



June 30, 2014

Review of Market Performance: Fiscal Year 2014



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- ◆ US equities returned 24.6% in the fiscal year ended June 30, 2014, ranking 31st in 114 fiscal years of data. The health care, information technology, and materials sectors all returned above 30%. All developed markets ended the fiscal year in the black, with Europe ex UK the best-performing region and Japan the only country to post single-digit returns. The United States recovered its 2007 peak in fiscal year 2013; developed markets as a whole have now recovered their peak as well, though other major subregions remain below.
- ◆ Emerging markets surged in the last three months of the fiscal year, but still underperformed developed markets by nearly 10 ppts. Excluding Greece, which was reclassified to an emerging market in this fiscal year, and Hungary, all developed and emerging markets have posted a positive five-year average annual compound return. Frontier markets (36.6%) posted their best fiscal year return since the year ended June 30, 2007. The tensions between Ukraine and Russia were largely ignored by the markets. Ukrainian equities, which compose just 0.2% of the frontier index, returned 26.5% in the final three months of the fiscal year, for a 10.2% fiscal year return; Russian equities, 5.4% of the emerging index, returned 10.8% in the final three months and 8.2% for the fiscal year.
- ◆ Credit markets also finished the fiscal year in the black. The benchmark Barclays Agg returned 4.4% while US high-yield bonds returned 11.7%. High-yield issuance has soared in the past two fiscal years and for calendar year 2014 is expected to reach a new record. Ten-year Treasury yields finished the fiscal year almost exactly where they began it, at 2.53%.
