CAMBRIDGE ASSOCIATES LLC

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

Overview

Amid a strong period for equities, U.S. private equity and venture capital funds performed well in the third quarter of 2013, as indicated by the Cambridge Associates LLC benchmark indices of the two alternative asset classes. During the quarter, returns for small companies eclipsed those for large businesses in the public markets and venture beat out private equity. With that outperformance, the venture capital index moved ahead of the private equity benchmark for the year-to-date period. The private indices have struggled to outperform the public benchmarks over the short and medium terms; over the long term, private equity and venture capital have handily beaten the public markets.

In the third quarter, returns for both private asset class indices showed quarter-over-quarter improvement of more than 2%. The strong performance came amid a healthy IPO market and a period of double-digit increases for the small-company index, the Russell 2000, and the tech-heavy NASDAQ.

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 September 30, 2013

For the periods ending September 30, 2013	Qtr.	Year to Date	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	25 Years
USPE	5.1	13.3	17.2	15.7	11.0	14.2	12.0	13.5	13.4
USVC	6.5	14.0	15.1	14.4	7.5	8.6	26.1	30.0	20.2
Other Indices									
DJIA	2.1	17.6	15.6	14.9	9.9	7.7	6.9	10.0	11.0
NASDAQ Composite[1]	10.8	24.9	21.0	16.8	12.5	7.8	5.5	8.3	9.5
Russell 2000 Composite	10.2	27.7	30.1	18.3	11.2	9.6	8.9	9.0	9.8
S&P 500	5.2	19.8	19.3	16.3	10.0	7.6	5.3	8.8	10.0

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

[1] Capital Changes Only

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

Third Quarter 2013 Highlights:

- As of September 30, 2013, the private equity benchmark's performance was mixed when compared with the various public equity indices included in the table above. It roughly equaled or 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, but with shortfalls in recent periods including 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. Despite solid absolute returns for privates, strong public market performance has been difficult to match let alone beat, particularly in the last three years.
- The venture index's ten-year return continued to rebound. Since bottoming out at -4.6% during the third quarter of 2010, it has risen to 8.6%, an increase of 13.2%.
- The spread between the private equity and venture capital ten-year returns stood at 5.6% as of the third quarter, down from 12.7% when the venture index hit its nadir in the third quarter of 2010.
- As of September 30, 2013, public companies accounted for about 20.4% of the private equity index, a small decrease from the second quarter. Public company representation in the venture capital index rose 0.9% to 17.4%. Non-U.S. company exposure in the private equity index remained steady while it decreased slightly in the venture capital index. At the end of the third quarter, international companies represented 19.1% in the private equity benchmark and approximately 10.3% in the venture index.

Private Equity Performance Insights:

U.S. Private Equity		
Vintage Year[2]	3rd Qtr. Return (%)	9/30/2013 Weight In Index (%)
2004	6.0	6.2
2005	6.2	14.7
2006	4.1	21.4
2007	5.2	27.4
2008	5.3	10.1

- During the third quarter, there were only five vintage years that represented at least 5% of the benchmark's value. The 2006 and 2007 funds comprised nearly 49% of the index, and the top five vintages accounted for 80%. The range of returns among the five vintages was narrow, clustered between 4.1% for the 2006 funds and 6.2% for the 2005 funds. (See table to the right for details.)
- The vintage year 2007 funds' return was driven by more than a billion dollars of valuation increases in each of the following four sectors: energy, health care, consumer, and IT. In the second largest vintage, 2006, the best performing sectors were consumer, health care, and financial services. The vintage year 2005 funds benefitted primarily from increased valuations in consumer companies and secondarily from those in health care and IT.
- Private equity fund managers called $15.3 billion from investors in the third quarter, nearly 16.0% more than was called in either the first or second quarters. Distributions decreased slightly from the previous quarter to $32.3 billion. Over the first nine months of 2013, private equity managers distributed $95.5 billion, compared with $69.9 billion distributed in the same period in 2012.
- Distributions outpaced contributions for the seventh consecutive quarter. From the beginning of 2012 through September 30, 2013, managers distributed 1.85x as much capital as they called. In the first three quarters of 2013, the ratio of distributions to contributions was 2.29x.

