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CAMBRIDGE ASSOCIATES LLC

Cambridge Associates Private Equity and Venture Capital Market Commentary for Quarter Ending December 31, 2007

During the quarter ending December 31, 2007, the Cambridge Associates LLC U.S. Venture Capital Index® rose 3.4%, extending its string of positive quarters to 12 and bringing its calendar year return to 16.3%. The funds started in 2005 produced the quarter's best return at 6.4%, with the 1999 funds coming in a close second at 5.6%. Combined the 2005 and 1999 funds distributed more than a billion dollars to investors and the value of both groups' assets increased significantly in the quarter. At roughly a third of the index's value, the vintage year 2000 funds heavily impact the index, so their quarterly return of 2.8% brought down the benchmark's performance. The 2000 funds' comparatively lower return resulted from flat results from their technology companies. All three of the largest industries in the index, health care, information technology, and software had positive returns for the quarter, with software faring the best.

Venture capital fund managers and their investors exchanged slightly more than $10 billion during the fourth quarter, with distributions to investors outpacing capital called from investors by roughly $1 billion. In the quarter, the funds started in 2005 and 2006 invested more than any others, while the year 2000 funds distributed the most capital, a sum which was nearly 3X as much as its closest competitor, the 1999 funds. More than $2 billion of venture capital went into health care and information technology companies, and nearly another $1 billion went into communications and software businesses. Similar to the first three quarters of 2007, during the fourth quarter, venture capitalists invested heavily in companies outside of the U.S., in clean-energy technology, and focused on companies in the later stages of development.

In the fourth quarter, 31 U.S. venture-backed companies went public and raised roughly $3 billion, the highest quarterly number of initial public offerings (IPOs) since the third quarter of 2000. There were 83 investment exits through mergers and acquisitions (M&A), marking a slight decline from the previous quarter. Based on both number and value, approximately half of the fourth-quarter IPOs were technology companies, the other half were consumer-related and health care businesses. By number, technology companies dominated M&A activity during the quarter but by disclosed value most of the M&A deals involved health care and other non-technology companies.

As noted in the table below, the venture capital benchmark's one-year return was 16.3%, its three-year 14.1%, and its five-year 11.3%. Longer-term performance has exceeded 30% and the only negative return, at -2.4%, represents the seven-year period starting January 1, 2001, the one most influenced by the bursting of the technology bubble.

Cambridge Associates derives its venture capital benchmarks from the financial information contained in its proprietary database of venture capital funds; as of December 31, 2007, the database comprised 1,207 venture funds formed from 1981 to 2007 including 28,639 transactions with a value of approximately $87 billion. By way of comparison, on December 31, 1997, the benchmark index included 514 funds and 10,094 transactions whose value was slightly more than $25 billion.

U.S. Venture Capital Index Returns (%) As of December 31, 2007 Periods Ending December 31, 2007							
	4th Qtr. 2007	**1 Year**	**3 Years**	**5 Years**	**7 Years**	**10 Years**	**15 Years**
U.S. Venture Capital	3.4	16.3	14.1	11.3	-2.4	35.2	31.8

Source: Cambridge Associates LLC U.S. Venture Capital Index®

During the quarter ending December 31, 2007, the Cambridge Associates LLC U.S. Private Equity Index® climbed 3.9%, bringing its calendar year return to 20.4%. The funds started in 2002 earned the quarter's best return, 10.9%, largely from gains in consumer-related companies; they also distributed more than $420 million to investors. The second best performers in the quarter were the funds started in 2000, which returned 8.2%, distributed over $2 billion and benefited from unrealized valuation increases in their health care, consumer-related, and media companies. Bringing down the index's return were the 2001, 2005, and 2006 funds, which suffered losses in the financial services sector.

Private equity managers and their investors exchanged nearly $38 billion during the fourth quarter as investors paid-in approximately $27 billion and received roughly $11 billion in distributions. The 2006 funds called by far the most capital from investors, $12 billion, while at over $2 billion each, the 1999 and 2000 funds distributed the most. The current industry mix within the private equity index reflects recent investment trends and returns. Specifically, at the end of 2007, consumer-related, energy, financial services, and health care companies made up more of the index than previously. On the other hand, technology, media, and manufacturing industries represented less. During the fourth quarter, consumer-related and energy companies attracted the most capital and private equity managers continued to invest outside of the United States, such as in Continental European countries.

The private equity benchmark's positive return during the fourth quarter was due largely to increases in portfolio company valuations, particularly in recent vintage year's funds. Funds have begun to shift to the "fair market valuation methodology" dictated by the Financial Accounting Board's standard 157, which requires all investment managers to hold private and public companies at values considered to be in line with public market prices. As a result, volatility in the public markets is likely to result in more fluctuations in the values of private equity portfolios. While credit becoming less available to private equity firms has slowed the pace of investing, there is not definitive evidence that the lack of credit has adversely affected current valuations.

As noted in the table below, the private equity benchmark's one-year return was 20.4%, its three-year 25.1%, and its five-year 24.5%. The index's longer-term returns have been in the mid-teens.

Cambridge Associates derives its U.S Private Equity benchmarks from the financial information contained in its proprietary database of private equity funds; as of December 31, 2007, the database comprised 738, U.S Buyouts, Private Equity Energy, Growth Equity and Mezzanine funds formed from 1986 to 2007 including 9,513 transactions with a value of roughly $284 billion. By way of comparison, in December 31, 1997, the benchmark index included 250 funds and 2,403 transactions whose value was nearly $35 billion.

U.S. Private Equity Index Returns (%) As of December 31, 2007 Periods Ending December 31, 2007							
	4th Qtr. 2007	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years
U.S. Private Equity	3.9	20.4	25.1	24.5	13.6	14.1	16.3

Source: Cambridge Associates LLC U.S. Private Equity Index®

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 Indexâ 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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