



CAMBRIDGE ASSOCIATES LLC

Cambridge Associates LLC Private Equity and Venture Capital Market Commentary for Quarter Ending June 30, 2010

Overview

With positive returns for the second quarter of 2010, U.S. private equity and venture capital funds extended their streak of quarterly increases to five, as indicated by the Cambridge Associates LLC benchmark indices of the two alternative asset classes. During the 15-month rally, private equity outpaced venture capital, and the public markets outperformed both private asset classes because of double-digit positive returns in the second and third quarters of 2009. Despite their recent underperformance, over the longer term, the private equity and venture capital indices' results have exceeded those of the public markets.

Second quarter performance for the Cambridge Associates LLC U.S. Private Equity Index® and Cambridge Associates LLC U.S. Venture Capital Index® was lower than in the previous quarter, the third consecutive quarter-to-quarter decline for both indices. This was the third quarter since the adoption of the market-based valuation methodology at the end of 2008 that the public markets declined and each time, the private asset classes prevailed. Despite the public market's fairly steep decline, the investment and exit environment for private equity and venture capital investors continued to improve in the second quarter with increases in available leverage and initial public offerings (IPOs).

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 2010. 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 June 30, 2010

For the periods ending June 30, 2010	Qtr.	Six Months	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
USPE	1.6	5.8	18.7	-0.2	9.2	7.3	11.9	12.3
Other indices								
DJIA	-9.4	-5.0	18.9	-7.4	1.7	1.7	7.5	8.9
Russell 2000 Composite	-9.9	-2.0	21.5	-8.6	0.4	3.0	6.6	8.2
S&P 500	-11.4	-6.7	14.4	-9.8	-0.8	-1.6	6.2	7.7

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 based on returns data compiled for funds that represent the majority of the institutional capital raised by venture capital partnerships between 1981 and 2010. Based on that data, venture capital's performance against indices tracking large- and small-capitalization public equities – the NASDAQ Composite, the Russell 2000 Composite, and the S&P 500 – is shown below:

U.S. Venture Capital Index Returns (%) for the Periods ending June 30, 2010

For the periods ending June 30, 2010	Qtr.	6 Months	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
USVC	0.4	1.0	6.4	-2.7	4.3	-4.2	38.1	24.3
Other indices								
NASDAQ Composite	-12.0	-7.0	14.9	-6.8	0.5	-6.1	5.6	7.9
Russell 2000 Composite	-9.9	-2.0	21.5	-8.6	0.4	3.0	6.6	8.2
S&P 500	-11.4	-6.7	14.4	-9.8	-0.8	-1.6	6.2	7.7

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 second quarter are:

- Other than during the year ended June 30, 2010, when it underperformed the Russell 2000 index of small public companies, the private equity benchmark outperformed U.S. public markets in all of the time periods listed in the table above. The venture capital index's record against the public markets has been mixed, trailing all public indices during the past year and the S&P 500 and Russell 2000 in the ten years ending June 30, 2010.
- In both the private equity and venture capital indices, the funds raised in 2004 had the best returns among the top-sized vintages for the quarter.
- The spread between the private equity and venture capital ten-year returns increased to 11.5% during the second quarter, up from 10.9% as of the quarter before.
- Private equity and venture funds called and distributed more capital in the second quarter than they did in the first. The quarter-over-quarter increases in LP contributions and distributions were greater in private equity than in venture capital.
- Fund managers in the private equity index distributed more capital to investors in the first half of 2010 than they did in all of 2009.
- All but one of the sectors that represented at least 5% of the private equity index produced positive results for the quarter; and all outperformed their public market counterparts.
- Nearly half of the money invested by private equity funds in the index during the second quarter went into consumer and energy businesses – about 10% more than the long term averages for those sectors.
- The ten-year return for the venture capital index continued to decline in the quarter ending June 30, 2010, falling 0.5% from where it was as of March 31, 2010. The index's ten-year performance is expected to hit its trough during 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, which included healthcare, IT, and software.
- Based on market values at June 30, 2010, public companies accounted for 11% of the private equity index and about 9% of the market value of the U.S. Venture Capital index, both figures dropped from the prior quarter. The percentage of both indices represented by companies based outside of the U.S. remained steady.

