



CAMBRIDGE ASSOCIATES LLC

Cambridge Associates LLC Private Equity and Venture Capital Market Commentary for Quarter Ending March 31, 2010

Overview

The positive return trend for private equity and venture capital funds that began in the second quarter of 2009 continued through the first quarter of 2010, as indicated by the Cambridge Associates LLC benchmark indices of the two alternative asset classes. For the fourth consecutive quarter, private equity outperformed venture capital; during the same time period, the public markets outpaced both private asset classes. During the past twenty years, the private equity index's return has been less volatile than its venture capital counterpart and with the exception of the past year, the private equity index has outperformed the public market indices. Venture capital, despite a rough last ten years, has still earned the best returns for the 15- and 20-year periods ending March 31, 2010.

While the quarter ending March 31st was a positive one for both the **Cambridge Associates LLC U.S. Private Equity Index®** and **Cambridge Associates LLC U.S. Venture Capital Index®**, performance for both was lower than in the previous quarter. Continued strength of the public markets helped both private asset classes maintain the upward momentum that began in the second quarter of 2009. Over the past year, private company valuations stabilized and leverage became more available; but while there was a slight increase in initial public offerings (IPOs), exit opportunities remained below historical averages.

The Cambridge Associates LLC U.S. Private Equity Index® is derived from performance data compiled for funds that represent the majority of the institutional capital raised by private equity partnerships between 1986 and 2009. Based on that data, private equity's returns versus indices tracking large- and small-capitalization public equities – the Dow Jones Industrial Average, the Russell 2000 Composite, and the S&P 500 – are shown below:

U.S. Private Equity Index Returns (%) for the Periods ending March 31, 2010

For the periods ending	Qtr.	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
March 31, 2010	4.4	22.3	1.3	10.4	7.2	12.0	12.3
Other indices at March 31, 2010							
DJIA	4.8	46.9	-1.5	3.3	2.3	9.0	9.8
Russell 2000 Composite	8.9	62.8	-4.0	3.4	3.7	8.0	8.9
S&P 500	5.4	49.8	-4.2	1.0	-0.7	7.8	8.7

Sources: Cambridge Associates LLC, Dow Jones & Company, Inc., Frank Russell Company, Standard and Poor's, and Thomson Datastream.

The Cambridge Associates LLC U.S. Venture Capital Index® is derived from performance data compiled for funds that represent the majority of the institutional capital raised by venture capital partnerships between 1981 and 2009. Based on that data, venture capital's returns versus indices tracking large- and small-capitalization public equities – the NASDAQ Composite, the Russell 2000 Composite, and the S&P 500 – are shown below:

U.S. Venture Capital Index Returns (%) for the Periods ending March 31, 2010

For the periods ending	Qtr.	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
March 31, 2010	0.7	6.5	-0.7	4.9	-3.7	38.2	24.0
Other indices at March 31, 2010							
NASDAQ Composite	5.7	56.9	-0.3	3.7	-6.3	7.4	8.9
Russell 2000 Composite	8.9	62.8	-4.0	3.4	3.7	8.0	8.9
S&P 500	5.4	49.8	-4.2	1.0	-0.7	7.8	8.7

Sources: Cambridge Associates LLC, Dow Jones & Company, Inc., Frank Russell Company, Standard and Poor's, and Thomson Datastream.

Note: Because the U.S. Private Equity and Venture Capital indices are capital weighted, the largest vintage years mainly drive the indices' performance.

In the sections below we provide details regarding the indices' performance. Highlights of the first quarter are:

- Private equity returns trailed those of small-cap public companies (Russell 2000) in the first quarter and did not stack up well against either large or small public company returns during the year ending March 31, 2010. Both private equity and venture capital have fared better against the public markets over longer periods of time.
- Over the ten-years ending March 31, 2010, private equity outperformed venture capital by nearly 11%, largely a result of the technology sector collapse at the beginning of the decade.
- Private equity and venture funds called and distributed less capital in the first quarter than they did in the fourth quarter of 2009. The quarter over quarter dip in LP contributions was more severe in private equity than in venture capital while the decline in LP distributions was greater for venture capital funds.
- The 2005 vintage year private equity funds were the best performing among the five vintages that represented at least 10% of the index; it was the first quarter in four that a vintage year other than 2007 earned top billing.
- All sectors that represented at least 5% of the private equity index produced positive results for the quarter; most of the large sector components underperformed their public market counterparts.

