



CAMBRIDGE ASSOCIATES LLC

**Cambridge Associates Global Developed (Ex-U.S.) and Emerging Markets  
Private Equity and Venture Capital Market Commentary  
Quarter Ending March 31, 2011**

**Overview**

During the first quarter, in U.S. dollar terms, the Cambridge Associates (C|A) LLC Global Developed (ex-U.S.) Markets Private Equity and Venture Capital Index<sup>1,2</sup> rose 5.9% and the C|A Emerging Markets Index returned 3.3%; returns for both were lower than in the prior quarter. A weakened U.S. dollar helped boost foreign currency returns, and both indices outperformed their respective public market counterparts. For only the fourth time since the first quarter of 2007 did the quarterly developed markets index outpace the emerging markets index.

Performance for the Cambridge Associates LLC Global Developed (ex-U.S.) Markets and Emerging Markets Private Equity and Venture Capital Indices is derived from data compiled from institutional quality funds raised between 1986 and 2010. There are nearly 600 funds in the developed markets index and over 330 in the emerging markets index. Based on that data, the private equity benchmarks' returns versus public equity indices in developed ex-U.S., emerging, and U.S. markets – the MSCI EAFE, MSCI Emerging Markets, and S&P 500 – are shown below:

**Cambridge Associates Global Developed (ex-U.S.) and Emerging Markets Private Equity and  
Venture Capital Indices  
Returns (%) in U.S. Dollars  
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
<b>Developed (Ex-U.S.) Markets PE and VC</b>	5.9	25.2	-1.0	11.0	14.4	15.0	14.7
<b>Emerging Markets PE and VC</b>	3.3	25.9	10.1	15.8	11.7	9.5	9.3
<b>Other Indices</b>							
<b>MSCI EAFE</b>	3.4	10.4	-3.0	1.3	5.4	4.7	5.6
<b>MSCI Emerging Markets</b>	2.1	18.8	4.6	11.0	17.1	8.7	10.9
<b>S&amp;P 500</b>	5.9	15.6	2.4	2.6	3.3	6.8	8.7

Sources: Cambridge Associates LLC, MSCI Inc., Standard & Poor's, and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

<sup>1</sup> The global developed (ex-U.S.) markets index includes private equity and venture capital funds that invest primarily in Australia, Canada, Israel, Japan, New Zealand, and Western Europe. The emerging markets index includes private equity and venture capital funds that invest primarily in Africa, emerging Asia, emerging Europe, Latin America, and the Middle East ex Israel. Because the indices are capital weighted, performance is mainly driven by the largest vintage years.

<sup>2</sup> The CA indices' returns are based on limited partners' fund - level performance, and it is net of fees, expenses, and carried interest.

**First quarter highlights:**

- In all periods ending March 31, 2011 listed in the table above, the developed markets private equity index outperformed the comparable (MSCI EAFE) public equity index. The emerging markets private equity index bested its corresponding public market benchmark, the MSCI Emerging Markets Index, for all periods ending March 31, 2011 except for the 10- and 20-year marks. With the exception of the first quarter of 2011, the emerging markets index beat the developed markets benchmark over the short and medium terms but over the long term, the developed markets index remained dominant.

