CAMBRIDGE ASSOCIATES LLC

Overview

During the second quarter of 2011, U.S. private equity and venture capital funds lengthened their streak of positive quarters to nine, as indicated by the Cambridge Associates LLC benchmark indices of the two alternative asset classes. The venture capital index earned a higher quarterly return than the private equity benchmark and both private asset classes performed better than the public markets. Over the long term, the private asset classes have significantly outperformed the public markets.

The second quarter return for the Cambridge Associates LLC U.S. Private Equity Index® was lower than the one produced in the first quarter while the Cambridge Associates LLC U.S. Venture Capital Index® earned a higher return in the second quarter than it did in the previous period. Public market returns ranged from slightly negative to modestly positive during the quarter amid a continuing global economic crisis. The exit environment during the quarter was beneficial to both private equity and venture capital investors as interest for initial public offerings (IPOs) and mergers and acquisitions (M&A) remained strong.

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 2011. 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 June 30, 2011

For the periods ending June 30, 2011	Qtr.	Year To Date	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
USPE	4.5	10.1	24.8	6.5	10.0	11.3	12.5	13.6
Other Indices								
DJIA	1.4	8.6	30.4	6.1	5.0	4.2	7.7	10.1
Russell 2000 Composite	-1.6	6.2	37.4	7.8	4.1	6.3	7.4	9.8
S&P 500	0.1	6.0	30.7	3.3	2.9	2.7	6.5	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 2011. 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 June 30, 2011

For the periods ending June 30, 2011	Qtr.	Year To Date	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
USVC	7.0	12.3	26.3	4.3	7.4	1.2	30.9	27.4
				Other Indices				
NASDAQ Composite*	-0.3	4.5	31.5	6.5	5.0	2.5	5.8	9.2
Russell 2000 Composite	-1.6	6.2	37.4	7.8	4.1	6.3	7.4	9.8
S&P 500	0.1	6.0	30.7	3.3	2.9	2.7	6.5	8.7

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

* Capital Changes Only

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

Second Quarter 2011 Highlights:

- With the exception of the one-year period ending June 30, 2011, the private equity benchmark outperformed large public companies in all of the time horizons listed in the table above. Despite their negative return during the second quarter, small public companies, represented by the Russell 2000 Composite, earned higher returns in the one- and three-year periods. The venture capital index's record against the public markets remains somewhat mixed. It handily outpaces the S&P 500 over all time periods except for the one and ten years and it underperformed small companies and the technology-heavy NASDAQ composite in the one-, three-, and ten-year horizons.
- For the first time since the third quarter of 2009, the ten-year return for the venture capital index moved into positive territory. Since hitting its nadir during the quarter ending September 30, 2010, the ten-year return has risen nearly 6%.
- The spread between the private equity and venture capital ten-year returns decreased again in the second quarter, moving to 10.1% from 10.9% as of the first quarter and 12.7% as of the third quarter 2010 when the venture return hit its lowest level.
- As of June 30, 2011, public companies accounted for about 18.3% of the private equity index, a decrease of approximately 0.8% from the first quarter. Public company representation in the venture capital index increased slightly to almost 14.0% from about 13.6% last quarter. Non-U.S. company exposure in the private equity index was virtually the same as it was during the first quarter (18.8%) and in the venture index, it fell by less than a third of a percent to 10.1%

Private Equity Performance Insights:

U.S. Private Equity		
Vintage Year[1]	2nd Qtr. Return	Avg. Weight In Index
2000	4.6%	5.9%
2004	4.1%	11.1%
2005	4.4%	17.0%
2006	4.5%	24.6%
2007	4.9%	21.2%
2008	6.8%	6.1%

- The 2008 private equity funds were the best performing among the meaningfully-sized (those representing at least 5% of the index's value) vintages for the quarter. However, at roughly a quarter of the index's value, the 2006 vintage year in private equity had the largest positive impact on the index. There were still only six vintage years that accounted for at least 5% of the index; further, nearly 75% of the index's value resided in just four vintages. (See table to the right for details.)
- Among the large vintage years, returns for the more mature, vintage year 2000 funds were driven by higher values for healthcare, media, consumer, and information technology (IT) companies. In that vintage, lower energy company valuations partially offset the gains in the other sectors. Returns for the largest vintage year, 2006, were boosted by software, consumer, and energy companies whereas the 2007 vintage benefited most from energy, consumer, and manufacturing write ups.
- Private equity funds called $14.7 billion and distributed $23.2 billion in the second quarter; both figures were similar to last quarter's levels. LP contributions *decreased* by nearly $467 million, and fund distributions *increased* by almost $277 million. While the 1.2% rise in distributions was the lowest quarterly percentage increase since the first quarter of 2006, the amount of distributions for the period marked the third highest in the history of the benchmark.
- During the quarter, more than 42% (or $6.2 billion) of the LP capital contributions were made by investors in funds raised in 2007; it was the second consecutive quarter where the 2007 funds led in this category. Combined, the three largest vintages, 2005 through 2007, called $11.7 billion or 79% of the total for the quarter. The 2006 and 2007 vintage year funds each distributed more than $4 billion to investors and together they accounted for slightly more than 37% of the total distributions for the quarter.
- The second quarter represented the third in a row that distributions outpaced contributions. The last time there were more distributions than contributions for more than three quarters was in the year beginning October 1, 2004.