- Private equity funds in the index again targeted retail and energy businesses more than other sectors for investment in the first quarter.
- In a reversal of fortunes from the prior quarter, private equity funds raised during the past five years earned lower returns in the first quarter than mature funds from vintage years 2001 through 2003.
- The ten-year return for the venture capital index as of March 31, 2010 fell further into negative territory than it had as of December 31, 2009. Ten-year venture performance is expected to hit its trough in the second half of 2010.
- For the second quarter in a row, information technology (IT) earned the best return of the top three sectors by size in the venture index, including healthcare, IT, and software.
- Based on market values at March 31, 2010, public companies accounted for nearly 13% of the private equity index and companies based outside of the U.S. represented almost 19%. Public companies made up about 10% of the market value of the U.S. Venture Capital index and ex-U.S. companies a bit more than 8%.

Private Equity Performance Insights

Credit markets eased slightly in the first quarter and public equity returns were once again positive. Likewise, the Cambridge Associates LLC U.S. Private Equity Index® was up in the first quarter, 4.4%, which brought the benchmark's streak of positive quarters to four. For the third quarter in a row, valuations for assets held by funds raised in vintage years 2000 to 2007 increased by at least \$850 million per vintage. In dollar terms, private company values grew most in the consumer, manufacturing, and healthcare sectors; among the three, manufacturing grew the most in percentage terms.

The private equity index's top vintage years by size, 2006, 2005, 2004, 2007, and 2000, represented 77% of the index's value in the first quarter and the group's first quarter gains ranged from 2.6% for the 2007 funds to 6.6% for the 2005 funds. For the funds from the largest vintage year, 2006, the quarterly return and the factors contributing most to it matched those of the index as a whole; the vintage returned 4.4%, largely as a result of write-ups in three sectors, retail, manufacturing, and healthcare. For the second quarter in a row, the 2005 funds' performance was due mostly to increased values for retail and healthcare companies. The 2004, 2007, and 2000 funds were up 2.7%, 2.6%, and 3.1%, respectively, thanks largely to higher valuations for consumer and manufacturing investments. The 2000 vintage also benefitted from realizations of healthcare, media, and retail investments.

Again, All Eight Prominent Sectors in the PE Index Earned Positive Returns for the Quarter

For the third consecutive quarter, each of the eight sectors that together represented 90% of the index's value earned positive returns in the first quarter. The top three sectors by size—consumer, energy, and healthcare—rose between 1.9% and 6.7%, with retail performing the best and energy the worst. Together, these three sectors accounted for a little more than half of the benchmark's total value. On a dollar-weighted basis,

healthcare, financial services and consumer companies returned 4.8% during the first quarter. Of the sectors that represented at least 5% of the index (“meaningfully sized”), manufacturing posted the best return and information technology the worst. During the quarter, fund managers invested most in retail companies.

Capital Calls and Distributions Decreased From the Prior Quarter

In the first quarter, private equity managers called roughly \$11 billion from investors and returned a little more than \$8 billion – for the first time in over a year both contributions and distribution declined from the previous quarter. Contributions slid by almost \$3 billion or around 21% and distributions declined by roughly \$2 billion or nearly 17%. This was in sharp contrast to the previous quarter, when contributions increased by 43%, the largest quarter-over-quarter increase in more than three years, and distributions rose by 124%, the largest quarterly increase in almost 18 years.

