



CAMBRIDGE ASSOCIATES LLC

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

Overview

Between April 2009 and September 2010, U.S. private equity and venture capital funds strung together six consecutive positive quarters, as indicated by the Cambridge Associates LLC benchmark indices of the two alternative asset classes. Private equity outperformed venture capital during that span, and the public markets edged out both private asset classes. The opposite is true over the long term.

Third quarter returns for the Cambridge Associates LLC U.S. Private Equity Index® and Cambridge Associates LLC U.S. Venture Capital Index® were better than in the prior quarter, halting a streak of four consecutive quarters for private equity and two for venture capital when performance deteriorated. The quarter's strong public market rebound helped fuel valuation increases and the gradually improving economy boosted company performance. Private equity and venture capital investors have enjoyed a resurgence in mergers and acquisitions (M&A), initial public offerings (IPOs), and available leverage.

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 September 30, 2010

For the periods ending September 30, 2010	Qtr.	9 Months	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
USPE	5.1	11.4	17.7	1.3	9.1	8.1	12.1	12.6
Other indices								
DJIA	11.1	5.6	14.1	-5.4	3.1	2.5	7.9	10.3
Russell 2000 Composite	11.3	9.1	13.3	-4.3	1.6	4.0	6.7	10.3
S&P 500	11.3	3.9	10.2	-7.2	0.6	-0.4	6.5	9.1

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 September 30, 2010

For the periods ending September 30, 2010	Qtr.	9 Months	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
USVC	3.7	4.8	8.2	-2.1	4.2	-4.6	36.9	25.6
Other indices								
NASDAQ Composite	12.3	4.4	11.6	-4.3	1.9	-4.3	5.6	10.1
Russell 2000 Composite	11.3	9.1	13.3	-4.3	1.6	4.0	6.7	10.3
S&P 500	11.3	3.9	10.2	-7.2	0.6	-0.4	6.5	9.1

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 third quarter are:

- With the exception of the latest quarter, the private equity benchmark outperformed U.S. public markets in all of the time periods ending September 30, 2010 listed in the table above. The venture capital index's record against the public markets over the past ten years remained mixed; venture's long-term results eclipse those of the public markets.
- The 2003 private equity and 1999 venture capital funds were the best performing among the top-sized vintages for the quarter in their respective indices.
- The spread between the private equity and venture capital ten-year returns continued to widen in the third quarter, moving to 12.7% from 11.5% as of the second quarter.
- Private equity funds called and distributed more capital in the third quarter than they did in the second; private equity distributions increased by nearly \$3.5 billion while LP contributions rose by less than \$1.0 billion. Among venture funds, capitals calls and distributions dropped slightly.
- Fund managers in the private equity index distributed nearly three times as much capital in the first three quarters of 2010 as they did in all of 2009.
- All sectors that represented at least 5% of the private equity index produced positive results for the quarter; information technology (IT) led all sectors, large and small.
- Private equity fund investments were spread among a wide range of sectors during the third quarter. Healthcare companies attracted the most capital, about 22% or roughly twice the long-term average for the sector.
- The ten-year return for the venture capital index fell again in the quarter ending September 30, 2010, falling 0.4% from where it was as of June 30, 2010 and about 13.0% from where it was as of the third quarter in 2009.
- Software earned the best return of the top three sectors by size in the venture index, edging out IT by about 0.4%. Hardware was the best performing among all sectors.
- At the end of a strong quarter for the public markets, based on market values at September 30, 2010, public companies accounted for more of the private equity and venture capital indices than they did in the second quarter. At 11.6% and 10.4% of the respective indices, the percentage increase was almost 0.5% in the private equity index and nearly 1.5% in the venture capital index. There were small increases in the percentage of both indices represented by companies based outside of the U.S.

Private Equity Performance Insights

Public markets rebounded during the third quarter, with equity indices globally rising by more than 10%. Despite falling short of the public markets, the Cambridge Associates LLC U.S. Private Equity Index® extended its positive quarter streak to six with a 5.1% third quarter return; its performance for the first nine months of 2010 was 11.4%. Valuations improved for assets held by funds in all vintage years from 2000 to 2009, and the six vintages that represented at least 5% of the index all saw assets increase in value by more than \$1.0 billion. In dollar terms, company valuations grew most for energy and consumer businesses; among the top-sized sectors in the index, manufacturing and media increased by the largest and a virtually equal amount in percentage terms.