- ◆ Global flow data turned decidedly in favor of equities in the fiscal year, with global fixed income funds seeing their first significant outflows post-financial crisis.

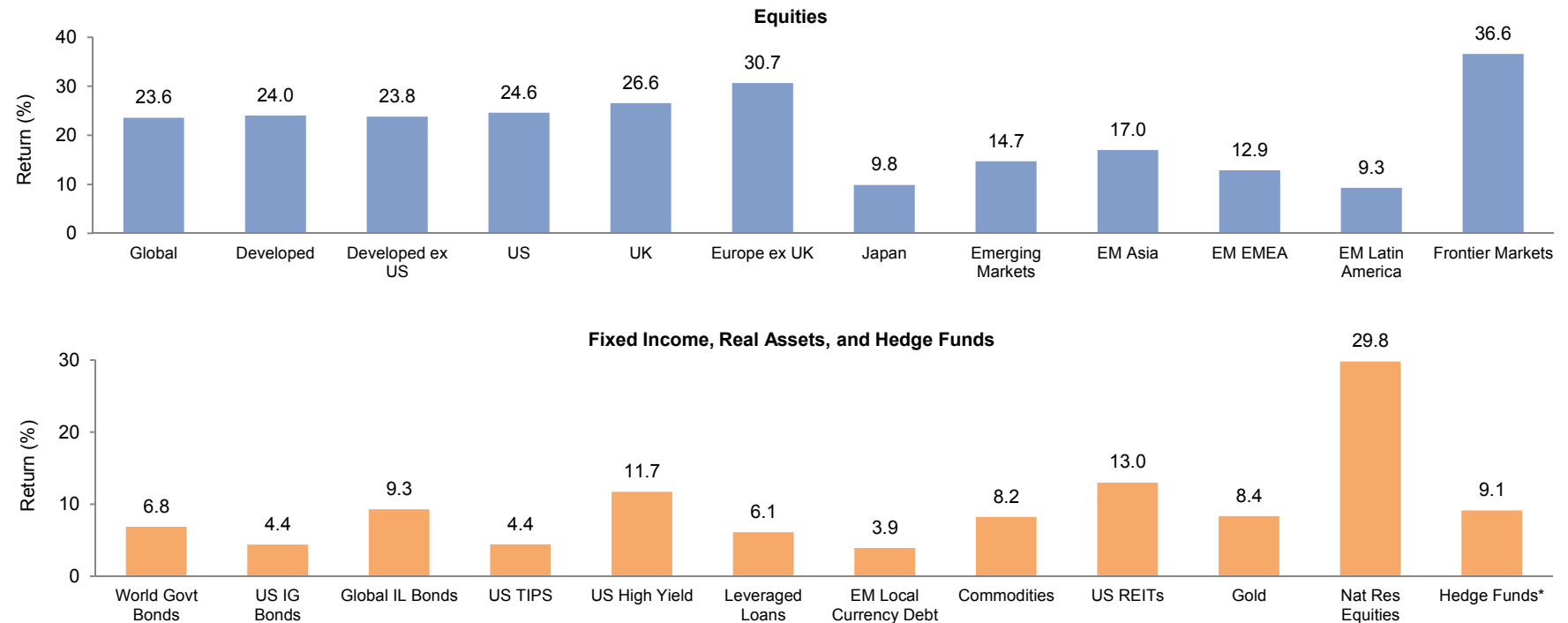
- ◆ Among real assets, natural resources equities had a banner fiscal year, returning over 25%, while returns for commodities were 8.2%, with weak performance in the last three months of the fiscal year. US REITs, by contrast, had a strong last quarter of the fiscal year, ending with a return for the year of 13.0%. Gold prices ended the fiscal year at \$1,317/troy ounce, up 8.4%.
- ◆ Volatility across asset classes dropped during the last three months of the fiscal year to levels last seen during 2005–06.
- ◆ Preliminary data from Hedge Fund Research, Inc., show many hedge fund strategies posting solid returns for the fiscal year, with the widely followed HFRI Fund Weighted Composite Index returning 9.1% and the HFRI Equity Hedge Index, 12.6%. Through first quarter 2014 estimated hedge fund assets are \$2.7 trillion, a new record.
- ◆ For the one-year period ended March 31, 2014, the Cambridge Associates LLC US Private Equity Index returned 19.1% while the Cambridge Associates LLC US Venture Capital Index returned 30.5%. Five-year returns through March 31 were 17.4% and 14.2%, respectively.
- ◆ The IPO market was strong in the fiscal year, with private equity– and venture-backed IPOs reaching their highest level by value since our analysis began in fiscal year 2000, and their largest number since fiscal year 2001. The M&A market was less exuberant, with slightly lower totals by volume and value this fiscal year versus the previous one.
- ◆ The pound sterling moved up strongly against the US dollar in fiscal year 2014; the Swiss franc and the euro also strengthened against the greenback. The yen was slightly weaker against the dollar to end the fiscal year, as was our emerging markets currency basket.