U.S. Private Equity		
Sector[2]	2nd Qtr. Return	Avg. Weight In Index
Consumer	5.3%	20.3%
Energy	6.8%	15.7%
Financial Services	3.6%	10.2%
Healthcare	4.8%	13.4%
IT	7.3%	7.5%
Manufacturing	6.8%	9.1%
Media	3.3%	6.2%
Software	12.4%	5.4%

- For the fourth consecutive quarter, all sectors that represented at least 5% of the private equity index produced positive results. Seven of the eight sectors returned between 3.3% and 7.3%; the outlier, software, was the smallest of the meaningfully-sized sectors and it had the best quarter among the group. The software sector's return was driven solely by funds raised in 2006. After leading all sectors during the first quarter, media companies lagged all of its large sector counterparts in the second.
- Four sectors – consumer, energy, healthcare, and financial services – made up nearly 60% of the private equity index's value during the second quarter. Among the four, energy performed the best and financial services the worst. The energy sector's return was driven by vintage years 2001, 2005, 2006, and 2007. No one vintage year drove the media sector return.

[1] Vintage year fund-level returns are net of fees, expenses, and carried interest.
[2] Industry-specific and total index gross company-level returns are before fees, expenses, and carried interest.

- Five sectors – energy, manufacturing, healthcare, consumer, and financial services – accounted for 70% of private equity fund investments during the first quarter. Energy companies again attracted the most capital, about 25%, or about 9% more than the long-term average for the sector.

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, 2011, the database comprised 899 U.S. buyouts, private equity energy, growth equity, and mezzanine funds formed from 1986 to 2011, with a value of roughly $508 billion. Ten years ago, as of June 30, 2001, the index included 439 funds whose value was slightly more than $125 billion.

Venture Capital Performance Insights:

U.S. Venture Capital		
Vintage Year[1]	2nd Qtr. Return	Avg. Weight In Index
1999	3.5%	5.7%
2000	5.0%	15.7%
2001	3.4%	6.9%
2003	10.4%	5.5%
2004	6.7%	12.6%
2005	5.8%	12.3%
2006	7.3%	14.1%
2007	9.0%	10.9%
2008	9.8%	8.5%

- The 2003 venture capital funds were the best performing among the top-sized vintages for the second quarter and was the only meaningfully-sized vintage year that earned a double-digit return. Due to their size in the index and their strong quarterly performance, vintage years 2006 and 2007 had the largest positive impact on the index's total return. As funds from vintage years 1999 and 2000 continue to wind down, their representation in the venture index has diminished, although the 2000 vintage remained the largest during the second quarter. The bulk of the index's value is now spread among nine vintages. (See table to the right for specifics)
- Returns for the two largest vintage years were driven by valuation increases in a wide variety of sectors. In the 2000 funds, IT and media were the big winners; in the 2006 funds, hardware and healthcare led the way.
- Venture capital funds called nearly the same amount of capital in the second quarter as they did in the first: $3.8 billion. Distributions from venture funds equaled $4.4 billion, a 16% increase over the level from the first quarter. Distributions outpaced contributions for the third straight quarter and marked the third highest quarterly amount since the final quarter of 2007.
- The second quarter of 2011 marked the fourth consecutive quarter when all six meaningfully-sized sectors (representing at least 4% of the index) produced a positive return.
- Among the six large sectors, media performed the best, 19.2%, and electronics the worst, 1.7%. The media return was driven mainly by funds raised in 2000, which accounted for roughly 25% of that sector's market value. (See table to the right for details.)
- The three largest sectors – IT, healthcare, and software – accounted for more than 75% of the index by market value. The three sectors underperformed the index as a whole.

Venture Capital		
Sector[2]	2sndQtr. Return	Avg. Weight In Index
Electronics	1.7%	4.8%
Energy	7.3%	4.1%
Healthcare	5.4%	26.2%
IT	8.5%	34.1%
Media	19.2%	4.8%
Software	8.1%	15.0%

- IT and healthcare companies attracted approximately 62% of the capital invested by venture capital funds in the second quarter. The percentage was slightly less than the long-term average for IT and about 6% higher than the long-term norm for healthcare.

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, 2011, the database comprised 1,319 U.S. venture capital funds formed from 1982 to 2011, with a value of roughly $126 billion. Ten years ago, as of June 30, 2001, the index included 872 funds whose value was about $69 billion.

About Cambridge Associates and the Indices

Founded in 1973, Cambridge Associates is a provider of independent investment advice and research to institutional investors and private clients worldwide. Today the firm serves over 900 global investors representing nearly $3 trillion in aggregate assets. Cambridge Associates delivers a range of services, including investment consulting, outsourced portfolio solutions, research services and tools (Research Navigator^{sm} and Benchmark Calculator), and performance monitoring, across all asset classes. The firm compiles the performance results for more than 4,500 private partnerships and their more than 62,000 portfolio company investments to publish its proprietary private investments benchmarks, of which the *Cambridge Associates LLC U.S. Venture Capital Index®* and *Cambridge Associates LLC U.S. Private Equity Index®* are widely considered to be the industry-standard benchmark statistics for these asset classes. Cambridge Associates has more than 1,000 employees serving its client base globally and maintains offices in Arlington, VA; Boston; Dallas; Menlo Park, CA; London; Singapore; Sydney; and Beijing. 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' proprietary databases provide independent statistics to the institutional investment industry, the National Venture Capital Association (NVCA), the Australian Private Equity & Venture Capital Association, Limited (AVCAL), and the African Venture Capital Association (AVCA). 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: Frank Lentini at Sommerfield Communications, 156 Fifth Avenue Suite 1219, New York, NY 10010; 212.255.8386; (fax) 212.255.8459; email lentini@sommerfield.com.