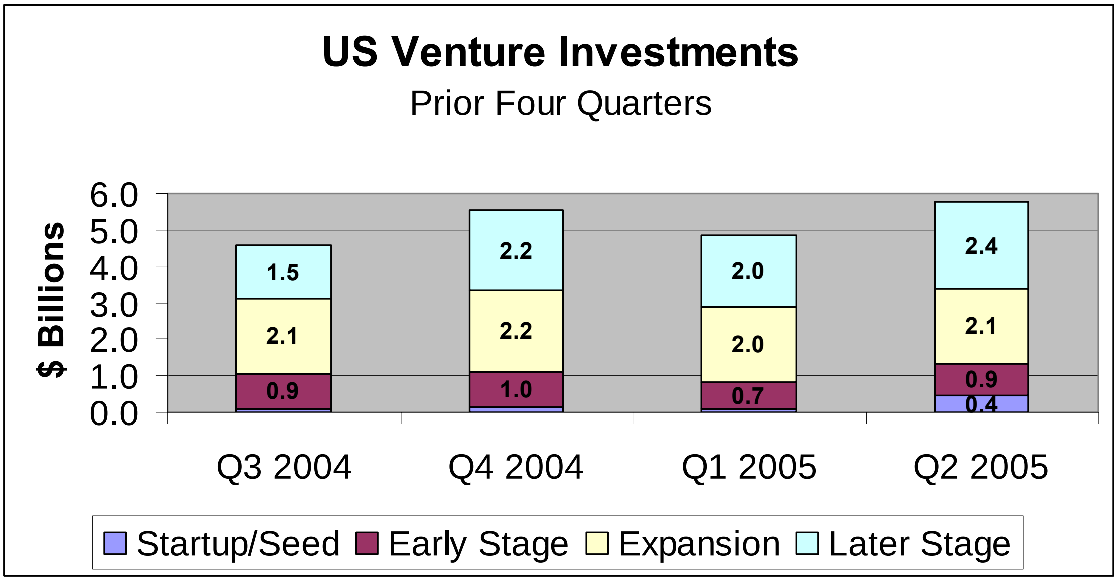


Source: MoneyTree Survey

Expansion and later-stage companies continued to receive the majority of the invested dollars - over 77%. Expansion stage companies received $2.1 billion, or 36%, of all invested dollars in the second quarter, which was slightly below the previous quarter on a percentage basis. Average post-money valuations for expansion stage companies dropped slightly to $54.3 million for the year ending March 31, 2005 from $58.2 million for the year ending December 31, 2004 (there is a one quarter-lag between investment data and valuation data.) Later-stage companies received $2.4 billion, or 41%, of all venture dollars in the second quarter, an increase of 11% compared with the second quarter of 2004. Average post-money valuations for later-stage companies fell to $59.9 million for the year ending March 31, 2005, compared to $63.5 million for the year ending December 31, 2004. Early-stage investing rose from 17% of all venture capital investing in the first quarter to 23% in the second quarter. The dollar amount of funding increased to $1.3 billion in the second quarter from $833 million in the first quarter.

Average early-stage post-money valuations were $13.6 million for the year ending March 31, 2005, which remained flat from the prior 12-month period ending December 31, 2004.

The number of companies receiving venture financing for the first time increased for the second straight quarter, reflecting renewed optimism among venture capitalist. First-time financings to 218 companies, 24% of all venture investments, totaled $1.4 billion for the second quarter. First-time investing encompassed a wide range of industries, including Financial Services, Industrial and Healthcare Services as well as Technology and Life Sciences companies. Software companies attracted the second most first-time investments with 63 companies receiving $266 million, trailing only financial services with 5 companies receiving $330.8 million, a four year high.



Source: MoneyTree Survey

Fundraising Update and Forecast

U.S. Buyouts/Corporate Finance

Many GPs raised their most recent funds in 2000 - 2003 and are now returning to the fundraising market. With strong activity and returns, the fundraising environment has been quite busy. According to Thomson Venture Economics and the National Venture Capital Association, 38 buyout and mezzanine funds raised $22.1 billion in the second quarter of 2005. These figures represented a 64% increase over the $13.5 billion raised during the first quarter, which was significantly greater than the second quarter of 2004 when 32 buyout and mezzanine funds raised $16.7 billion. Mega funds continued to attract attention as several general partners raised capital in record time, and many were oversubscribed leaving a number of LPs without allocations. Access continues to become increasingly difficult in top-tier venture capital and buyout funds. In the second quarter of 2005, the following five top funds closed on over $14 billion for the quarter: GS Capital Partners V, which took in an additional $3.5 billion during the quarter and capped the fund at $8.5 billion; Summit Partners raised $3.0 billion for its Private Equity VII and $300 million for its Venture Captial Fund II; Carlyle Partners IV, which took in an additional $2.9 billion during the quarter and capped the fund at $7.8 billion; and Sun Capital IV, which raised $1.5 billion entirely in the second quarter. Given the activity to date, 2005 is on track to be the most successful year for fundraising since 2000.