Returns in Fiscal Year 2014 Were Uniformly Positive

Equity returns were particularly strong, with many countries posting double-digit returns

Asset Class Performance: Fiscal Year 2014

July 31, 2013 – June 30, 2014 • US Dollar



Sources: Barclays, Citigroup Global Markets, Credit Suisse, Dow Jones Indexes, Frank Russell Company, FTSE International Limited, Hedge Fund Research, Inc., J.P. Morgan Securities, Inc., MSCI Inc., Standard & Poor's, and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

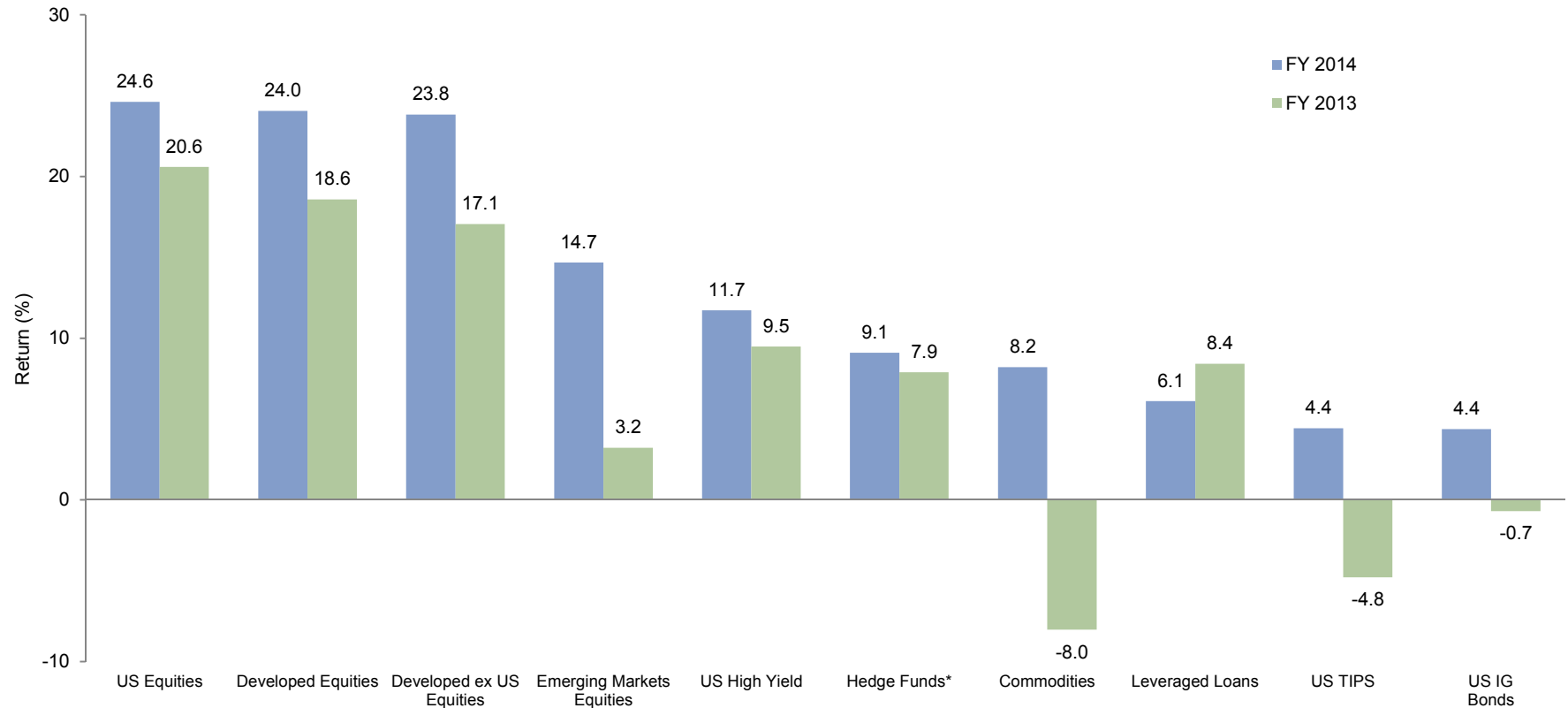
Notes: All returns are total returns in US\$ terms, except gold, for which returns are based on changes in the spot price. Asset classes represented by the following: MSCI All Country World Index ("Global"), MSCI World Index ("Developed"), MSCI World ex US Index ("Developed ex US"), S&P 500 Index ("US"), MSCI UK Index ("UK"), MSCI Europe ex UK Index ("Europe ex UK"), MSCI Japan Index ("Japan"), MSCI Emerging Markets Index ("Emerging Markets"), MSCI Emerging Markets Asia Index ("EM Asia"), MSCI Emerging Markets Europe, Middle East, Africa Index ("EM EMEA"), MSCI Emerging Markets Latin America ("EM Latin America"), MSCI Frontier Markets ("Frontier Markets"), Citigroup World Government Bond Index ("World Govt Bonds"), Barclays Aggregate Bond Index ("US IG Bonds"), Barclays World Government Inflation-Linked Index ("Global IL Bonds"), Barclays US TIPS Index ("US TIPS"), Barclays High-Yield Composite ("US High Yield"), Credit Suisse Leveraged Loan ("Leveraged Loans"), J.P. Morgan GBI-EM Global Diversified Index ("EM Local Currency Debt"), Dow Jones-UBS Commodity Index ("Commodities"), FTSE® NAREIT All Equity REITs ("US REITs"), Gold Bullion Prices ("Gold"), MSCI World Natural Resources Index ("Nat Res Equities"), and HFRI Fund Weighted Composite Index ("Hedge Funds"). Total returns for MSCI developed markets indexes are net of dividend taxes. Total returns for MSCI emerging markets indexes are gross of dividend taxes. Hedge Fund Research data are preliminary for the preceding five months.

* Based on preliminary data.

And Across Asset Classes Generally Beat Returns in FY 2013

Asset Class Performance: Fiscal Years 2013 & 2014

Fiscal Years Ended June 30 • US Dollar



Sources: Barclays, Citigroup Global Markets, Credit Suisse, Dow Jones Indexes, Frank Russell Company, FTSE International Limited, Hedge Fund Research, Inc., J.P. Morgan Securities, Inc., MSCI Inc., Standard & Poor's, and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

