



CAMBRIDGE ASSOCIATES LLC

Overview

During the first quarter of 2011, U.S. private equity and venture capital funds extended their string of positive quarters to eight, as indicated by the Cambridge Associates LLC benchmark indices of the two alternative asset classes. Private equity edged out venture capital in the quarter, but both indices underperformed the public markets; longer-term performance continues to favor the private asset classes.

First quarter returns for the Cambridge Associates LLC U.S. Private Equity Index® and Cambridge Associates LLC U.S. Venture Capital Index® were lower than those achieved in the previous quarter but represented an improvement over performance during the first quarter of 2010. Company performance was boosted by solid public market returns and rising commodity prices in the private equity index. An ever-improving exit environment and enthusiasm over technology helped buoy the venture capital index.

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 Periods ending March 31, 2011

For the periods ending March 31, 2011	Qtr.	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
USPE	5.4	21.5	5.2	9.8	10.8	12.4	13.3
Other Indices							
DJIA	7.1	16.5	3.1	4.9	4.7	7.8	10.0
Russell 2000 Composite	7.9	25.8	8.6	3.3	7.9	7.8	9.8
S&P 500	5.9	15.6	2.4	2.6	3.3	6.8	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 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 Periods ending March 31, 2011

For the periods ending March 31, 2011	Qtr.	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
USVC	5.0	18.5	2.0	5.9	-0.1	34.3	26.5
Other Indices							
NASDAQ Composite	4.8	16.0	6.9	3.5	4.2	6.4	9.2
Russell 2000 Composite	7.9	25.8	8.6	3.3	7.9	7.8	9.8
S&P 500	5.9	15.6	2.4	2.6	3.3	6.8	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.

First quarter 2011 highlights:

- With the exception of the most recent quarter, the private equity benchmark outperformed large public companies in all of the time periods ending March 31, 2011, listed in the table above. Small public companies, captured by the Russell 2000 Composite, earned higher returns in the recent quarter and in one- and three-year periods. Following a couple of strong quarters, the venture capital index's record against the public markets has improved over the short term, particularly over the one- and five-year periods; the venture index has handily beaten the public market benchmarks over the long term.
- While it is still not positive, the 10-year return for the venture capital index has improved significantly from its nadir, hit during the quarter ending September 30, 2010. Since that low, the 10-year return has risen 4.5%.
- The spread between the private equity and venture capital 10-year returns shrank again in the first quarter, moving to 10.9% from 11.7% as of the fourth quarter and 12.7% as of the third.
- As of March 31, 2011, public companies accounted for about 12.8% of the private equity index, a small bump higher (up 0.2%) from the fourth quarter. Public company representation in the venture capital index remained the same as it was in the fourth quarter, 9.4%. Non-U.S. company exposure in the private equity index fell about 0.6%, and in the venture index it rose by 0.6% during the quarter.

Private Equity Performance Insights:

- The 2004 private equity funds were the best performing among the top-sized vintages for the quarter. Because it represents roughly a quarter of the index's value, the 2006 vintage year in private equity had the largest impact on the index. There were only six vintage years that represented at least 5% of the index. (see table to the right for details)
- Returns for the large vintage years were driven by higher values for energy, healthcare, financial services, and manufacturing companies and realizations from energy, healthcare, and consumer businesses.
- Private equity funds called \$15.3 billion and distributed \$24.3 billion in the first quarter; both figures represented declines from the prior quarter. LP contributions

U.S. Private Equity		
Vintage Year¹	1st Qtr Return	Avg. Weight In Index
2000	4.3%	6.8%
2004	5.8%	11.4%
2005	5.0%	17.0%
2006	5.3%	24.7%
2007	5.2%	19.8%
2008	2.2%	5.6%

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

decreased by roughly \$10.7 billion and fund distributions fell nearly \$4.2 billion. Nevertheless, distributions for the period were the second highest quarterly distributions since the middle of 2007 and the third highest in the history of the benchmark.

