

# COSCO PRIVATE CAPITAL ENERGY INDEX

The COSCO Private Capital Energy Index, an eight-year-old index created and managed by COSCO Capital Management LLC, is currently comprised of 22 private capital providers, representing a fair cross-section of the private capital community in the U.S. and Canada. The COSCO Index participants provide data on a semi-annual basis regarding the capital they originally raised and currently have available in their funds for investment in the energy industry or had dedicated to them through their most recent annual budgets, as well as their risk and sector preferences and transaction activities during the relevant period. The following compilations reflect the responses provided by index participants for the first half of 2007.

**Capital availability.** The COSCO Index participants as of June 30, 2007, reported having raised \$23.7 billion in closed-end funds considered active (having capital remaining to be invested) or budgeted at such time for investment. Based on the average second-half increase in this category during each of the past two years, index members by year-end 2007 could well have some \$33.4 billion in funds or budgets dedicated to energy, or roughly a 25% increase from year-end 2006.

If the average ratio of the capital available at the end of the last two years is taken into account, relative to the amount raised, this would suggest The COSCO Index's uncommitted capital available for investment in energy at year-end 2007 could be as much as \$22.4 billion, versus the \$17.3 billion at year-end 2006 (and the measly \$6 billion reported just three years ago for year-end 2004).

**Investment activity.** Given this amount of capital available for investment by index participants, it is hardly surprising the 194 transactions they reported during the first half of 2007 already exceeds the total for full-year 2004 and 2005, and at this rate could reach 440 by year-end, which would be half-larger than the record pace established in 2006.

On the basis of dollars invested, index participants reported committing more than \$6.7 billion in the first half of 2007. If the experience of the past two years holds true, this puts The COSCO Index participants on target to invest \$13.4 billion for all of 2007, which is slightly less than double its investment rate of 2006 and more than four times that of 2004.

**Monetization activity and intimations of profitability.** The COSCO

## COSCO Index Report: First-Half 2007 and YE 2007E

Category	2004	2005	2006	First-Half 2007	YE 2007E
<b>Capital</b>					
Initial (\$B)	20.0	15.4	26.5	23.7	33.4
Available (\$B)	6.0	7.0	17.3	14.2	22.4
<b>Investment</b>					
# Deals	125	155	276	194	438
Total (\$B)	3.1	2.7	7.3	6.7	13.4
Average (\$MM)	25	17	26	34	31
<b>Monetization</b>					
# Deals	56	60	83	56	123
Total (\$B)	2.3	2.7	7.5	6.8	14.7
Average (\$MM)	42	45	90	121	120
<b>New Fundings</b>					
Total (\$B)	7.9	6.3	14.0	2.2	4.8

Index participants reported monetizing 56 of their portfolio companies or investments in the first half of 2007, which, again, is far larger than the number for the first half of 2006, and at this pace could see the index in 2007 for the first time breaking 100 monetizations during a single year.

Also of note is that the average monetization for first-half 2007 totaled \$121 million—for the first time more than \$100 million and almost three times the average in 2004. The average investment in first-half 2007, on the other hand, was just over \$30 million, and only 36% above the average investment in 2004, suggesting the scale of the profits.

What the index participants are reaping from their energy investments is not only robust, but getting significantly larger each year.

**Funding activity.** The one incongruous finding of the first-half 2007 survey was that The COSCO Index participants raised only \$2.2 billion during the period, versus roughly \$5.3 billion in first-half 2006 and \$3.8 billion in first-half 2005. At this rate, recent history would suggest the index participants would be hard-pressed to raise more than \$4.8 billion or so for 2007, making it possibly the smallest amount raised by The COSCO Index in the past four years.

**Conclusions.** Private capital in the first half of 2007 is off to a record pace in almost every category of activity tracked, with the sole exception of new capital raised. It is possible that, with the amount of capital available for investment in energy, professional managers are taking a breather before getting back on the treadmill of raising ever-greater amounts of capital in each new fund, with all the pressure of finding new, outstanding places to invest it.

Given the indications of profitability cited above, however, it would be a mir-

acle if institutional investors and their advisors—the investment bankers—allow the investment professionals to coast for too long.

—Cameron O. Smith and Craig M.I. Campbell, COSCO Capital Management LLC. "The COSCO Private Capital Energy Index" is a trademark of the firm. All dollar values are U.S.; Canadian dollars were converted.

## COSCO Index Sources

Equity Focus	Tier	Mandate
Altira Group LLC.	1	Energy
ARC Financial Corp. (CDN)	1	Energy
EnCap Investments LP	1	Energy
Energy Trust Partners LP	1	Energy
First Reserve Corp.	1	Energy
Greenhill Capital Partners LLC	1	General
HM Capital Partners LLC	1	General
Kayne Anderson Capital Advisors LP	1	Energy
Kern Energy Partners Management Ltd. (CDN)	1	Energy
Lime Rock Management LP	1	Energy
Metalmark Capital LLC	1	General
Quantum Energy Partners	1	Energy
Riverstone Holdings LLC	1	Energy
Touradji Capital Management	3	General
<b>Subtotal</b>	<b>14</b>	
Mezzanine Focus	Tier	Mandate
NGP Investment Advisor LP	2	Energy
Petrobridge Investment Management LLC	3	Energy
Prospect Energy Corp.	2	Energy
TCW Asset Management Co.	1	Energy
<b>Subtotal</b>	<b>4</b>	
Equity & Mezzanine	Tier	Mandate
Constellation Energy Commodities Group	2	Energy
GasRock Capital LLC	3	Energy
Goldman Sachs & Co.	2	Energy
Post Oak Energy Capital LP	3	Energy
<b>Subtotal</b>	<b>4</b>	
<b>Total COSCO Index Members</b>	<b>22</b>	