



CAMBRIDGE ASSOCIATES LLC

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

During the quarter ending September 30, 2007, the Cambridge Associates LLC U.S. Venture Capital Index[®] climbed 2.9%, extending its string of positive quarters to ten. The funds started in 1999 earned the third quarter's best return of 4.4%, and distributed more than \$1.1 billion to investors, largely due to realizations from communications companies. In the quarter, the 1999 group represented 14% of the index's total value and was the only vintage year worth more than 5% of the index that had a return higher than 3%. The year 2000 funds still hold roughly a third of the benchmark's value, but the 2003, 2004, and 2005 funds are gaining ground and collectively now represent 25% of the index.

Roughly \$9.0 billion of cash was exchanged between venture capital fund managers and their investors during the third quarter, with approximately \$4.5 billion both drawn down and distributed. The quarter's most active investors were the 2000, 2005, and 2006 funds, and the 1998, 1999, and 2000 funds gave back the most capital. Across the index, more than \$1 billion went into both communications and health care companies, while another \$1.0 billion was split between software and financial companies, many of which were technology related. Geographically, the index continued to grow more diverse as businesses outside of the U.S. attracted venture capital.

For the venture capital industry, the third quarter was mixed - its benchmark beat the private equity index for only the second time in seven years, but the public markets grew less friendly to venture-backed companies. In fact, in the third quarter, only 11 U.S. companies went public and raised approximately \$660 million, not even half of the previous quarter's 24 U.S.-based initial public offerings (IPOs) that raised around \$2.8 billion. Through the first three quarters of 2007, technology and health care companies dominated the IPO market and communications companies were the preferred targets for mergers and acquisitions (M&A).

As noted in the table below, the venture capital benchmark's nine-month return was 12.6%, its one-year 23.1%, its three-year 15.3%, and its five-year 9.1%. Longer-term performance has exceeded 30% and the only negative return, -5.3% represents the seven-year period starting October 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 September 30, 2007, the database comprised 1,211 venture funds formed from 1981 to 2007 including 28,833 transactions with a value of roughly \$90 billion. By way of comparison, in September 30, 1997, the benchmark index included 495 funds and 9,935 transactions whose value was nearly \$27 billion.

U.S. Venture Capital Index Returns (%)								
As of September 30, 2007								
Periods Ending September 30, 2007								
3rd Qtr.	9	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>Years</u>
U.S. Venture Capital	2.9	12.6	23.1	15.3	9.1	-5.3	34.6	32.7

During the quarter ending September 30, 2007, the Cambridge Associates LLC U.S. Private Equity Index[®] rose 1.3%, the smallest increase since its string of 18 consecutive positive quarters began in April 2003. The funds started in 1999 turned in the third quarter's best return of 5.6% and distributed more than \$1.5 billion to investors, due in large part to realizations from consumer companies. The 1999 group represented only 6% of the index's total value during the quarter. The benchmark's performance resulted from quarterly returns of between 0.3% and 1.9% for the funds from the index's four largest vintage years, 2000, 2004, 2005, and 2006. All four years represent at least 10% of the assets in the index and the best performers of the group were the 2000 funds, which distributed more than \$5 billion to investors during the quarter from realizations in the communications, consumer, health care, and industrial sectors.

Nearly \$49 billion of cash flowed between private equity fund managers and their investors during the third quarter as approximately \$31 billion was called and \$18 billion was distributed. By far, the 2006 funds called the most capital, \$16 billion, from investors while at \$5.5 billion, the 2000 funds distributed the most. The private equity index has diversified over time due to the mega funds' broad investment strategies. During the third quarter, consumer-related, energy, health care, and manufacturing companies attracted the most capital and geographic expansion beyond the United States increased allocations to areas in Europe, the Caribbean, and Asia.

The private equity benchmark's marginally positive return during the third quarter reflected tighter credit markets and fluctuations in company valuations as a result of unstable public stock markets. Another factor affecting returns, mostly negatively in this quarter, was the increasing compliance with the "fair market valuation methodology" dictated by the Financial Accounting Board's standard 157. This standard requires all investment managers to hold private and public companies at values considered to be in line with public market prices. As it did during the third quarter when there was volatility in the public markets, the new standard will translate into increased movement in the values of private equity portfolios.

As noted in the table below, the private equity benchmark's nine-month return was 16.2%, its one-year 29.9%, its three-year 29.7%, and its five-year 23.6%. 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 September 30, 2007, the database comprised 690 buyout, expansion, restructuring, special situation, sector specialized, and mezzanine funds formed from 1986 to 2007 including 8,840 transactions with a value of roughly \$260 billion. By way of comparison, in September 30, 1997, the benchmark index included 234 funds and 2,052 transactions whose value was nearly \$31 billion.

U.S. Private Equity Index Returns (%)								
As of September 30, 2007								
Periods Ending September 30, 2007								
	3 rd Qtr.	9	1	3	5	7	10	15
	2007	Months	Year	Years	Years	Years	Years	Years
U.S. Private Equity	1.3	16.2	29.9	29.7	23.6	12.1	14.2	16.2

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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