The private equity index's top vintage years by size, 2006, 2005, 2007, 2004, 2000, and 2003 represented nearly 84% of the index's value in the third quarter. Results for the group were much better in the third quarter than in the second, ranging from 4.4% for the 2007 funds to 6.9% for the 2003 funds. In funds from the largest vintage year, 2006, company valuations across all sectors increased with energy, retail, and IT leading the way. Similarly, the 2005 funds' portfolio companies rose in value virtually across the board; energy, consumer, healthcare, and manufacturing accounted for roughly 75% of the increases. The energy and consumer sectors also buoyed results for the third largest vintage, 2007, while lower valuations in hardware dampened returns. The 2004 funds, unlike the other large vintages, experienced their largest write-ups in the manufacturing sector, with other large sectors also contributing significantly to gains. The quarter's best return, earned by the 2003 vintage, was due mostly to increased valuations and realizations of energy investments. Energy represents a larger than average portion of the investments in the vintage year 2003 funds because the sample includes a number of energy-focused funds.

Vintage Year	3 rd Qtr. Return	Weight In Index
2000	4.5%	8.2%
2003	6.9%	5.2%
2004	5.9%	12.7%
2005	4.8%	17.5%
2006	5.1%	24.8%
2007	4.4%	15.6%

All Eight Key Sectors in the PE Index Earned Positive Returns for the Quarter, with IT Eking Out Energy for the Best Performance Among Sectors

During the third quarter, all eight sectors that represented at least 5% (“meaningfully sized”) of the index produced a positive return. The three largest sectors by asset value – consumer, healthcare, and energy – comprised slightly more than half of the index's total value and returned between 4.6% and 8.7%. Energy performed the best followed by consumer and healthcare which produced nearly the same returns. On a dollar-weighted basis the three earned 5.7%, slightly underperforming the total benchmark on a gross basis. Among the eight meaningfully-sized sectors, information technology posted the highest return, 9.0%, which was driven by funds raised in 2004 and 2006; while software produced the lowest return, 4.4%. During the quarter, fund managers invested more than 20% in healthcare companies – the most out of the eight meaningfully sized sectors.

Sector	3 rd Qtr. Return	Weight In Index
Consumer	4.6%	22.7%
Energy	8.7%	14.5%
Financial Services	4.9%	9.4%
Healthcare	4.6%	13.6%
IT	9.0%	7.3%
Manufacturing	8.7%	9.1%
Media	5.9%	7.0%
Software	4.4%	5.8%

Capital Calls and Distributions Increased From the Prior Quarter

In the third quarter, managers in the U.S. private equity index called just over \$20.0 billion from limited partners and returned nearly \$16.7 billion – representing a 5.2% increase in contributions and a 28% increase in distributions from last quarter. Capital calls rose by almost \$1.0 billion, reaching their highest level since the same quarter of 2008. Distributions hit their highest level since the third quarter of 2007 with an increase of roughly \$3.7 billion over last quarter.

Investors in funds launched in 2006 and 2007 contributed \$17.0 billion, or 85% of the total capital called during the quarter, while investors in funds launched in 2000, 2004 and 2006 received approximately \$9.1 billion or 54% of the capital distributed.

Contributions Increased Two Times as much as Distributions in the Quarter

Contributions have outnumbered distributions in every quarter since the second quarter of 2007, during which time private equity funds have called 1.9 times as much capital as they distributed. The gap between contributions and distributions narrowed in the third quarter after widening the quarter before. Investment activity remained fairly constant in the third quarter as credit availability continued to move towards pre-recession levels. Exits picked up at a faster pace than investments, and there was some speculation that exit activity in the second half of 2010 was related to potential changes to the U.S. tax code.

Cambridge Associates derives its U.S. private equity benchmark from the financial information contained in its proprietary database of private equity funds. As of September 30, 2010, the database comprised 861 U.S. buyouts, private equity energy, growth equity, and mezzanine funds formed from 1986 to 2010, with a value of roughly \$433 billion. Ten years earlier, on September 30, 2000, the index included 394 funds whose value was nearly \$133 billion.

Venture Capital Performance Insights

Venture capital performance and most industry fundamentals improved in the third quarter of 2010. For the fifth quarter in a row, valuations for venture-backed companies rose. While there were fewer exits through IPOs, on average, offering prices were higher than those in the quarter before. M&A, the number of deals with disclosed values, and deal values all increased. The only slow down was in capital calls and distributions, which were down from the prior quarter, with a much steeper drop in calls than in distributions.

According to the National Venture Capital Association (NVCA) and Thomson Reuters, during the third quarter, 14 venture-backed companies went public and the IPOs were worth close to \$1.25 billion; both figures represented slight decreases from the second quarter, when 17 IPOs raised just under \$1.3 billion. M&A increased, from 99 in the second quarter to 111 in the third. The values of 30 deals in the third quarter were disclosed to the public, up from 23 in the previous quarter. Based on the publicly available values, the average size of transactions rose from \$131 million to \$134 million.