Private Equity Performance Insights

Public markets were down for the first time in a year during the second quarter, with most indices falling more than 10%. In contrast, the Cambridge Associates LLC U.S. Private Equity Index® rose for the fifth quarter in a row, climbing 1.6% in the second quarter to bring its return for the first half of 2010 to 5.8%. Valuations improved for assets held by funds in all but one of the vintage years from 2000 to 2007, but write-ups were more modest than in the prior three quarters. Only three vintages, 2004, 2006, and 2007, saw increases of more than \$1.0 billion. In dollar terms, private values grew most for manufacturing, consumer, and software companies; manufacturing and software increased by the largest and virtually the same amount in percentage terms.

The private equity index's top vintage years by size, 2006, 2005, 2007, 2004, 2000, and 2003 represented almost 85% of the index's value in the second quarter. The group's second quarter returns were lower than the prior quarter's, ranging from 0.6% for the 2000 funds to 3.7% for the 2004 funds. Funds from the largest vintage year, 2006, enjoyed better than average performance from retail investments and suffered worse than average losses in their energy holdings. The 2005 funds' performance was due mostly to increased values for healthcare and consumer companies and middling performance in other sectors. The quarter's best return, earned by the 2004 vintage, was due to healthy increases in valuations for manufacturing, healthcare, IT, software, and media investments. In contrast with the index as a whole, the best performing sector in the 2007 vintage was energy. The 2000 vintage was hardest hit by losses in consumer, healthcare, and energy.

Vintage Year ¹	2 nd Qtr Return	Weight In Index
2000	0.6%	9.0%
2003	2.1%	5.3%
2004	3.7%	13.4%
2005	1.3%	17.7%
2006	1.8%	24.3%
2007	2.2%	14.1%

Seven of the Eight Key Sectors in the PE Index Earned Positive Returns for the Quarter, with Software Outperforming All Other Industry Sectors in PE

All but one of the eight sectors that represented at least 5% ("meaningfully sized") of the index produced a positive return during the second quarter; the exception was energy, which was hindered by investments made by funds started in 2002, 2005, and 2006. The three largest sectors by asset value – consumer, healthcare, and energy – comprised slightly more than half of the index's total value, and they returned between -0.6% and 1.9%; healthcare performed the best. On a dollar-weighted basis the three earned 1.2%. Among the eight meaningfully-sized sectors, software posted the highest return. During the quarter, fund managers invested most in retail companies.

Sector ²	2 nd Qtr. Return	Weight In Index
Consumer	1.8%	23.3%
Energy	-0.6%	14.1%
Financial Services	0.1%	9.0%
Healthcare	2.0%	14.2%
IT	3.2%	7.3%
Manufacturing	4.9%	9.0%
Media	4.1%	6.7%
Software	5.6%	5.9%

Capital Calls and Distributions Increased From the Prior Quarter

In the second quarter, managers in the U.S. private equity index called just over \$19 billion from limited partners and returned more than \$13.1 billion – representing a 71% increase in contributions and a 43% increase in distributions from last quarter. Capital calls rose by more than \$7.9 billion, reaching

¹ Vintage year fund-level returns are net of fees, expenses, and carried interest.

² Industry- and geographic region-specific gross company-level returns are before fees, expenses, and carried interest.

their highest level since the third quarter of 2008. Distributions hit their highest level since the fourth quarter of 2007 with an increase of roughly \$3.0 billion over last quarter.

Investors in funds launched in 2006 and 2007 contributed \$13.5 billion, or 71% of the total capital called during the quarter. Conversely, investors in funds launched in 2000, and 2004 through 2006 received approximately \$8.1 billion or 62% of the capital distributed.

Contributions Increased Two Times as much as Distributions in the Quarter

Contributions have outpaced distributions in every quarter since the second quarter of 2007, and over those three years, private equity funds have called 2.1 times as much capital as they distributed. While the gap between contributions and distributions narrowed in the first quarter, it widened during the second quarter. Leverage grew more available as the year went on and the private equity investment pace picked up as well. And while capital calls and distributions increased in the second quarter, the rise in contributions was twice as large as the one for distributions.

Cambridge Associates derives its U.S. private equity benchmark from the financial information contained in its proprietary database of private equity funds. As of June 30, 2010, the database comprised 847 U.S. buyouts, private equity energy, growth equity, and mezzanine funds formed from 1986 to 2010, with a value of roughly \$406 billion. Ten years ago, as of June 30, 2000, the index included 379 funds whose value was nearly \$135 billion.