Investors in funds raised from 2006 through 2008 contributed 82% of the total capital called in the first quarter – the 2007 vintage year funds called more than \$5 billion or 47% of the total capital called. Four vintage years, 2000, 2001, 2004, and 2006, distributed over 47% of the total for the quarter.

Gap between Contributions and Distributions Continued to Narrow

The last time distributions outpaced contributions was the second quarter of 2007; since then, private equity funds have called 2.2 times as much capital as they distributed. During the first quarter of 2010, when both capital calls and distributions dipped from the prior quarter’s levels, the difference between contributions and distributions was smaller than it was in any of the past 11 quarters. The trend of the difference between these two quantities becoming smaller began in the second quarter of 2009. At least two elements of the investment environment, the availability of leverage and exit opportunities, also showed signs of improvement in the first quarter. Macroeconomic factors continued to present challenges, as slow GDP growth, unemployment, and rising commodity prices, dampened consumer spending.

Public Markets Help Lift Private Company Valuations

Public equity prices, appearing somewhat impervious to the lackluster economy, continued to rise during the first quarter, again helping to lift valuations for companies in the private equity index. For most of 2009, in addition to the public markets’ surge, the U.S. private equity index benefitted from a weakened U.S. dollar because valuations for companies based outside of the U.S. appreciated. With the onset of the European debt crisis, currency exchange rates reversed during the first quarter of 2010, and values for ex-U.S. investments suffered.

Cambridge Associates derives its U.S. private equity benchmark from the financial information contained in its proprietary database of private equity funds. As of March 31, 2010, the database comprised 823 U.S. buyouts, private equity energy, growth equity,

and mezzanine funds formed from 1986 to 2009, with a value of roughly \$385 billion. Ten years ago, as of March 31, 2000, the index included 350 funds whose value was nearly \$126 billion.

Venture Capital Performance Insights

For venture capital investors, the first quarter of 2010 was somewhat of a mixed bag; aspects of the investment environment improved, but performance was only modestly positive. For the fourth consecutive quarter, valuations for venture-backed companies rose but the increases were much lower than those of the previous quarter. The number of exits through initial public offerings (IPOs) hit the highest level since the last quarter of 2007. It was also a record quarter for mergers and acquisitions (M&A) in terms of the total number of deals; however, the number of deals with disclosed values and the average deal value both decreased. Further, after a year of gradual growth in capital calls and distributions, both declined in the first quarter.

According to the National Venture Capital Association (NVCA) and Thomson Reuters, in the first quarter, there were nine IPOs worth a total of \$936 million; both figures represent large increases over the fourth quarter. IPOs increased from four to nine and the amount of capital raised jumped nearly 270%, from \$349 million. M&A also increased during the first quarter; there were 119 transactions completed, up from 73 the quarter before. Despite the rise in activity, the number of deals with values disclosed to the public dropped from 40 in the final quarter of 2009 to 31 in this year's first quarter. In addition, based on the publicly available values, the average size of transactions fell from \$223 million to \$180 million over the same time period.

VC Index Down From Previous Two Quarters but Still Positive; Funds Raised in 2005 Performed Best among the Top Four Vintage Years by Size

The Cambridge Associates LLC U.S. Venture Capital Index® eked out a positive return of 0.7% during the first quarter of 2010, taking a small step backward from the strong finish in 2009. Each of the top four vintage years by size, 2000, 2005, 2006, and 2004 represented at least 10% of the index and together they accounted for 58% of the benchmark; all but one had positive returns in the first quarter. The funds raised in 2005 performed best in this group, 2.1%, and the 2000 funds the worst, returning a barely negative -0.1%. The vintage year 2000 funds, the largest group in the index, faltered a bit during the quarter because across the board, company valuations were essentially flat. Higher valuations for IT companies were the main driver of performance for the other large vintages in the index.