Asia

According to Thomson, fundraising activity in the Asia Pacific region during the first six months of 2005 increased to $2.8 billion from $2.0 billion during the first six months of 2004. Hong Kong accounted for 70% of total commitments during the period. Morgan Stanley held a final close on its Asia-dedicated fund, raising a total of $515 million.

Australia

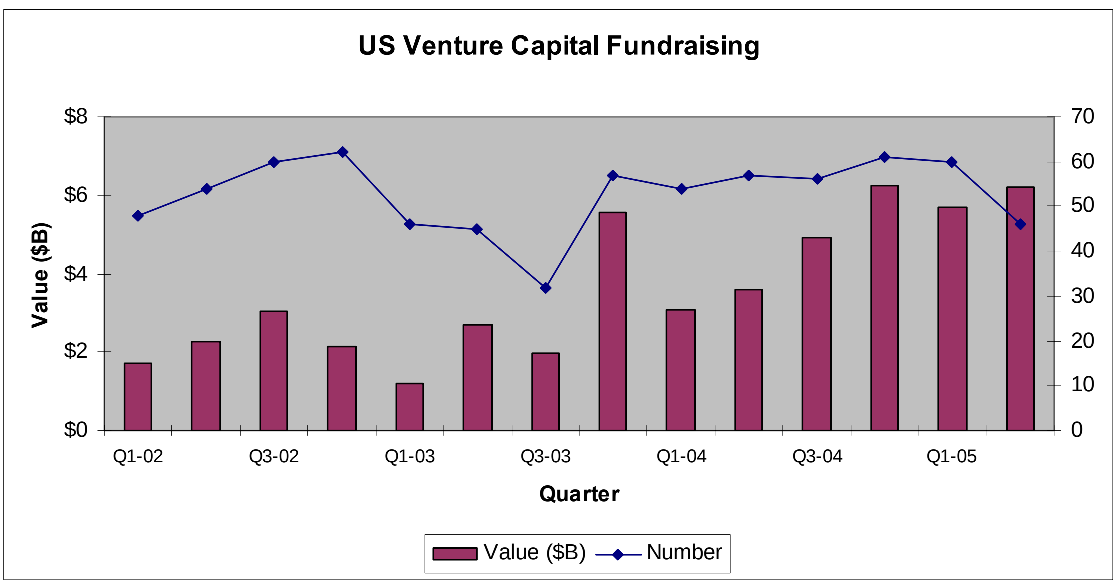
Australia-based private equity funds raised $253.7 million during the first six months of 2005. For comparison, just under $2.0 billion was raised by Australian funds during 2004. Recent deals suggest that the slowdown in fundraising activity may be short-lived as the third quarter has been active with Champ raising a record $950 million along with three other Australian based funds raising an aggregate of $2.55 billion.

Europe

Two European based funds raised significant capital with BC European Capital VIII raising $6.9 billion during the quarter and PAI Europe IV raising $3.5 billion during the quarter.

U.S. Venture Capital

Venture capital experienced another active period of fundraising in the second quarter of 2005, with 46 venture funds raising $6.2 billion. This figure represents an 8.6% increase over the first quarter of 2005; it also marks a significant increase over the second quarter of 2004 when 57 venture funds raised $3.6 billion. Over the past six months, 106 venture funds have raised $11.9 billion, compared to $11.1 billion raised by 117 funds in the six-month period ended December 31, 2004. Overall, fund sizes grew by 42% compared to the prior quarter.



Source: Venture Economics and NVCA

The largest fund raised in the quarter was Menlo Ventures X, a $1.2 billion balanced stage growth equity fund. Early and seed stage funds accounted for half of the capital raised during the quarter.

Exit Opportunities

IPO Market

The second quarter of 2005 saw a continued slowdown in public market activity, with ten venture-backed companies raising $714.1 million through IPOs, according to Thomson Venture Economics and the National Venture Capital Association. The second quarter activity fell just below the first quarter where ten IPOs generated $720.7 million. This latest quarter marks the lowest level of activity since the third quarter of 2003, which saw nine venture-backed companies raise $732.8 million. By comparison, the fourth quarter of 2004 saw 27 venture-backed IPOs raise over $2.9 billion. The technology sector produced the largest IPO of the second quarter of 2005, with China Techfaith Wireless Communication Technology raising $141.8 million, backed by Intel Capital, HSBC Private Equity, Global Strategic Investment Fund and Qualcomm Ventures. This offering accounted for 67% of the IPO proceeds for Venture backed technology companies. The life sciences sector was more active, raising $283.1 million for six venture-backed IPOs, or approximately 40% of the total venture capital backed IPOs in the quarter.

There were 18 IPOs by buyout-backed companies in the second quarter of 2005, up slightly from 15 in the first quarter of 2005. The average offer amount of $545.8 million represents the highest number since the third quarter of 2003.

