



## CAMBRIDGE ASSOCIATES LLC

### **Cambridge Associates Private Equity and Venture Capital Market Commentary for Quarter Ending March 31, 2007**

During the quarter ending March 31, 2007, the Cambridge Associates LLC U.S. Venture Capital Index<sup>®</sup> rose 2.0% in an exit-friendly market that yielded 13 initial public offerings (IPOs) and nearly 100 mergers and acquisitions (M&A) of U.S.-based venture-backed companies. The health care heavy funds formed in 2002 produced the best return for the quarter. The benchmark has now gone up in every quarter but one since October 2003, leading to a one-year return of 14.5% and a three-year return of 13.8%. Because the 1999, 2000 and 2001 funds have consistently represented roughly two thirds of the index's value over the past five years, they have largely determined its performance.

The venture industry's brisk investment pace of 2006 continued in the first quarter of 2007 as funds launched in the current three most active vintage years, 2005, 2000 and 2004, each put more than \$640 million into new and existing portfolio companies. Communications companies attracted the most capital, with health care companies second, and software a distant third. Capital also continues to flow into clean-tech and non-U.S. markets, such as China, India and Israel. The 1999 and 2000 funds were the most active sellers during the first quarter with each realizing more than \$1.4 billion from technology-related investments.

Since inception performance for venture funds started between 1999 and 2005 improved markedly during the year ending March 31, 2007, due in part to profitable IPOs and M&A transactions. The up tick in returns is also attributable to valuation increases for some mature companies in the 1999, 2000 and 2001 funds and for select later-stage investments in more recent funds. Most of the revaluation occurred during year-end 2006 audits, in part because managers have begun to comply with FAS #157, the fair value measurement standard that effectively shifted the basis for valuation from cost to realistic market value.

As shown in the table below, in the 10- and 15-year periods ending March 31, 2007, the venture capital index produced double-digit returns. The one negative return, -4.8% for the seven-year period starting April 1, 2000, reflects the fallout from the late 1990's technology bubble.

Cambridge Associates derives its venture capital benchmarks from the financial information contained in its proprietary database of venture capital funds; as of March 31, 2007, the database comprised 1,175 venture funds started between 1981 and 2006 and 27,943 transactions with a value of roughly \$78 billion. By way of comparison, in March 1997 the benchmark index included 466 funds and 9,357 transactions whose value was nearly \$22 billion

<b>U.S. Venture Capital Index Returns (%)</b>							
<b>As of March 31, 2007</b>							
	<b>1st Qtr.</b>	<b>Periods Ending March 31, 2007</b>					
		<b>1</b>	<b>3</b>	<b>5</b>	<b>7</b>	<b>10</b>	<b>15</b>
	<b><u>2007</u></b>	<b><u>Year</u></b>	<b><u>Years</u></b>	<b><u>Years</u></b>	<b><u>Years</u></b>	<b><u>Years</u></b>	<b><u>Years</u></b>
U.S. Venture Capital	2.0	14.5	13.8	3.2	-4.8	41.3	30.1

Source: Cambridge Associates LLC U.S. Venture Capital Index<sup>®</sup>

During the quarter ending March 31, 2007, the Cambridge Associates LLC U.S. Private Equity Index<sup>®</sup> jumped 5.8%, extending the benchmark's string of consecutive positive quarters to 16. While each group of funds started in 1998 through 2006 represent at least 5% of the index, nearly half of its value resides in just three vintage years, 2000, 2004 and 2005. The 2001 funds led all others during the quarter, rising 10% on the strength of the consumer, manufacturing and energy investments. The funds started in 2004 and 2005 were the quarter's most active buyers as they invested nearly \$8 billion while the 1999 and 2000 funds realized nearly \$8.5 billion from portfolio companies.

Valuation increases for companies within the private equity benchmark equaled roughly half the amount from the prior quarter, which might be more of a reflection of the number of audits taking place at year end, rather than being an indication of compliance with FAS 157. The increases that did occur during the first quarter were within some of the largest sectors in the index, including consumer/retail and communications, as well as in smaller sectors, such as technology and energy.

As noted in the table below, the private equity index returned 28.6% and 27.6% for the one- and three-year periods, respectively, ending March 31, 2007, both of which exceeded the index's longer-term returns by at least 12%.

Cambridge Associates derives its private equity benchmarks from the financial information contained in its proprietary database of private equity funds; as of March 31, 2007, the database comprised 645 buyout, expansion, restructuring, special situation, sector specialized, and mezzanine funds. Among them there were 8,319 transactions with a value of roughly \$237 billion; ten years ago, the index contained 219 private equity funds and 1,792 transactions whose value was \$24 billion.

<b>U.S. Private Equity Index Returns (%)</b>							
<b>As of March 31, 2007</b>							
	<b>1st Qtr.</b>	<b>Periods Ending March 31, 2007</b>					
		<b>1</b>	<b>3</b>	<b>5</b>	<b>7</b>	<b>10</b>	<b>15</b>
	<b><u>2007</u></b>	<b><u>Year</u></b>	<b><u>Years</u></b>	<b><u>Years</u></b>	<b><u>Years</u></b>	<b><u>Years</u></b>	<b><u>Years</u></b>
U.S. Private Equity	5.8	28.6	27.6	19.3	10.2	14.5	15.7

Source: Cambridge Associates LLC U.S. Private Equity Index<sup>®</sup>

Cambridge Associates LLC's proprietary databases provide independent statistics to the institutional investment industry. The Cambridge Associates LLC U.S. Venture Capital Index is based on returns data compiled on funds representing over 80% of the total dollars raised by U.S. venture capital partnerships formed between 1981 and 2007. Similarly, the Cambridge Associates LLC U.S. Private Equity Index<sup>®</sup> is based on returns data compiled on funds representing over 70% of the total dollars raised by U.S. leveraged buyout, subordinated debt, and special situation partnerships formed between 1986 and 2007. 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<sup>®</sup> and the Cambridge Associates LLC U.S. Private Equity Index<sup>®</sup> 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](http://www.cambridgeassociates.com).

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