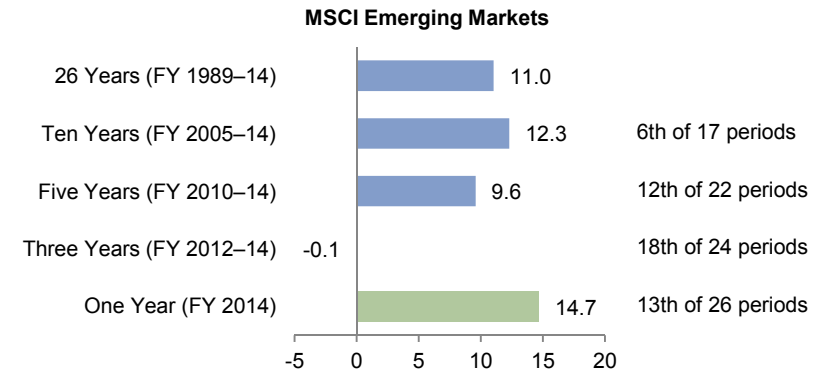
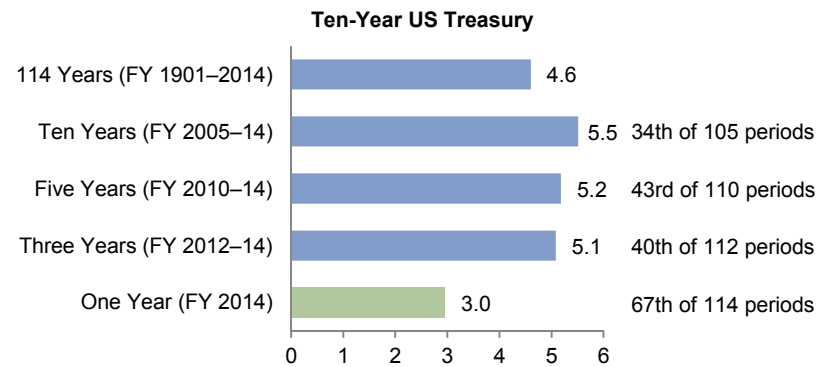
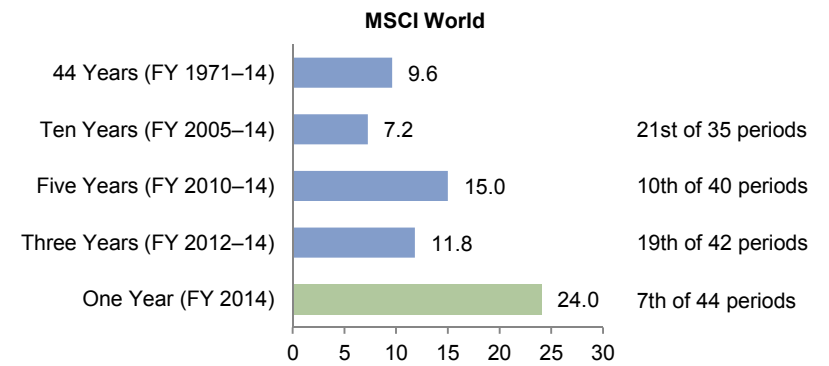
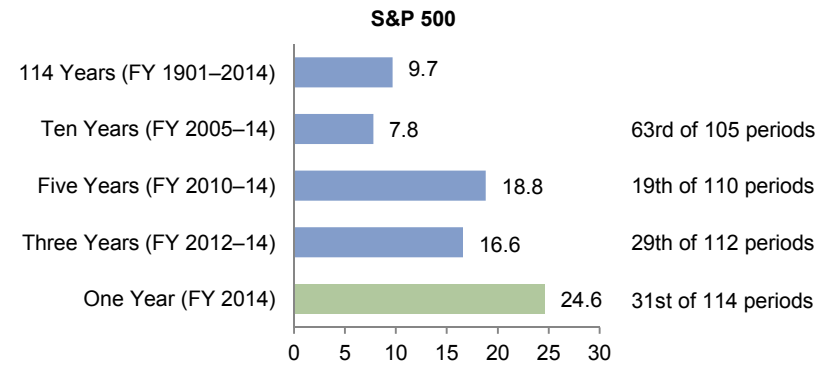
Notes: All returns are total returns in US\$ terms. Asset classes represented by the following: S&P 500 Index ("US Equities"), MSCI World Index ("Developed Equities"), MSCI World ex US Index ("Developed ex US Equities"), MSCI Emerging Markets Index ("Emerging Markets Equities"), Barclays High-Yield Composite ("US High Yield"), HFRI Fund Weighted Composite Index ("Hedge Funds"), Dow Jones-UBS Commodity Index ("Commodities"), Credit Suisse Leveraged Loan ("Leveraged Loans"), Barclays US TIPS Index ("US TIPS"), and Barclays Aggregate Bond Index ("US IG Bonds"). Total returns for MSCI developed markets indexes are net of dividend taxes. Total returns for MSCI emerging markets indexes are gross of dividend taxes. Hedge Fund Research data are preliminary for the preceding five months.