M&A Activity

Buyout transactions are on a record pace in 2005. According to Thomson Financial, $38 billion in buyout backed deal value was disclosed in the second quarter. This brings the half-year total to a record $77 billion in 2005. This represents a 44% increase over the $54 billion disclosed in the first half of 2004.

Total disclosed valuations for venture-backed mergers and acquisitions increased by a small margin in the second quarter of 2005, according to Thomson Venture Economics and the National Venture Capital Association. The second quarter had 77 venture-backed M&A deals, with a total disclosed value of $4.4 billion (only 32 deals disclosed values), according to Venture Economics and the NVCA. This represents a 46% increase in average deal size over the first quarter of 2005, which saw 80 deals with an aggregate disclosed value of $4.3 billion for 46 disclosed deals. By comparison, 90 deals with a disclosed value of $4.5 billion for 48 deals were reported in the second quarter a year ago. The average deal size of $136.7 million is the highest since the first quarter of 2001 when the average was $207 million.

Venture Capital Backed M&A by Quarter 2003-2005				
Quarter	**Total Number of Deals**	**Total Disclosed Deal Value ($B)**	**Number of Disclosed Deals**	**Average Size of Disclosed Deals**
Q1-03	75	1.82	22	82.54
Q2-03	79	1.97	27	72.79
Q3-03	77	2.93	41	71.45
Q4-03	74	1.62	35	46.27
2003 Total	**305**	**8.33**	**125**	**66.64**
Q1-04	82	3.97	47	84.39
Q2-04	90	4.51	48	94.05
Q3-04	88	3.92	44	89.00
Q4-04	84	2.86	46	62.22
2004 Total	**344**	**15.26**	**185**	**82.48**
Q1-05	80	4.31	46	93.69
Q2-05	77	4.37	32	136.69
1 H 2005	**157**	**8.68**	**78**	**111.33**
Source: Thomson Financial Venture Economics / NVCA, as of August 16, 2005				

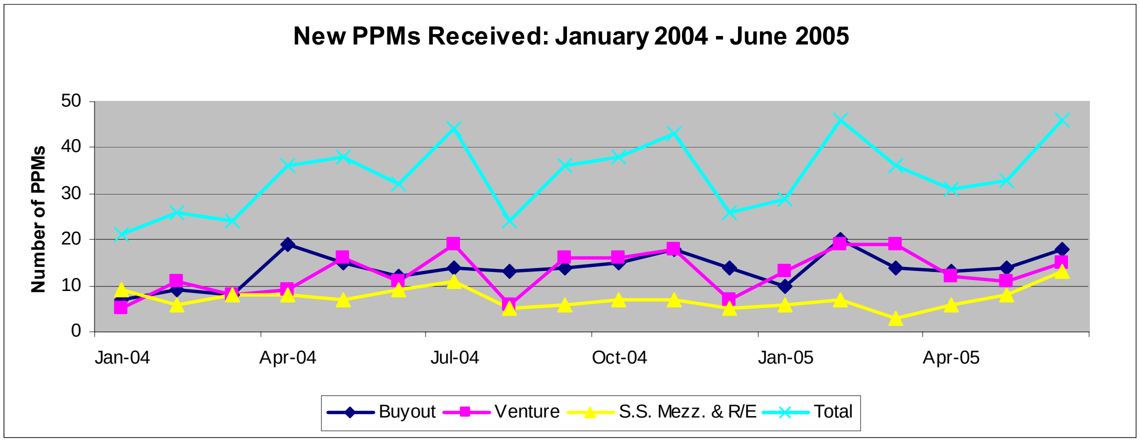
During the quarter, the top 10 deals accounted for almost 80% of the total disclosed value. The largest deal completed during the quarter was XTO Energy's acquisition of Antero Resources for $842.9 million. Other sizable transactions include Pfizer's $527 million acquisition of biologics developer Angiosyn and EW Scripps's acquisition of Shopzilla for $525 million.

Hamilton Lane Due Diligence Activity

During the second quarter of 2005, Hamilton Lane reviewed 110 new investment opportunities, which is nearly the same activity level as the first quarter of 2005. Hamilton Lane is on track to review over 400 PPMs in 2005, having reviewed 221 during the first half of 2005. By comparison, Hamilton Lane reviewed 300 and 388 PPMs in 2003 and 2004, respectively. The 221 PPMs reviewed in 2005 were spread among the following types of funds:

- Corporate finance/buyout – 89
- Venture capital - 89
- Special situations, mezzanine, and real estate - 43

The number of PPMs received by Hamilton Lane from January 2004 through June 2005 is detailed by sub-asset class on a monthly basis in the chart below.



During the second quarter 2005, Hamilton Lane met with 56 general partner groups, compared to 62 in the first quarter of 2005, and 46 in the second quarter of 2004. Of the 56 meetings, 32 were for new funds and 24 were update meetings. Also during the second quarter of 2005, Hamilton Lane conducted 21 due diligence site visits, compared to 20 site visits during the first quarter of 2005. The following chart provides a breakdown of the number and type of general partner meetings conducted by Hamilton Lane during 2004 and the first half of 2005.