CAMBRIDGE ASSOCIATES LLC

Cambridge Associates U.S. Private Equity and Venture Capital Benchmark Commentary
Quarter Ending June 30, 2013

Overview

Performance for U.S. private equity and venture capital funds was fairly strong in the second quarter of 2013, as indicated by the Cambridge Associates LLC benchmark indices of the two alternative asset classes. Returns were tightly clustered for both privates and publics with only 140 basis points between the best returning strategy, venture capital, and the worst, large-cap publics, as represented by the S&P 500 and DJIA. The venture capital index also bested the private equity benchmark for the quarter, bringing them about even for the year-to-date period. While privates have underperformed publics over the medium term, over the long term, private equity and venture capital have handily beaten the public markets.

In the second quarter, the return for the Cambridge Associates LLC U.S. Private Equity Index® was about 1.5% lower than its first quarter performance, while the return for the Cambridge Associates LLC U.S. Venture Capital Index® was 1.8% better than it was in the first quarter. Other quarter-over-quarter changes of note: IPO activity picked up in the second quarter, while public index returns could not keep pace with the blistering first quarter returns, though they still turned in a healthy performance.

The Cambridge Associates indices are derived from performance data compiled for funds that represent the majority of the institutional capital raised by private equity and venture capital partnerships. The Cambridge Associates LLC U.S. Private Equity Index® includes funds raised between 1986 and 2013; the Cambridge Associates LLC U.S. Venture Capital Index® represents funds raised between 1981 and 2013. Based on the performance data collected, private equity and venture capital returns versus indices tracking large- and small-capitalization public equities – the Dow Jones Industrial Average, the NASDAQ Composite, the Russell 2000 Composite, and the S&P 500 – are shown below:

U.S. Private Equity and Venture Capital Index Returns (%)
Periods ending June 30, 2013

For the periods ending June 30, 2013	Qtr.	Year to Date	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	25 Years
USPE	3.0	7.0	15.6	15.5	8.2	14.1	11.3	13.4	13.2
USVC	4.3	7.1	8.9	13.5	5.7	7.8	22.8	30.1	19.8
Other Indices									
DJIA	2.9	15.2	18.9	18.2	8.6	7.9	5.9	10.0	10.9
NASDAQ Composite[1]	4.2	12.7	16.0	17.3	8.2	7.7	4.0	8.2	9.0
Russell 2000 Composite	3.1	15.9	24.2	18.7	8.8	9.5	6.6	8.9	9.3
S&P 500	2.9	13.8	20.6	18.5	7.0	7.3	4.2	8.7	9.7

[1] Capital Changes Only

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Sources: Cambridge Associates LLC, Dow Jones & Company, Inc., Frank Russell Company, Standard and Poor's, and Thomson Reuters Datastream.

Note: Because the U.S. Private Equity and Venture Capital indices are capital weighted, the largest vintage years mainly drive the indices' performance.

Second Quarter 2013 Highlights:

- As of June 30, 2013, the private equity benchmark's performance was mixed when compared with the various public equity indices included in the table above. It outperformed the S&P 500 in six of the nine time horizons listed in the table but it only bested the small company index, the Russell 2000, in four of the time periods. The venture capital index beat out the large company public markets in five of the nine time periods, with shortfalls in the year-to-date, one-, three-, and five-year time horizons. Its performance against the Russell 2000 index is also not as strong as it has been against the large company indices. The private equity and venture capital indices' underperformance relative to the public markets in the shorter time horizons is worth monitoring.
- The venture index's ten-year return continued to improve. Since bottoming out at -4.6% during the third quarter of 2010, it has risen 12.4%.
- The spread between the private equity and venture capital ten-year returns stood at 6.3% as of the second quarter, down from 12.7% when the venture index hit its nadir in the third quarter 2010.
- As of June 30, 2013, public companies accounted for about 19.5% of the private equity index, a decrease of about 1.6% from the first quarter. Public company representation in the venture capital index rose 0.9% to 15.6%. Non-U.S. company exposures in the private equity and venture capital indices remained steady in the first half of 2013, 19.2% in the private equity benchmark and approximately 10.7% in the venture index.