* Returns for fiscal year 2014 based on preliminary data.

The US Equity Return Was in the Top Third of Historical Periods

Average Annual Compound Returns for Various Time Periods

Periods Ended June 30, 2014 • US Dollar



Sources: Global Financial Data, Inc., MSCI Inc., Standard & Poor's, and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

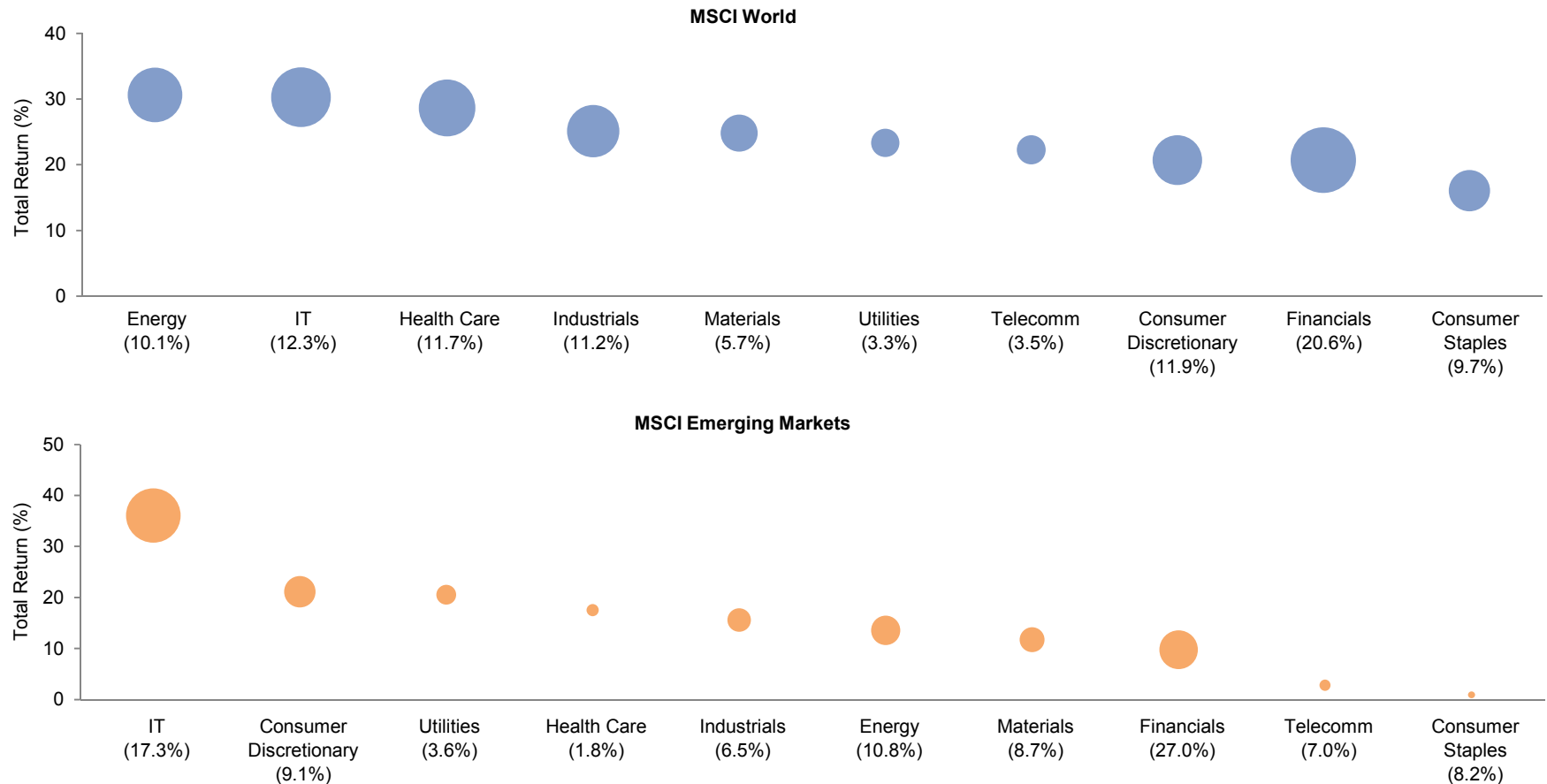
Note: A ranking of first indicates the best performance among all periods.