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

- For the second consecutive quarter, the 2011 vintage year called the most capital, more than $4.6 billion. Notably, from October 2010 through March 2013, it was the 2007 funds that drew down the most capital.
- Four vintages, 2007, 2008, 2011, and 2012, each called more than $1 billion during the quarter. Combined, these four vintage years called $11.9 billion or 78% of the total capital called.
- The 2007 vintage year funds distributed nearly $9.7 billion, the most during the quarter. Together, the five largest vintages, 2004 through 2008, distributed more than $26.2 billion to investors.
- All seven sectors representing at least 5% of the index's value earned positive returns during the third quarter. IT's 7.7% return was the highest, while energy earned the lowest return, 3.7%. The 2007 funds were the largest contributor to the IT sector's performance, but all vintage years from 2005 through 2011 saw significant write-ups in the sector. The consumer sector's strong performance was driven by valuation increases of more than a billion dollars in vintage years 2005 through 2007. The software sector fell below the 5% threshold during the quarter. (See table to the right for details.)

U.S. Private Equity		
Sector[3]	3rd Qtr. Return (%)	9/30/2013 Weight In Index (%)
Consumer	7.5	21.3
Energy	3.7	18.7
Financial Services	5.5	9.7
Health Care	6.9	11.5
IT	7.7	8.6
Manufacturing	5.5	7.5
Media	4.6	5.2

- The three largest sectors—consumer, energy, and health care—accounted for 51.6% of the value of the index during the quarter. Together these sectors returned 6.0% on a dollar-weighted basis, outperforming the gross return for all portfolio companies by 0.2%.
- Once again, energy companies were the largest recipient of invested capital. Almost 32% of all invested dollars went into energy companies, which is nearly 14% 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 third quarter; combined, these vintages represented 76.7% of the index. Among the seven, the 2007 venture capital funds were the best performing while the 2000 funds were the worst. Health care, IT, and software write-ups were all larger than $500 million in the quarter, which boosted the 2007 funds' performance. Health care and media were the only strong performing sectors in the vintage year 2000 funds. (See table to the right for specifics.)
- For the 2006 vintage year funds, the largest in the index, substantial write-ups in health care and IT contributed most to performance.

U.S. Venture Capital		
Vintage Year[1]	3rd Qtr. Return (%)	9/30/2013 Weight In Index (%)
2000	2.7	9.1
2004	5.5	7.6
2005	4.8	10.2
2006	7.9	14.9
2007	10.0	14.2
2008	5.0	13.7
2010	9.9	6.9

- Venture capital fund managers called $3.0 billion from investors during the third quarter, as LP contributions remained fairly steady in the first three quarters of 2013. Distributions from venture funds were $6.3 billion, up 25.4% from the second quarter. It was the seventh straight quarter that distributions outpaced contributions, and the ratio of distributions to contributions was the highest since the year 2000.
- Funds formed in 2008, 2011, and 2012 were responsible for 49% of the total capital called; each called more than $450 million during the quarter. Distributions from the 2006 vintage year funds represented nearly 17% of the total, but there were six vintage years—2000, 2004, 2005, 2006, 2007

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

and 2008—that distributed more than $660 million. Those six combined distributed more than $4.7 billion or roughly 76% of the total.

- All four sectors comprising at least 5% of the value of the index had positive returns in the third quarter. The highest return was earned by the media sector while the lowest was posted by IT companies. The media investments in vintage years 2007, 2006, and 2000 saw the largest increases in value in that sector. IT investments were written up in almost all of the vintage years; the largest increases were in vintage years 2006 through 2008 funds. (See table for details.)

U.S Venture Capital		
Sector[2]	3rd Qtr. Return (%)	9/30/2013 Weight In Index (%)
Health Care	8.4	26.0
IT	6.7	32.1
Media	11.9	5.1
Software	9.3	18.7

- The three largest sectors—IT, health care, and software—accounted for nearly 77% of the index by market value. On a dollar-weighted basis, the three sectors earned 7.9%, outperforming the index's gross return as a whole by about 0.8%.
- IT, health care, and software attracted slightly more than 81% of the total capital invested during the quarter. The percentage is about 4.1% 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.

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 September 30, 2013, the database comprised 1,096 U.S. buyouts, private equity energy, growth equity, and mezzanine funds formed from 1986 to 2013, with a value of roughly $616.1 billion. Ten years ago, as of September 30, 2003, the index included 514 funds whose value was roughly $143.8 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 September 30, 2013, the database comprised 1,467 U.S. venture capital funds formed from 1981 to 2013, with a value of roughly $144.0 billion. Ten years ago, as of September 30, 2003, the index included 951 funds whose value was about $41.4 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 nearly 1,000 global investors and delivers a range of services, including investment consulting, outsourced investment solutions, research and tools (Research Navigator℠ and Benchmark Calculator), and performance monitoring, across asset classes. The firm compiles the performance results for more than 5,600 private partnerships and their nearly 70,000 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 (AVCAL); the African Venture Capital Association (AVCA); Canada's Venture Capital and Private Equity Association (CVCA); 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).