VC Index Performance Much Better Than in Previous Three Quarters; Funds Raised in 1999 Performed Best

The Cambridge Associates LLC U.S. Venture Capital Index® rose far more in the third quarter, 3.7%, than in any of the previous three, bringing its performance from January through September up to 4.8%. The VC index has grown less concentrated, and in the third quarter nine vintage years represented at least 5.0% of the index; all nine had positive quarters. The largest vintage, 2000, represented slightly less than 20%, down from nearly 24% a year earlier. The top four vintage years by size have remained constant, 2000, 2006, 2005, and 2004, and they accounted for 56.5% of the benchmark. With a 7.5% quarterly return, the funds raised in 1999 earned the best return among the nine vintages that made up the bulk of the index's value. Increased valuations for IT and higher values plus realizations from healthcare drove the 1999 group's results. Assets in the 2000 vintage year funds increased in value by over \$1 billion in the quarter; write-ups were dominated by software, hardware, IT, and healthcare. The 2001 and 2006 vintages tied for the worst return for the quarter. Both saw values go up modestly; software helped the 2001 group most, while healthcare boosted the 2006 funds' performance.

Vintage Year	3rd Qtr. Return	Weight In Index
1999	7.5%	8.1%
2000	4.8%	19.6%
2001	1.4%	7.8%
2003	5.1%	5.8%
2004	4.7%	11.7%
2005	2.3%	12.4%
2006	1.4%	12.8%
2007	2.4%	8.4%
2008	2.2%	5.9%

Software Takes Lead from IT for the first time in Four Quarters

During the third quarter of 2010, all meaningfully-sized sectors produced positive returns. The venture capital index continued to be fairly concentrated by sector, with the top three – healthcare, IT, and software – comprising nearly 75%. Third quarter returns for the three sectors ranged from healthcare's 3.5% to software's 7.7%, marking the first quarter in four when IT did not dominate returns among all sectors. On a dollar-weighted basis, healthcare, IT, and software companies earned a combined gross return of 5.9%, slightly outperforming the benchmark's company-level return of 5.5%. Funds raised in 2000 helped software return the most out of the meaningfully sized industries; while media's low return was not overly influenced by any specific vintage year.

Sector	3rd Qtr. Return	Weight In Index
Electronics	1.2%	5.9%
Energy	7.2%	4.1%
Healthcare	3.5%	29.1%
IT	7.3%	29.7%
Media/Comm.	0.1%	4.4%
Software	7.7%	15.7%

VC Calls and Distributions Fell from Prior Quarter Levels

In the third quarter, managers in the U.S. venture capital index called just over \$2.7 billion and distributed roughly \$2.3 billion to their investors. Contributions decreased by \$836 million or 23.6% and distributions fell by \$257 million or 9.9% from the previous quarter. Investors in funds raised between 2006 and 2008 called nearly \$1.6 billion or 57.7% of the total capital called. The 2007 and 2008 vintage years funds called roughly \$1.2 billion which represented 42.5% of the total. On the other hand, investors in vintage years 2000 and 2005 received approximately \$1.1 billion in distributions or 47.5% of the total distributed.

IT Sector Led Again in M&A Activity

Of the 14 IPOs in the third quarter, ten were IT or biotech companies. By number, IT companies accounted for about 79% of the M&A in the quarter, with most involving either Internet or software companies. After three strong quarters, M&A was well on its way to a record setting year.

Cambridge Associates derives its U.S. venture capital benchmark from the financial information contained in its proprietary database of venture capital funds. As of September 30, 2010, the database comprised 1,290 venture funds formed from 1981 through 2010 with a value of approximately \$101 billion. Ten years earlier, on September 30, 2000, the index included 793 funds whose collective value was almost \$125 billion.

About Cambridge Associates and the Indices

Founded in 1973, Cambridge Associates delivers investment consulting, independent research, performance monitoring services, and outsourced portfolio solutions to over 900 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 4,200 private partnerships and their more than 59,000 portfolio company investments to publish its proprietary private investments 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 firm also compiles benchmark statistics for global private equity and venture capital, real estate, natural resources, distressed securities, and funds of funds and secondaries. Cambridge Associates has over 1,000 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. The firm has plans to open an office in Beijing in the summer of 2011. For more information about Cambridge Associates, please visit www.cambridgeassociates.com.

Cambridge Associates LLC compiles its proprietary benchmarks with the goal of providing independent statistics to the institutional investment industry. The venture capital data is used by the National Venture Capital Association (NVCA) for its quarterly benchmarks. 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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