# COSCO PRIVATE CAPITAL ENERGY INDEX

For the past eight years, COSCO Capital Management LLC has surveyed a key cross-section of professionally managed sources of private capital (The COSCO Index) about the funds they originally raised, and currently have available, for investment in the energy industry and their investment preferences and activities during the relevant period. The following figures reflect the responses for full-year 2006 by the 22 sources currently in the index.

**Capital availability.** These sources reported having raised $26.2 billion in funds or budgets still active—having capital remaining to be invested—at year-end 2006. This initial capital total is 1.7 times the $15.4 billion reported at year-end 2005 and close to twice the amount reported at year-end 2004, certainly supporting evidence for an inexorable build-up in capital available from private sources for investment in energy.

Moreover, at year-end 2006, the 22 sources' uncommitted capital available for investment in energy skyrocketed to $17.3 billion, versus the $7 billion reported at year-end 2005. The vast majority of this increase resulted from successful fund-raising by a number of the long-standing energy private-equity specialists within the index.

**Funding activity.** Funds raised by index members during 2006 jumped to $13.6 billion, 118% above the 2005 level and nearly equal to that raised by the index members during 2005 and 2004 combined. This sharp increase reflects unusually active and successful fund-raising efforts by many of the funds in the index, as well as significant increases (88%) in the average size of the individual funds raised. More than half of the new capital in 2006, however, was raised by a single new fund sponsored by one member of the index.

**Transaction activity.** Not surprisingly, the large capital inflows during 2006 resulted in robust transaction activity. The number of investments made by index members during the year rose 77% above that reported in 2005 (and was well over double the 2004 level). On a dollar basis, the percentage gains were still greater: investments made during 2006 rose 168% to $7.2 billion, versus $2.7 billion in 2005, also reflecting a 51% increase in average deal size, year over year.

Monetization activity (83 exits or sell-downs, up 38% from 2005) and total proceeds ($7.9 billion, up 44%) grew in 2006 as well. These extraordinarily high figures may reflect a consensus among index participants that the past couple of years were particularly propitious for harvesting any investments deemed sufficiently mature.

The rate of growth in monetization may be slowing, however: this 2006 monetization number is 3.5 times higher than that of 2004, but 2005 accounted for almost 70% of this rise. In fact, the investment-to-monetization ratio in 2006 was about flat, whereas, in 2005, index participants monetized at double their rate of aggregate investment.

This rebalancing of investment/monetization may reflect that rising costs and falling prices, particularly in the latter half of 2006, began to squeeze E&P margins, thus making sales metrics somewhat less attractive than in 2005.

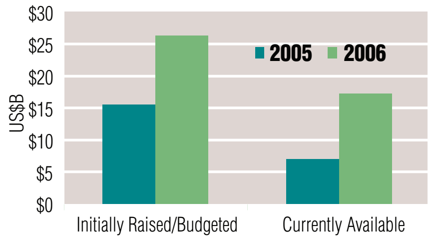
While the pace of monetizations may be slowing, the sheer growth of capital available in 2005 and 2006 has ensured that private capital investment in energy has continued and will continue to grow for the foreseeable future, whether through buyouts, equipment and service expansions, or simply higher capitalized drilling programs. This is driven by demand from institutional limited partners seeking access to the energy sector despite the higher-cost environment. Fortunately, this investment push coincides with the recent down-turn in commodity pricing and a seeming moderation of cost escalation throughout the oil patch, potentially underpinning yet another round of sound energy investments.

**Conclusion.** Private capital in this first half of 2007 is certainly alive and well, with no indications that the ability to raise and spend ever greater amounts of capital have come close to exhaustion. Lead indications for 2007 already suggest it should be a banner year in each category. For those active during the meltdown of the 1980s, it is almost impossible to comprehend the extent and sophistication of the funds now available from private capital to support competent companies with reasonable plans for value creation within the energy sector, almost however defined.

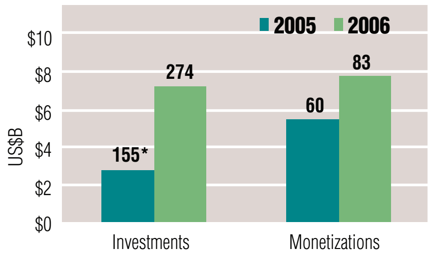
*—Cameron O. Smith and Craig M.I. Campbell, COSCO Capital Management LLC. "The COSCO Index" is a trademark of the firm. All dollar values are U.S.; Canadian dollars converted December 29 at C$1=US$0.8581.*

*Editor's Note: Twice a year, we publish this index which is an indicator of the level of private capital available, and investment activity this generated, within the oil and gas industry.*

**Capital Availabilty**

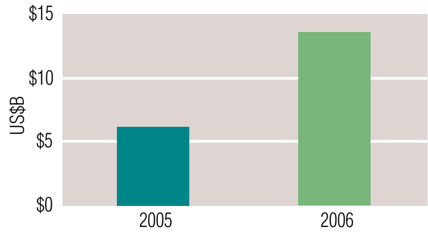



**Transaction Activity**




*Number of transactions/year

**Funding Activity**




### The COSCO Index Members & Mandates

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| ARC Financial Corp. (Canada) | Energy |
| Altira Group LLC | Energy |
| Avista Capital Partners | Energy |
| Constellation Energy Commodities Group | Energy |
| EnCap Investments LP | Energy |
| Energy Trust Partners LP | Energy |
| First Reserve Corp. | Energy |
| GasRock Capital LLC | Energy |
| Goldman Sachs & Co. | Energy |
| Greenhill Capital Partners LLC | General |
| HM Capital Partners LLC | General |
| Kayne Anderson Capital Advisors LP | Energy |
| KERN Energy Partners Management Ltd. (Canada) | Energy |
| Lime Rock Management | Energy |
| Metalmark Capital LLC | General |
| NGP Investment Advisors LP | Energy |
| Petrobridge Investment Management LLC | Energy |
| Prospect Energy Corp. | Energy |
| Quantum Energy Partners | Energy |
| Riverstone Holdings LLC | Energy |
| TCW Asset Management | Energy |
| Touradji Capital Management LP | Energy |