**Developed Markets Performance Highlights:**

- Funds raised in 2000 earned the best first quarter return among the six vintage years that each represented at least 5% of the index. Because of its size, vintage year 2006 had the largest impact on the benchmark's return. Two vintages, 2005 and 2006, accounted for nearly half of the index during the quarter. (see table to the right).
- Returns for the large vintage years were driven by widespread valuation increases led by the retail sector.
- Developed markets private equity and venture capital funds called and distributed less capital in the first quarter than they did in the prior quarter. Managers called nearly \$8.8 billion from limited partners (LPs) and returned just over \$9.0 billion. Capital calls fell 37% from the fourth quarter while distributions saw a decrease of nearly 8%. Notwithstanding the small quarter over quarter decline, distributions outpaced contributions during the first quarter for the first time since the second quarter of 2007.
- Funds that started from 2006 through 2008 called nearly \$7.4 billion or 84% of the total called for the quarter. Funds from vintage years 2005 through 2007 distributed almost \$4.9 billion or 51% of the total capital distributed to LPs.
- For the third consecutive quarter, all of the eight sectors that represented at least 5% of the developed (ex-U.S.) markets index produced positive results. Energy performed best of the group, due in large part to rising commodity prices. IT had the lowest return among the top-sized group. (see table to the right for further detail)
- The three largest sectors – consumer, healthcare, and manufacturing – represented nearly 49% of the index's value and on a dollar-weighted basis returned 6.6%.
- Consumer, financial services, and healthcare companies attracted the most capital from fund managers in the first quarter, together representing about 58% of total investments, nearly 11% higher than their combined long-term average.
- Also for the third straight quarter, all seven meaningfully-sized regions earned positive returns. Together these regions represented

Developed (Ex-U.S.) Markets Private Equity		
Vintage Year <sup>3</sup>	1 <sup>st</sup> Qtr Return	Avg. Weight In Index
2000	9.9%	5.3%
2001	4.8%	5.4%
2004	7.2%	7.7%
2005	4.3%	21.5%
2006	7.5%	27.6%
2007	4.8%	17.9%

Developed Markets (Ex-U.S.) Private Equity		
Sector <sup>4</sup>	1 <sup>st</sup> Qtr. Return	Avg. Weight In Index
Consumer	6.9%	25.0%
Energy	10.3%	6.3%
Financial Services	4.6%	9.4%
Healthcare	6.1%	13.2%
IT	3.9%	9.3%
Manufacturing	6.8%	10.5%
Materials	8.4%	5.6%
Media	8.5%	6.7%

Developed (Ex-U.S.) Markets Private Equity		
Region <sup>4</sup>	1 <sup>st</sup> Qtr. Return	Weight In Index
Denmark	7.1%	5.6%
France	13.0%	7.0%
Germany	7.8%	9.2%
Netherlands	8.7%	6.5%
Sweden	8.7%	5.7%
U.K.	4.7%	17.8%
U.S.	7.4%	16.4%

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

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

roughly 78% of the index's value. French companies produced the best return in the quarter; those in the U.K. earned the lowest.

- Almost 74% of the capital invested in the first quarter went into companies based in Western Europe, about 6% higher than the long-term average. U.S.-based businesses attracted approximately 16% of the money invested, roughly equal to the long term. Most investments in the U.S. are made by large, globally active fund managers.
- Based on market values at March 31, 2011, public companies accounted for slightly more than 14% of the index, roughly the same amount as at year end 2010.

### Emerging Markets Performance Highlights:

- Funds raised in 2008 earned the best first quarter return among the five vintage years that represented the bulk of the developed markets index. Because of its size, vintage year 2007 had the largest impact on the benchmark's return. (see table to the right)

Emerging Markets Private Equity		
Vintage Year <sup>5</sup>	1 <sup>st</sup> Qtr Return	Avg. Weight In Index
2004	-0.4%	6.6%
2005	4.1%	22.9%
2006	4.7%	15.2%
2007	2.9%	38.1%
2008	6.0%	7.5%

- Positive returns for vintage years 2005 through 2007 were driven in large part by manufacturing and IT companies. Financial services investments were the primary drag on performance for the 2007 funds.

- The emerging markets private equity index has remained concentrated by vintage year, sector, and geographic region. Three vintages, 2005, 2006, and 2007 accounted for more than 76% of the index during the quarter. Four sectors represented nearly 68% of the value, including manufacturing, consumer, financial services, and IT, and virtually half of the index was made up by businesses located in just two countries, Mainland China and India. (sector and region data are listed in tables below)

- Emerging markets private equity and venture capital funds called and distributed less capital in the first quarter 2011 than in the prior quarter. In the first quarter, managers in the index called nearly \$2.2 billion from their LPs, down 42% from the previous quarter, and they distributed just over \$2.5 billion to their LPs, a mere 4.5% decrease from the fourth quarter. Despite the decrease, distributions in the first quarter were the fourth highest of any quarter in the index's 24.5 years of data. In line with the developed markets index, the emerging markets fund managers distributed more capital than they called in the first quarter.

