



CAMBRIDGE ASSOCIATES LLC

Cambridge Associates Private Equity and Venture Capital Market Commentary for Quarter Ending June 30, 2007

During the quarter ending June 30, 2007, the Cambridge Associates LLC U.S. Venture Capital Index[®] jumped 6.7%, bringing its year-to-date return to 9.3% and its streak of positive quarters to nine. The second quarter was a profitable one for venture capitalists due to exits via initial public offerings (IPOs) and mergers and acquisitions (M&A). The 22 United States-based companies that went public during the quarter garnered roughly \$2.7 billion, the most money raised through the public markets since the third quarter of 2000. All but two of the IPOs were in communications or health care, and the communications companies produced the best returns. Funds formed in 1999 and 2000 still accounted for slightly more than half of the index's value and their strong returns helped boost the benchmark's performance. Due to the recent growth of the funds started in 2003, 2004, and 2005, collectively they now represent slightly more than 20% of the benchmark.

In the second quarter, the 2000 funds realized more than \$1.4 billion, and the 1999 and 1998 funds each realized more than \$850 million from their companies. The investments in wireless, Internet-related, and communication equipment companies that dominated the 1998, 1999, and 2000 funds created the majority of the quarter's gains. By the end of June 2007, of the venture funds started prior to 2006, the only fund group with a negative return since inception were those started in 1999. Less mature funds, including those launched between 2003 and 2005, have benefited from the increase in exit opportunities beginning in 2005 and from valuation increases. Some of the increase might be a byproduct of the Financial Accounting Standards Board's new market-driven valuation measure, known as FAS 157.

Venture capitalists were busy buying companies in the second quarter of 2007. The most active investors were the 2000, 2004 2005, and 2006 funds, as managers of these funds called between \$600 million and \$1.2 billion from limited partners (LPs). Across all of the funds in the index, more than \$1 billion was invested in communications companies, and another \$1.7 billion was split between health care and software companies. The second quarter saw a continuation of recent investment trends, such as the bias towards later stage companies, interest in energy technology, and global expansion particularly in China, India, and Israel.

As shown in the table below, as of June 30, 2007, the benchmark's one-year return was 22.1%, its three-year return 16.2%, and its five-year return 6.5%. Over both the 10- and 15-year periods, the venture capital index produced returns of higher than 30%. The only negative return, -4.4% represents the seven-year period starting July 1, 2000, when the public market valuations for communications and technology companies had already begun to fall.

Cambridge Associates derives its venture capital benchmarks from the financial information contained in its proprietary database of venture capital funds; as of June 30, 2007, the database comprised 1,195 venture funds started between 1981 and 2007 including 28,431 transactions with a value of roughly \$86 billion. By way of comparison, in June 30, 1997, the benchmark index included 483 funds and 9,675 transactions whose value was nearly \$26 billion.

U.S. Venture Capital Index Returns (%)								
As of June 30, 2007								
Periods Ending June 30, 2007								
	<u>2nd Qtr.</u>	<u>6</u>	<u>1</u>	<u>3</u>	<u>5</u>	<u>7</u>	<u>10</u>	<u>15</u>
	<u>2007</u>	<u>Months</u>	<u>Year</u>	<u>Years</u>	<u>Years</u>	<u>Years</u>	<u>Years</u>	<u>Years</u>
U.S. Venture Capital	6.7	9.3	22.1	16.2	6.5	-4.4	37.4	31.8

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

During the quarter ending June 30, 2007, the Cambridge Associates LLC U.S. Private Equity Index[®] leapt 8.1%, bringing its year-to-date return to 14.7% and extending the benchmark's string of consecutive positive quarters to 17. The best performance for the quarter, 12.9%, was turned in by the 1998 funds, with \$3.1 billion returned to investors and unrealized gains of approximately \$2.1 billion. The year 2000 group came in a close second with a 12.5% return for the quarter, due to distributions to limited partners of \$6.2 billion and increases in valuation of \$5.9 billion. Because the 2000 funds represent the biggest chunk of the index at 20% of the total value, that group's performance had the most impact on the benchmark's second quarter return. The funds started in 2005 were by far the quarter's most active buyers, investing approximately \$8 billion into portfolio companies.

The private equity benchmark's strong returns during the second quarter resulted largely from exits via M&A and the IPO market for communications, energy, health care, manufacturing, retail, and technology companies. Unrealized gains from valuation increases were about the same as in the prior quarter, and in this quarter, it appeared that more valuation changes resulted from company sales that had yet to close, rather than write-ups due to compliance with FAS 157.

Since 2005, buyout managers have rapidly invested an unprecedented amount of money by raising larger funds and increasing the number and size of transactions. With investment strategies becoming more global and sector-focused funds growing more common, the universe of companies in the index has become further diversified than in the past. Expansion beyond the United States has led allocations to businesses in Europe and Asia to go up, and funds concentrated in energy, finance, health care, and technology have contributed to the benchmark's shrinking percentage in communications.

As noted in the table below, as of June 30, 2007, the private equity benchmark's one-year return was 34.3%, its three-year return 29.8%, and its five-year return 22.0%. The index's longer-term returns have been in the mid-teens.

Cambridge Associates derives its private equity benchmarks from the financial information contained in its proprietary database of private equity funds; as of June 30, 2007, the database comprised 663 buyout, expansion, restructuring, special situation, sector specialized, and mezzanine funds. Among them there were 8,641 transactions with a value of roughly \$250 billion; ten years ago, the index contained 223 private equity funds and 1,931 transactions whose value was \$28 billion.

U.S. Private Equity Index Returns (%)								
As of June 30, 2007								
Periods Ending June 30, 2007								
	2 nd Qtr.	6	1	3	5	7	10	15
	<u>2007</u>	<u>Months</u>	<u>Year</u>	<u>Years</u>	<u>Years</u>	<u>Years</u>	<u>Years</u>	<u>Years</u>
U.S. Private Equity	8.1	14.7	34.3	29.8	22.0	11.7	14.7	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 Index[®] 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[®] 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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