Venture Capital Performance Insights

While performance remained only slightly positive, there continued to be signs of improvement in the venture investment environment in the second quarter of 2010. 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) increased, and merger and acquisition (M&A) activity maintained its healthy pace. For the second straight quarter, the number of deals with disclosed values and the average deal value both decreased. The quarter brought a return of the gradual growth in capital calls and distributions.

According to the National Venture Capital Association (NVCA) and Thomson Reuters, during the second quarter, 17 venture-backed companies went public and the IPOs were worth about \$1.3 billion; both figures represented hefty increases over the first quarter, when nine IPOs raised was \$936 million. M&A fell slightly, from 121 in the first quarter to 97 in the second. The values of only 22 of the deals done in the second quarter were disclosed to the public, down from 31 in the previous quarter. Based on the publicly available values, the average size of transactions fell from \$180 million to \$133 million.

VC Index Performance Lower Than in Previous Two Quarters but Still Positive; Funds Raised in 2004 Performed Best among the Top Four Vintage Years by Size

The Cambridge Associates LLC U.S. Venture Capital Index® returned 0.4% during the second quarter, bringing its first half performance to 1.0%. Nine vintage years represented at least 5.0% of the index, with the top four vintage years by size, 2000, 2006, 2005, and 2004, still accounting for more than 57% of the benchmark; five of the nine had positive returns in the second quarter. The funds raised in 2004 performed best in this group, 4.9%, due to increased valuations for IT companies. The 2003 funds earned the worst return in the quarter, -2.9%, as a result of writedowns in healthcare. The vintage year

2000 funds, the largest group in the index, produced a negative return in the quarter because of lower valuations for healthcare and communications investments.

Performance for Five Key Sectors Was Mixed; IT Led All

During the second quarter of 2010, three of the five meaningfully-sized sectors produced negative returns – IT and software were the two positive performers. The venture capital index continued to be fairly concentrated by sector, with the top three – healthcare, IT, and software – comprising nearly 75%. Second quarter returns for the three sectors ranged from healthcare’s -2.0% to IT’s 6.9%, the third quarter in a row that 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 2.6%, outperforming the benchmark’s company-level return of 1.8%.

Vintage Year³	2nd Qtr Return	Weight In Index
1999	3.9%	8.1%
2000	-2.0%	20.4%
2001	-1.9%	8.1%
2003	-2.9%	5.7%
2004	4.9%	11.6%
2005	1.3%	12.5%
2006	0.0%	12.9%
2007	3.4%	8.2%
2008	1.6%	5.4%

VC Calls and Distributions Both Up from Prior Quarter Levels

In the second quarter, managers in the U.S. venture capital index called just shy of \$3.5 billion and distributed more than \$2.6 billion to their investors. Contributions were up \$501 million or 17.0% and distributions rose \$178 million or 7.3% from the previous quarter. Investors in funds raised between 2005 and 2008 called more than \$2.7 billion or 78.2% of the total capital called. The 2007 and 2008 vintage years funds called more than \$1.5 billion which represented 44.2% of the total. On the flip side, investors in vintage years 1999 through 2001, and 2004 received approximately \$2.0 billion in distributions or 75.2% of the total distributed– the 1999 and 2000 vintage year funds alone distributed nearly \$1.3 billion or 49% of the total capital returned during the quarter.

Sector⁴	2nd Qtr. Return	Weight In Index
Electronics	-3.8%	6.0%
Healthcare	-2.0%	29.5%
IT	6.9%	29.4%
Media/Comm.	-5.2%	4.5%
Software	3.8%	15.6%

IT Sector Led Again in M&A Activity

Of the 17 IPOs in the second quarter, ten were IT or biotech companies. The quarter’s largest IPO was Tesla Motors, a manufacturer of electric cars. By number, IT companies accounted for about 85% of the M&A in the quarter, and most of those deals involved Internet or software businesses. Continued improvement in the exit environment will help the index’s ten-year performance to move back into positive territory.

Cambridge Associates derives its U.S. venture capital benchmark from the financial information contained in its proprietary database of venture capital funds. As of June 30, 2010, the database comprised 1,282 venture funds formed from 1981 through 2010 with a value of approximately \$96 billion. Ten years ago, as of June 30, 2000, the index included 764 funds whose collective value was almost \$126 billion.

³ Vintage year fund-level returns are net of fees, expenses, and carried interest.

⁴ Industry- and geographic region-specific gross company-level returns are before fees, expenses, and carried interest.

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 2010. 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 2010. 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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