



CAMBRIDGE ASSOCIATES LLC

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Returns on Private Equity and Venture Capital Funds in the Third Quarter of 2010 Sharply Improved over the Prior Quarter, According to Cambridge Associates' Benchmarks

Both Asset Classes Extended Streak of Positive Returns to Six Consecutive Quarters

BOSTON (Feb. 16, 2011) –Strong public market performance and a gradually improving economy helped improve the results generated by private equity and venture capital funds in the quarter ending September 30, 2010. Each alternative asset class earned its sixth consecutive quarter of positive returns and significantly outperformed its respective prior-quarter results, breaking a short streak of declining positive returns in each category (four consecutive quarters for private equity and two for venture capital).

Private equity outperformed venture capital during the same period, while both lagged public market returns – the latter a reversal from the second quarter of 2010, when both alternative asset classes produced better returns than the major public market indices, said **Cambridge Associates LLC**, a provider of independent research and investment advice to institutional investors and private clients. Private equity and venture capital funds continued to outperform the public markets over the long term.

Cambridge Associates publishes a quarterly commentary on the performance of private equity and venture capital as measured by the **Cambridge Associates LLC U.S. Private Equity Index®** and the **Cambridge Associates LLC U.S. Venture Capital Index®**. The indexes represent the majority of the institutional capital raised by private equity partnerships between 1986 and 2010 and venture capital partnerships between 1981 and 2010.

Improving Exits, Deal Activity, and Leverage Aided Third-Quarter Results

Private equity funds earned a 5.1% return for the third quarter of 2010, up from 1.6% in the prior quarter. Venture capital returned 3.7% versus 0.4% for the same periods. Both fund classes benefited from a resurgence in mergers and acquisitions (M&A) and initial public offerings (IPOs).

The increases brought the total returns for the first nine months of 2010 to 11.4% for private equity and 4.8% for venture capital. Private equity outperformed the key public market indices during the nine-month period; public index returns ranged from 3.9% for

the S&P 500 to 9.1% for the Russell 2000 Composite. Venture capital, on the other hand, had a mixed performance during the same period versus the public markets, besting the NASDAQ Composite and S&P 500, but returning significantly less than the Russell 2000 Composite. The private equity and venture capital indices handily outperformed their public-market counterparts over the 15- and 20-year periods ending September 30, 2010.

The following table provides comparative returns for the third quarter and longer periods for private equity and venture capital vis-à-vis four key public market indices. Returns for periods of one year and longer are annualized.

U.S. Private Equity Index and 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
U.S. Private Equity	5.1	11.4	17.7	1.3	9.1	8.1	12.1	12.6
U.S. Venture Capital	3.7	4.8	8.2	-2.1	4.2	-4.6	36.9	25.6
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
NASDAQ Composite	12.3	4.4	11.6	-4.3	1.9	-4.3	5.6	10.1

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.

With the exception of the present quarter, the private equity benchmark outperformed U.S. public markets in all of the time periods provided in the table above. The venture capital index's results were mixed, except over the long term, where, as noted, they eclipsed public market results. 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 Fund Insights

By third-quarter's end, capital distributions for 2010 were nearly triple all of 2009

Fund managers in the U.S. private equity index called and distributed more capital in the third quarter than they did in the second. Limited partners (LPs) contributed just over \$20 billion for the quarter, a 5.2% increase, and received distributions of nearly \$16.7 billion, a 28% increase over the previous quarter and the highest level of capital distributions in three years. Investors in funds launched in 2000, 2004, and 2006

collectively received roughly \$9.1 billion or 54% of the capital distributed during the period.

By the end of the third quarter, fund managers had already distributed to their LPs almost three times as much capital as they did in all of 2009.

“For the third quarter, contributions again outnumbered distributions, as they have for more than three years running,” said Andrea Auerbach, Managing Director and Head of U.S. Private Equity Research at Cambridge Associates. “We also saw the exit environment continue to improve, with realizations actually increasing faster than investments. In addition, credit availability during the third quarter continued on a path towards pre-recession levels.”

IT topped energy for best-performing key sector

During the third quarter, all eight meaningfully-sized sectors in the U.S. private equity index earned positive returns. Of these, the three largest by asset value – consumer, healthcare, and energy – comprised just over half of the index’s total value. Of the eight key sectors, IT performed best, returning 9.0% for the quarter, versus a close-second energy sector, which earned 8.7%. Software had the lowest return of the key sectors, 4.4%, but also represented the smallest weight (just 5.8%) in the PE index among the top eight.

Venture Capital Fund Insights

IPO and M&A environment improve

Venture capital performance and most industry fundamentals improved in the third quarter of 2010, with valuations for venture-backed companies rising for the fifth quarter in a row. Although there was a smaller number of IPO-exits during the period, average offering prices were higher than during the previous quarter. In addition, the number of mergers and acquisitions, the number of deals with disclosed values, and the announced deal values themselves all increased as compared to the prior quarter.

The top four vintages in the index remained constant, but the percentage weight of the largest vintage dropped significantly

The largest four vintage years by size – 2000, 2006, 2005, and 2004 – remained constant and accounted for 56.5% of the U.S. venture capital index’s value. However, the percentage represented by the largest vintage, 2000, was 19.6%, down from nearly 24% one year earlier.

The venture funds raised in 1999 were the top performers of the nine vintage years that represented at least 5% of the index’s value, returning 7.5%. Increased valuations for IT and higher values plus realizations from healthcare drove 1999’s results. Of the nine

largest vintages, 2001 and 2006 were the worst performers for the quarter, each returning just 1.4%.

Software takes lead from IT for the first time in four quarters

Similar to the private equity benchmark, all of the meaningfully-sized sectors in the U.S. venture capital index produced positive returns for the quarter. The index continued to be highly concentrated by sector, with the top three – healthcare, IT, and software – comprising nearly 75% of its value. Software was the best performing of the top three sectors for the quarter, generating a 7.7% return. IT, which had been the top performing sector in the entire venture capital index for the previous three quarters, still came in second among the meaningfully-sized sectors, earning 7.3% for the quarter.

“Performance of venture capital was better in the third quarter, in part because the exit environment has gradually improved over the last year. The venture capital industry has now reached a more favorable risk-return balance, and the long-term outlook for the industry is being helped by other factors, including reduced fundraising and moderated pre-money valuations and investment levels,” said Theresa Sorrentino Hajer, Managing Director and Venture Capital Research Consultant at Cambridge Associates.

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.

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