All DM Sectors and 8 of 10 EM Sectors Posted Double-Digit Returns in FY2014

Heavily weighted financials were at the low end of returns for both developed and emerging markets

Global Equity Sector Performance: Fiscal Year 2014

July 31, 2013 – June 30, 2014 • US Dollar



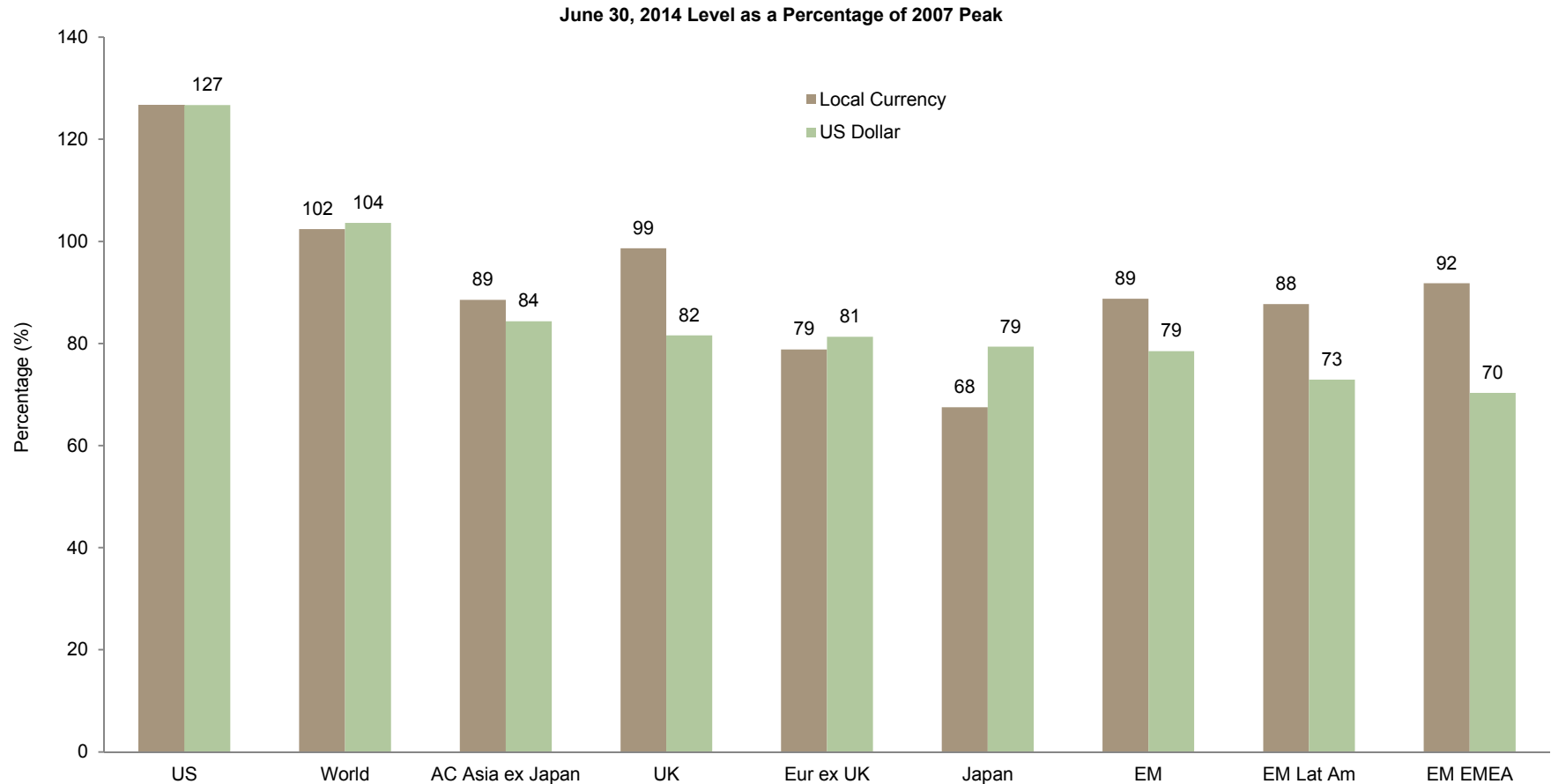
Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: Total returns for MSCI developed market indexes are net of dividend taxes. Total returns for MSCI emerging markets indices are gross of dividend taxes. Bubble size determined by contribution to return. Sector weight below index name as of fiscal year-end 2014.

