



CAMBRIDGE ASSOCIATES LLC

Cambridge Associates Private Equity and Venture Capital Market Commentary for Quarter Ending March 31, 2008

During the quarter ending March 31, 2008, the Cambridge Associates LLC U.S. Venture Capital Index[®] fell 1.8%, ending its string of 12 positive quarters. Except for those started in 2006, on average, venture capital funds launched between 1999 and 2007 produced negative returns for the quarter, with the funds started between 1999 and 2001 declining the most. The 1999 funds dropped 3.0% during the quarter, the 2001, 2.4%, and the 2000, 1.7%. But combined, these vintage years still represent nearly 60% of the benchmark's value, and heavily influenced the index's return for the quarter. Investors in these vintage year funds received a combined \$2 billion of distributions; however, the value of the remaining portfolio assets declined, which led to the negative quarterly returns. The index's three largest sectors, health care, information technology, and software, all fell during the quarter, with health care performing the worst.

Venture capital fund managers and their investors exchanged roughly \$7 billion during the first quarter, down about \$3 billion from the quarter before. Roughly \$900 million more was called from investors than was distributed to them, a reverse of the prior quarter's activity. The funds in the index that were started in 2005 called the most capital in the first quarter, \$900 million; the 2007 funds came in second, calling around \$800 million. On the other hand, the year 2000 funds returned about \$1 billion to investors, the most in the index, followed by the 1999 funds which returned approximately \$650 million.

More than \$2 billion of venture capital went into health care and information technology companies. Companies in China and India and those focused on clean-energy technology continued to be favorites among fund managers.

In the first quarter, only five U.S. venture-backed companies, four health care and one software, went public with a total value of \$283 million, a sharp decline from the prior quarter's 31 initial public offerings (IPOs). There were 70 investment exits through mergers and acquisitions (M&A). The total value of the 28 deals whose prices were announced to the public was \$3.6 billion. Roughly 75% of the M&A deals were in the information technology sector.

The first quarter of 2008 aside, venture capital returns have been positive, as shown in the table below. The lone exception is the -0.7% return for the seven-year period starting in April 2001. Of those included in the table, this is the return most impacted by the bursting of the technology investment 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, 2008, the database comprised 1,214 venture funds formed from 1981 to 2008 with a value of approximately \$90 billion. By way of comparison, on March 31, 1998, the benchmark index included 532 funds whose value was slightly more than \$27 billion.

| U.S. Venture Capital Index Returns (%) | | | | | | | |
|--|----------------------|-------------|--------------|--------------|--------------|--------------|--------------|
| As of March 31, 2008 | | | | | | | |
| Periods Ending March 31, 2008 | | | | | | | |
| | 1 st Qtr. | 1 | 3 | 5 | 7 | 10 | 15 |
| | <u>2008</u> | <u>Year</u> | <u>Years</u> | <u>Years</u> | <u>Years</u> | <u>Years</u> | <u>Years</u> |
| U.S. Venture Capital | -1.8 | 11.6 | 14.1 | 11.6 | -0.7 | 32.8 | 32.9 |

Sources: Cambridge Associates LLC and the National Venture Capital Association

During the quarter ending March 31, 2008, the Cambridge Associates LLC U.S. Private Equity Index[®] dropped 1.3%, its first negative quarter in five years. The vintage year 2006 funds earned the quarter's best return, 0.8%, largely on the strength of energy sector investments. The 2006 funds now represent close to 20% of the benchmark's value, in part because of the mega funds raised that year. The funds started in 2005, 2004, and 2000, which combined make up nearly half of the benchmark, all had negative returns for the quarter, due mostly to losses in consumer, technology, and transportation companies. Other industries with negative quarterly returns included financial services, health care, and manufacturing, while energy and media were the bright spots in the index.

The private equity benchmark's negative return during the first quarter largely reflected the decline in value of the public companies held in private equity portfolios, which account for roughly 15% of the benchmark. U.S. public equity indexes fell between 10% and 15% during the quarter, and the public companies in the private equity benchmark also dropped. The public market activity likely affected the benchmark more than it would have previously because private equity funds have begun complying with the "fair market valuation methodology" dictated by the Financial Accounting Board's standard 157. Before FAS 157, not all private equity fund managers marked their companies to market; rather they would value them using criteria such as cost basis or the price as of the most recent financing, which kept valuations stable.

Private equity managers and their investors exchanged about \$30 billion during the first quarter. Approximately \$21 billion was called from investors; roughly \$9 billion was distributed to investors. The 2006 funds called by far the most capital from investors, \$12 billion. The 2000 and 2004 funds distributed the most, about \$2.4 billion each. These distributions to investors came mostly from media company exits. Industries attracting the most capital in the quarter were consumer goods and services, energy, and financial services companies. Besides the United States, the countries favored by private equity funds were Canada, France, and India.

The first quarter of 2008 aside, the private equity benchmark has been positive, as shown in the table below. The index's one-year performance lags medium- and longer-term returns due in part to the onset of the credit crunch in the middle of 2007 and the public markets' poor performance over the time period.

Cambridge Associates derives its U.S Private Equity benchmarks from the financial information contained in its proprietary database of private equity funds. As of March 31, 2008, the database comprised 748 U.S buyouts, private equity, energy, growth equity, and mezzanine funds formed from 1986 to 2007, with a value of roughly \$313 billion. By way of comparison, at March 31, 1998, the benchmark index included 260 funds whose value was nearly \$51 billion.

| U.S. Private Equity Index Returns (%) | | | | | | | |
|--|----------------------------|--------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| As of March 31, 2008 | | | | | | | |
| Periods Ending March 31, 2008 | | | | | | | |
| | 1st Qtr. | 1 | 3 | 5 | 7 | 10 | 15 |
| | <u>2008</u> | <u>Year</u> | <u>Years</u> | <u>Years</u> | <u>Years</u> | <u>Years</u> | <u>Years</u> |
| U.S. Private Equity | -1.3 | 11.2 | 23.2 | 24.1 | 14.1 | 13.1 | 15.8 |

Source: Cambridge Associates LLC

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 2008. Similarly, the Cambridge Associates LLC U.S. Private Equity Index[®] is based on returns data compiled on funds representing over 70% of the total dollars raised by U.S buyouts, private equity, energy, growth equity, and mezzanine funds 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[®] 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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