Private Equity Performance Insights:

U.S. Private Equity		
Vintage Year[2]	2nd Qtr. Return (%)	6/30/2013 Weight In Index (%)
2004	3.3	6.4
2005	2.8	14.5
2006	2.5	22.1
2007	3.6	28.0
2008	2.3	10.0

- During the second quarter, there were only five vintage years that represented at least 5% of the benchmark's value. The 2006 and 2007 alone comprised 50% of the index, and the top five accounted for 81%. Among the five vintages, returns were also tightly clustered between 2.3% for the 2008 funds and 3.6% for the 2007 funds. (See table to the right for details.)
- The vintage year 2007 funds benefitted most from increased valuations in consumer, IT, energy, and financial services. In the second largest vintage, 2006, more than a billion dollars of write-ups in consumer businesses was the biggest driver of performance. Financial services was the best performing sector in the 2008 vintage; write-downs in mining companies were the largest drag on the vintage's return.
- Private equity fund managers called $12.7 billion from investors in the second quarter, a 0.3% decrease from the first. This was the lowest amount of capital called in a quarter in almost four years. Distributions increased 10.3% from the previous quarter to $32.3 billion, the second highest quarterly distribution amount in the more than 27-year history of the index.
- Distributions outpaced contributions for the sixth consecutive quarter, and at 2.5x, the ratio of distributions to contributions was the highest since mid-1987, when the industry was much smaller.

[2] Vintage year fund-level returns are net of fees, expenses, and carried interest.

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- In the second quarter, the 2011 vintage year called the most capital, more than $3.5 billion. It was the first time in ten quarters that a vintage year other than 2007 called the most capital. Five vintages, 2006 through 2008, and 2010 and 2011, called more than $1 billion during the quarter.
- The 2007 vintage year funds distributed $9.1 billion, the most during the quarter. Together, the five largest vintages, 2004 through 2008, distributed more than $25.6 billion to investors.
- All seven sectors representing at least 5% of the index's value earned positive returns during the second quarter. Software's 6.2% return was the highest, while energy earned the lowest return, 1.9%. The 2007 funds were the largest contributor to the software sector's performance, but the 2004, 2005, and 2006 vintages also contributed significantly. IT companies saw large write-ups in the 2007, 2005, and 2010 funds, but in other vintages, performance was more modest or even slightly negative. The media sector fell below the 5% threshold during the quarter. (See table to the right for details.)

U.S. Private Equity		
Sector[3]	2nd Qtr. Return (%)	6/30/2013 Weight In Index (%)
Consumer	4.9	20.6
Energy	1.9	18.5
Financial Services	4.6	9.4
Healthcare	3.2	13.1
IT	5.3	8.6
Manufacturing	2.7	7.9
Software	6.2	5.1

- The three largest sectors – consumer, energy, and healthcare – accounted for 52.2% of the value of the index during the quarter. Together these sectors returned 3.4% on a dollar-weighted basis, underperforming the gross return for all portfolio companies by 0.3%.
- Once again, energy companies were the largest recipient of invested capital. Over 29% of all invested dollars went into energy companies, which is roughly 12% higher than the long-term average.

Venture Capital Performance Insights:

- Returns for all seven top-sized vintage years in the venture index were positive during the second quarter; combined, these vintages represented 77.5% of the index. Among the seven, the 2005 venture capital funds were the best performing while the 2000 funds were the worst. Software, healthcare, and IT write-ups helped boost the 2005 funds' performance. Modest returns across all sectors led to the 2000 vintage's results. (See table to the right for specifics.)
- For the 2006 vintage year funds, the largest in the index, large write-ups in healthcare and IT contributed most to performance. For the second largest vintage, 2007, write-ups were dominated by healthcare companies.