Sector wise, the venture capital index has remained fairly concentrated – only five sectors represented more than 5% of the index's value at March 31, 2010 – with healthcare, IT, and software together comprising 73% in the first quarter. Returns for the three sectors ranged from healthcare's 0.3% to IT's 4.0% in the quarter. Further, for the second quarter in a row, IT led all industries, not just the largest three. On a dollar weighted basis, healthcare, IT, and software companies earned a combined gross return of 2.1%, slightly

outperforming the benchmark's company-level return of 1.9%. Electronics and communications were the other sectors that made up more than 5% of the index's value. Also for the second consecutive quarter, energy (the only sector to produce a negative return) performed the worst.

VC Calls and Distributions Both Down Significantly from Prior Quarter Levels

In the first quarter, managers in the U.S. venture capital index called more than \$3.0 billion and distributed roughly \$2.5 billion to their investors. Contributions and distributions were down \$375 million or 11.9% and \$737 million or 23.1%, respectively, from the previous quarter, ending three periods of quarter-over-quarter growth. Investors in funds raised between 2005 and 2008 called nearly \$2.4 billion or 76.5% of the total capital called. The 2007 and 2008 vintage years' funds called roughly \$1.4 billion, or 45% of the total. Investors in vintage years 1999 through 2001, 2003 and 2004 received approximately \$1.8 billion in distributions or 73.6% of the total distributed – the 2000 vintage year funds alone distributed nearly 30% of the total capital returned during the quarter.

IT Sector Led Again in M&A Activity

Of the nine IPOs in the first quarter, seven were IT or biotech companies, with the quarter's largest IPO belonging to a member of the latter group. IT again dominated M&A in the quarter, which likely contributed to the sector's strong performance. While the venture index's negative ten-year return does not reflect well on the VC industry, as time moves on, the worst quarters in the index's history will no longer impact the ten-year return. In order for venture capital performance to return to its longer-term averages, the industry needs plentiful, profitable exit opportunities and a sustained economic recovery.

Cambridge Associates derives its U.S. venture capital benchmark from the financial information contained in its proprietary database of venture capital funds. As of March 31, 2010, the database comprised 1,294 venture funds formed from 1981 through 2009 with a value of nearly \$98 billion. Ten years ago, as of March 31, 2000, the index included 731 funds whose collective value was slightly more than \$129 billion.

About Cambridge Associates and the Indices

Founded in 1973, **Cambridge Associates** delivers investment consulting, independent research, and performance monitoring services to approximately 800 institutional investors and private clients worldwide. Cambridge Associates has advised its clients on alternative assets since the 1970s and today serves its clients with more than 180 professionals dedicated to consulting, research, operational due diligence, and performance reporting on these asset classes. The firm compiles the performance results for more than 3,900 private partnerships and their more than 56,000 portfolio company investments to publish its proprietary non-marketable alternative assets benchmarks, of

which the Cambridge Associates U.S. Venture Capital Index® and Cambridge Associates U.S. Private Equity Index® are widely considered to be the industry-standard benchmark statistics for these asset classes. The venture capital data is used by National Venture Capital Association (NVCA) for its quarterly benchmarks. Cambridge Associates has over 950 employees serving its client base globally and maintains offices in Arlington, VA; Boston, MA; Dallas, TX; Menlo Park, CA; London, England; Singapore, and Sydney, Australia. For more information about Cambridge Associates, please visit www.cambridgeassociates.com.

Cambridge Associates LLC's proprietary databases provide independent statistics to the institutional investment industry and the National Venture Capital Association (NVCA). The Cambridge Associates LLC U.S. Venture Capital Index® is based on performance data compiled for funds that represent the majority of the institutional capital raised by venture capital partnerships from 1981 through 2009. Similarly, the Cambridge Associates LLC U.S. Private Equity Index® is based on returns data compiled for leveraged buyouts, subordinated debt, and special situations funds that represent the majority of institutional capital raised by private equity partnerships formed from 1986 through 2009. 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.

Inquiries about these indices should be addressed to: Itay Engelman at Sommerfield Communications, 156 Fifth Avenue Suite 1219, New York, NY 10010; 212.255.8386; (fax) 212.255.8459; email itay@sommerfield.com.