US Equities' Strong Performance Has Pushed DM Equities Over Their 2007 Peak

Other major developed regions and emerging markets still lag their 2007 peaks, particularly in US\$ terms

Global Market Levels as a Percentage of 2007 Peak Level



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

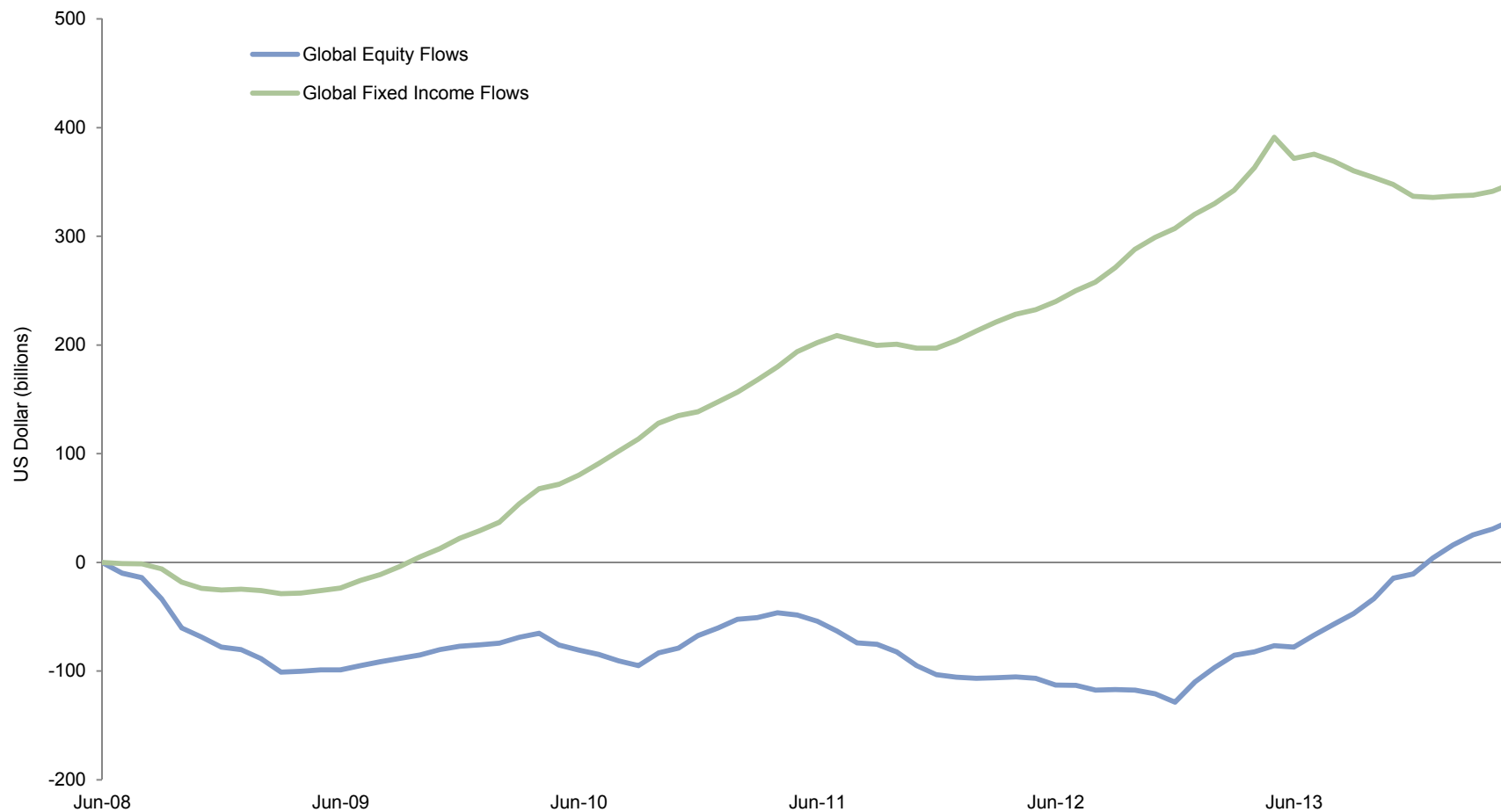
Notes: Graph represents current market levels as a percentage of their 2007 peak. MSCI Emerging Markets Latin America data represent 2007 peak on October 29, 2007.

The absolute peak for MSCI Emerging Markets Latin America occurred in May 2008.

