



CAMBRIDGE ASSOCIATES LLC

Cambridge Associates Private Equity and Venture Capital Market Commentary for Quarter Ending June 30, 2008

During the quarter ending June 30, 2008, the Cambridge Associates LLC U.S. Venture Capital Index[®] rose 0.4%, bringing its year-to-date return to -1.3%. The second quarter's marginally positive return was a result of gains in funds started in 2002 through 2006. Those gains offset the losses in the 1999 through 2001 funds, three vintage years that represented more than half of the benchmark's value during the quarter. The second quarter's best performers were the 2006 funds, helped most by software investments, and the 1999 funds were the quarter's worst performers, hurt most by technology holdings.

From a sector standpoint, the three that dominated the index's value, information technology, health care, and software, were all up during the quarter. Energy companies performed best overall, and hardware fared the worst.

Venture capital fund managers and their investors exchanged slightly less than \$6 billion in the second quarter. Contributions from investors surpassed fund distributions by a ratio of more than 2 to 1. By calling more than \$1 billion during the quarter, the funds raised in 2006 were the most active with the 2007 funds coming in second, at \$740 million. Similar to the previous few quarters, the 2000 funds returned the most capital to investors, about \$800 million, followed by the 1999 funds, which distributed just short of \$270 million. The bulk of distributions from the 2000 funds' resulted from technology companies and the 1999 funds' distributions were from software, technology, and health care companies.

The managers of venture capital funds invested mainly in software, clean-tech energy, health care, and Internet-related companies. Much of the activity represented additional investments in existing portfolio companies, U.S. venture firms continued to invest in China and India. No venture-backed companies went public during the second quarter, but there were 71 investment exits via mergers and acquisitions (M&A). M&A activity nearly equaled that of the quarter before, and much of it was in the technology sector. The 21 M&A deals whose values were made public were worth \$4.2 billion.

While 2008 is proving to be a difficult year for venture capital investors, the industry's long-term results remain positive, as shown in the table below. The bursting of the technology investment bubble in 2000 accounts for the severe drop off in returns from the 10-year period to the 7-year one.

Cambridge Associates derives its venture capital benchmarks from the financial information contained in its proprietary database of venture capital funds. As of June 30, 2008, the database comprised 1,219 venture funds formed from 1981 to 2008 with a value of approximately \$92.7 billion. By way of comparison, on June 30, 1998, the benchmark index included 546 funds whose value was slightly more than \$27.4 billion.

U.S. Venture Capital Index Returns (%)								
As of June 30, 2008								
Periods Ending June 30, 2008								
	2 nd Qtr.	6 Months	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years
U.S Venture Capital	0.4	-1.3	4.7	13.3	11.5	0.2	33.9	33.4

Sources: Cambridge Associates LLC and the National Venture Capital Association

During the quarter ending June 30, 2008, the Cambridge Associates LLC U.S. Private Equity Index[®] rose 1.0%, bringing its year-to-date return to -0.7%. The 2001 vintage year funds turned in the quarter's best performance, 6.9%, due to gains in the energy sector. Returns were mixed among the four vintage years that dominated the benchmark: the 2004 and 2005 funds performed well because of their energy and technology investments, but the 2000 and 2006 funds sputtered. Manufacturing and health care companies cost the 2000 funds, while financial services and consumer-related businesses hurt the 2006 funds. Funds launched in 2004 through 2006 comprised more than half of the index's value, reflecting the growth in the size of private equity, or buyout, funds since 2004.

From a sector standpoint, energy investments performed the best overall in the quarter and comprised about 13% of the index's value. The consumer sector was still the largest in the benchmark, but its return was slightly negative for the quarter. Among the smaller sectors in the index, industrial companies fared well, but transportation, construction, and electronics businesses did not.

Private equity managers and their investors exchanged nearly \$22 billion during the second quarter, roughly \$8 billion less than the quarter before. Contributions from investors surpassed fund distributions by a ratio of 3 to 1. Managers of funds raised in 2004 through 2006 called roughly \$13 billion of the \$18 billion of capital called during the quarter. The funds begun in 2000 and 2004 returned the most money to investors, about \$2 billion combined. During the quarter, the majority of capital distributed to investors came from investments in manufacturing, technology, and consumer-related companies. U.S.-based companies in the consumer, energy, and financial services sectors attracted the most money in the quarter; Canadian and German companies were a distant second and third.

The private equity benchmark's long-term returns have been positive, as shown in the table below. The index's downturn in 2008 is largely attributed to the global credit crunch that began in 2007 and the price declines of publicly traded stocks.

Cambridge Associates derives its U.S Private Equity benchmarks from the financial information contained in its proprietary database of private equity funds. As of June 30, 2008, the database comprised 757 U.S buyouts, private equity, energy, growth equity, and mezzanine funds formed from 1986 to 2008, with a value of roughly \$334.0 billion. By way of comparison, at June 30, 1998, the benchmark index included 261 funds whose value was nearly \$54.4 billion.

U.S. Private Equity Index Returns (%)								
As of June 30, 2008								
Periods Ending June 30, 2008								
	2 nd Qtr.	6 Months	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years
U.S Private Equity	1.0	-0.7	3.3	19.8	22.6	13.9	12.7	15.4

Source: Cambridge Associates LLC

Cambridge Associates LLC's proprietary databases provide independent statistics to the institutional investment industry. The Cambridge Associates LLC U.S. Venture Capital Index[®] is based on returns data compiled on funds representing over 80% of the total dollars raised by U.S. venture capital partnerships formed between 1981 and 2008. Similarly, the Cambridge Associates LLC U.S. Private Equity Index[®] is based on returns data compiled on funds representing over 70% of the total dollars raised by U.S. buyouts, private equity, energy, growth equity, and mezzanine funds partnerships formed between 1986 and 2007. The pooled means represent the net end-to-end rates of return calculated on the aggregate of all cash flows and market values as reported to Cambridge Associates by the funds' general partners in their quarterly and annual audited financial reports. These returns are net of management fees, expenses, and performance fees that take the form of a carried interest.

Both the Cambridge Associates LLC U.S. Venture Capital Index[®] and the Cambridge Associates LLC U.S. Private Equity Index[®] are reported each week in *Barron's* Market Laboratory section. In addition, complete historical data can be found on Standard & Poor's Micropal products and on our website, www.cambridgeassociates.com.

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