- More than 45% of the LP contributions in the quarter were collected from investors in the 2007 funds; when combined with those made by investors in the 2006 funds, the percentage rises to nearly 71%. Similarly, the 2006 vintage year funds distributed by far the most to investors, nearly 25% of the total for the quarter.
- For the third consecutive quarter, all sectors that represented at least 5% of the private equity index produced positive results. Seven of the eight sectors returned between 4.8% and 7.8%. The one outlier, consumer, is the largest sector in the index. Among the eight large sectors, media performed the best, consumer the worst. The media return was driven mostly by funds raised from 2004 to 2006, which accounted for roughly 69% of that sector's market value.
- Sector wise, the private equity index is not as concentrated as the venture benchmark. However, the three largest sectors – consumer, healthcare, and energy – made up nearly half of the index's total value. Among the three, healthcare performed the best.
- Four sectors – energy, consumer, financial services, and IT – accounted for nearly 70% of private equity fund investments during the first quarter. Once again, energy companies garnered the most capital, about 25% or roughly 10% more than the long-term average for the sector.

U.S. Private Equity		
Sector ²	1 st Qtr. Return	Avg. Weight In Index
Consumer	1.9%	20.6%
Energy	6.2%	15.5%
Financial Services	6.1%	10.2%
Healthcare	6.8%	13.4%
IT	4.8%	7.5%
Manufacturing	7.0%	9.0%
Media	7.8%	6.4%
Software	6.3%	5.3%

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, 2011, the database comprised 887 U.S. buyouts, private equity energy, growth equity, and mezzanine funds formed from 1986 to 2010, with a value of roughly \$489 billion. Ten years ago, as of March 31, 2001, the index included 427 funds whose value was slightly more than \$119 billion.

Venture Capital Performance Insights:

- The 2007 venture capital funds were the best performing among the top-sized vintages for the first quarter. The combination of it being the only vintage year to earn a double-digit return and its size in the index enabled the 2007 vintage to have the largest impact on the index's total return. Further, because the 1999 and 2000 vintage year funds are in the process of exiting their investments, the venture index has become more diversified by vintage year. As a result, there are now nine vintages that represent at least 5% of the index's value. (see table to the right for specifics)
- Returns for the large vintage years were driven mostly by higher values for IT companies and realizations from healthcare and IT businesses. The 2004 and 2007 vintages benefitted the most from increased valuations for IT.

U.S. Venture Capital		
Vintage Year	1 st Qtr. Return	Avg. Weight In Index
1999	2.5%	6.5%
2000	3.5%	16.9%
2001	6.2%	7.3%
2003	1.7%	5.6%
2004	7.6%	12.6%
2005	2.7%	12.6%
2006	4.9%	13.9%
2007	11.3%	9.9%
2008	6.3%	7.5%

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

- Venture capital funds, like their private equity counterparts, called and distributed less capital in the first quarter than they did in the fourth, nearly \$3.7 billion and \$3.8 billion, respectively. Distributions outpaced contributions for the second consecutive quarter and, with the exception of the previous period, were higher than the distributions in any quarter since the final quarter of 2007. Despite their decline from the fourth period, contributions also remained high when compared with other quarterly contributions over the previous two years.
- With its 15.6% quarterly return, IT bested all other sectors for the third consecutive quarter. Results were helped by funds raised in 2006 and 2007, which boosted the sector's return by nearly 3.6%.
- The two other large sectors – healthcare and software – lagged IT considerably. (see table to the right for details)
- IT and healthcare companies attracted a bit more than 60% of the capital invested by venture capital funds in the first quarter. The percentage was equal to the long-term average for IT, and 5% higher than the long-term norm for healthcare.

Venture Capital		
Sector ²	1 st Qtr. Return	Avg. Weight In Index
Electronics	0.2%	5.1%
Healthcare	2.9%	27.1%
IT	15.6%	32.8%
Software	3.0%	15.6%

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, 2011, the database comprised 1,308 U.S. venture capital funds formed from 1982 to 2010, with a value of roughly \$116 billion. Ten years ago, as of March 31, 2001, the index included 860 funds whose value was about \$74 billion.

About Cambridge Associates and the Indices

Founded in 1973, **Cambridge Associates** delivers investment consulting, independent research, performance reporting services, and outsourced portfolio solutions, across all asset classes, to over 900 institutional investors and private clients worldwide. Cambridge Associates has advised clients on alternative assets since the 1970s and today serves its clients with more than 200 professionals dedicated to consulting, research, operational due diligence, and performance reporting on these asset classes. The firm compiles the performance results for more than 4,400 private partnerships and their more than 60,000 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 more than 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 fall of 2011. Cambridge Associates is recognized as a thought leader, innovator and advocate for institutional investors. 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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