- Funds started in 2007 called almost \$1.1 billion from LPs, representing 48% of the total capital called in the first quarter. Vintage year 2005 funds distributed slightly more than \$902 million, or 36% of the total capital distributed in the first quarter.

- All but one of the five sectors that represented an average of least 5% of the emerging markets index were up in the first quarter, the exception was financial services. The positive outlier was IT, which along with energy (a sector that is smaller than 5% of the index) earned the index's only double-digit returns.

Emerging Markets Private Equity		
Sector <sup>6</sup>	1 <sup>st</sup> Qtr. Return	Avg. Weight In Index
Consumer	1.3%	22.0%
Financial Services	-0.6%	12.6%
Healthcare	3.5%	6.7%
IT	14.1%	10.3%
Manufacturing	4.0%	22.8%

- The four largest sectors by market value – manufacturing, consumer, financial services, and information technology – represented nearly 68% of the index and on a dollar-weighted basis returned 3.7%.

<sup>5</sup> Vintage year fund-level returns are net of fees, expenses, and carried interest.

<sup>6</sup> Industry- and geographic region-specific gross company-level returns are before fees, expenses, and carried interest.

- Retail, IT, energy, and construction-related companies were the top four recipients of invested capital in the first quarter, together garnering approximately 67% of the total. All four attracted more capital than their respective long-term averages.
- In the first quarter of 2011, both Taiwan and South Korea fell below the threshold for being considered meaningfully sized, leaving Mainland China, India, and Brazil as the only regions that make up more than 4% of the index by market value. Those three – Mainland China, India, and Brazil – by market value made up roughly 54% of the total index. On a dollar-weighted basis, they returned 4.1%; India was the only region to produce a negative return, while Brazil edged out Mainland China for the best return of the three.
- Fund managers in the index continued to allocate investment capital into developing markets in Asia. Roughly 64% of the capital invested in the first quarter went into companies located in emerging Asia, about 7% more than the long-term average. In the prior quarter, nearly three quarters of the invested capital went into that region.
- Based on market values at March 31, 2011, public companies accounted for slightly less than 20% of the emerging markets private equity index, about 0.5% less than in the prior quarter.

Emerging Markets Private Equity		
Region <sup>4</sup>	1 <sup>st</sup> Qtr. Return	Avg. Weight In Index
Brazil	6.7%	4.3%
India	-3.3%	12.1%
Mainland China	6.2%	37.8%

Cambridge Associates derives its Global Developed (ex-U.S.) Markets Private Equity and Venture Capital benchmark from the financial information contained in its proprietary database of global (ex-U.S. and emerging markets) private equity and venture capital funds. As of March 31, 2011, the database comprised 597 funds formed from 1986 to 2010 with a value of about \$270 billion. By way of comparison, ten years ago at March 31, 2001, the benchmark index included 248 funds whose value was roughly \$30 billion.

Cambridge Associates derives its Emerging Markets Private Equity and Venture Capital benchmark from the financial information contained in its proprietary database of emerging markets venture capital and private equity funds. As of March 31, 2011, the database comprised 337 funds formed from 1986 to 2010 with a value of about \$81 billion. By way of comparison, ten years ago at March 31, 2001, the benchmark index included 136 funds whose value was roughly \$15 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 its 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. Benchmark statistics are compiled 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; Beijing; London; Singapore; and Sydney, Australia. 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](http://www.cambridgeassociates.com).

Cambridge Associates LLC's proprietary databases provide independent statistics to the institutional investment industry, the National Venture Capital Association (NVCA), and the Australian Private Equity & Venture Capital Association, Limited (AVCAL). 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.