U.S. Venture Capital		
Vintage Year[1]	2nd Qtr. Return (%)	6/30/2013 Weight In Index (%)
2000	1.3	9.9
2004	3.1	8.0
2005	6.3	10.8
2006	4.3	15.2
2007	3.7	13.8
2008	6.2	13.6
2010	4.4	6.4

- Venture capital fund managers called $3.0 billion from investors during the second quarter, which represented a 4.6% increase over the previous quarter. Distributions from venture funds were $4.9 billion, up 44.3% from the first quarter. It was the sixth straight quarter that distributions outpaced contributions.
- Funds formed in 2012 and 2008 were responsible for just under 44% of the total capital called; each called more than $650 million during the quarter. Distributions from the 2006 vintage year funds represented 19.1% of the total, but there were four vintage years—2004, 2005, 2006, and 2008—that distributed more than $600 million.
- All four sectors comprising at least 5% of the value of the index had positive returns in the second quarter. The highest return was earned by the software sector while the lowest was posted by media

[3] Industry-specific and total index gross company-level returns are before fees, expenses, and carried interest.

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companies. The software investments in vintage years 2003, 2005, and 2008 saw the largest increases in value in that sector. Healthcare investments in vintage year 2008 funds were by far the largest driver of that sector's positive return. The IT return was driven mainly by increases in funds formed in 2005, 2006, and 2008. (See table for details.)

- The three largest sectors – IT, healthcare, and software – accounted for 76.0% of the index by market value. On a dollar-weighted basis, the three sectors earned 6.3%, outperforming the index's gross return as a whole by about 0.4%.
- IT, healthcare, and software attracted over 81% of the total capital invested during the quarter. The percentage is about 4.5% higher than the long-term average dedicated to the three sectors. The three dominant sectors represented a similar percentage of the realizations during the quarter.

U.S Venture Capital		
Sector[2]	2nd Qtr. Return (%)	6/30/2013 Weight In Index (%)
Healthcare	7.9	26.2
IT	3.8	31.7
Media	3.6	5.0
Software	8.6	18.1

About the Indices

Cambridge Associates derives its U.S. private equity benchmark from the financial information contained in its proprietary database of private equity funds. As of June 30, 2013, the database comprised 1,064 U.S. buyouts, private equity energy, growth equity, and mezzanine funds formed from 1986 to 2013, with a value of roughly $592.9 billion. Ten years ago, as of June 30, 2003, the index included 502 funds whose value was roughly $136.1 billion.

Cambridge Associates derives its U.S. venture capital benchmark from the financial information contained in its proprietary database of venture capital funds. As of June 30, 2013, the database comprised 1,439 U.S. venture capital funds formed from 1981 to 2013, with a value of roughly $136.6 billion. Ten years ago, as of June 30, 2003, the index included 948 funds whose value was about $40.5 billion.

The pooled returns 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.

About Cambridge Associates

Founded in 1973, Cambridge Associates is a provider of independent investment advice and research to institutional investors and private clients worldwide. Today the firm serves over 950 global investors and delivers a range of services, including investment consulting, outsourced investment solutions, research and tools (Research Navigator[sm] and Benchmark Calculator), and performance monitoring, across asset classes. The firm compiles the performance results for over 5,400 private partnerships and their more than 68,000 portfolio company investments to publish its proprietary private investments benchmarks, of which the *Cambridge Associates LLC U.S. Venture Capital Index®* and *Cambridge Associates LLC U.S. Private Equity Index®* are widely considered to be among the standard benchmark statistics for these asset classes. Cambridge Associates has more than 1,100 employees serving its client base globally and maintains offices in Arlington, VA; Boston; Dallas; Menlo Park, CA; London; Singapore; Sydney; and Beijing. Cambridge Associates consists of five global investment consulting affiliates that are all under common ownership and control. For more information about Cambridge Associates, please visit www.cambridgeassociates.com.

Cambridge Associates has been selected to provide data and to develop and maintain customized industry benchmarks for a number of prominent industry associations, including the Institutional Limited Partners Association (ILPA), Australian Private Equity & Venture Capital Association Limited

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(AVCAL); the African Venture Capital Association (AVCA); the Hong Kong Venture Capital and Private Equity Association (HKVCA); the Indian Private Equity and Venture Capital Association (IVCA); the New Zealand Private Equity & Venture Capital Association Inc. (NZVCA); the Asia Pacific Real Estate Association (APREA); and the National Venture Capital Association (NVCA). Cambridge also provides data and analysis to the Emerging Markets Private Equity Association (EMPEA).

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