Global Flows Moved Strongly Back into Equities in FY2014

Cumulative Wealth of Global Flows into Equity and Fixed Income Funds

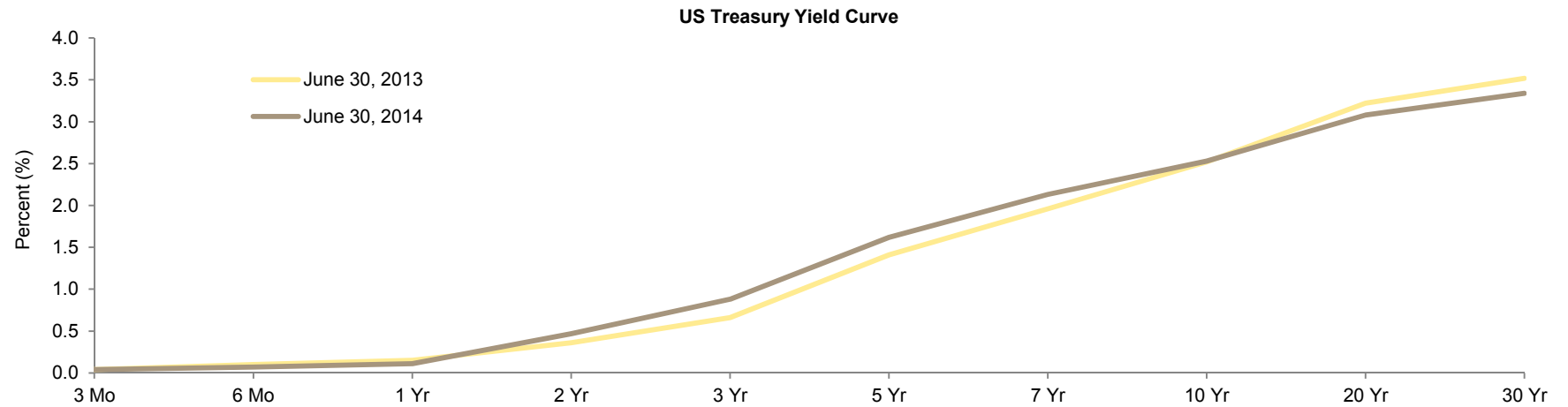
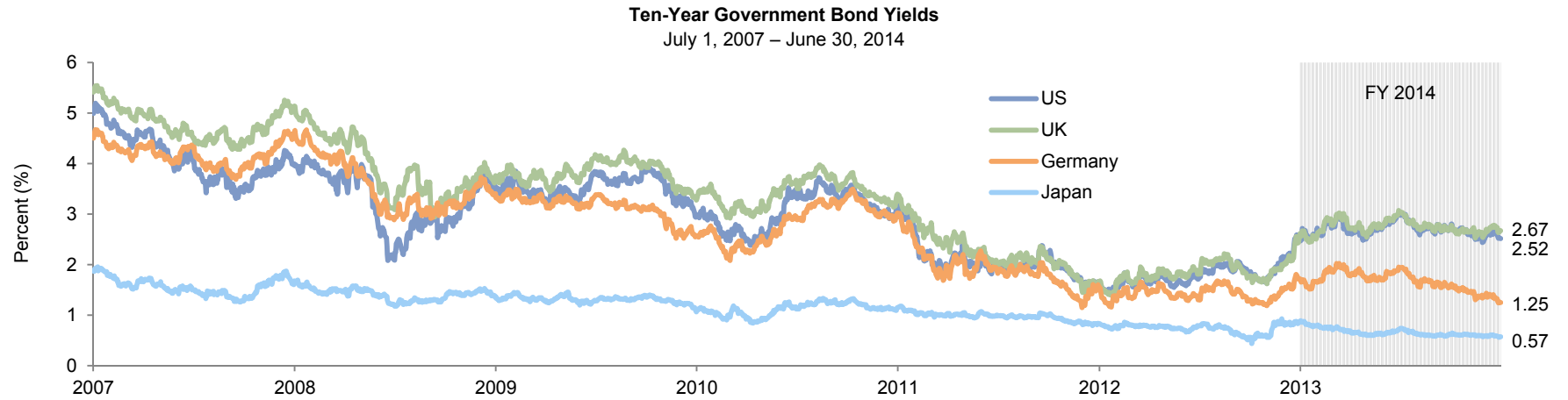
June 30, 2008 – May 31, 2014



Source: EPFR Global.

Ten-Year US Treasury Yields Ended the Fiscal Year Right Where They Began

Ten-Year Government Bond Yields and US Treasury Yield Curve



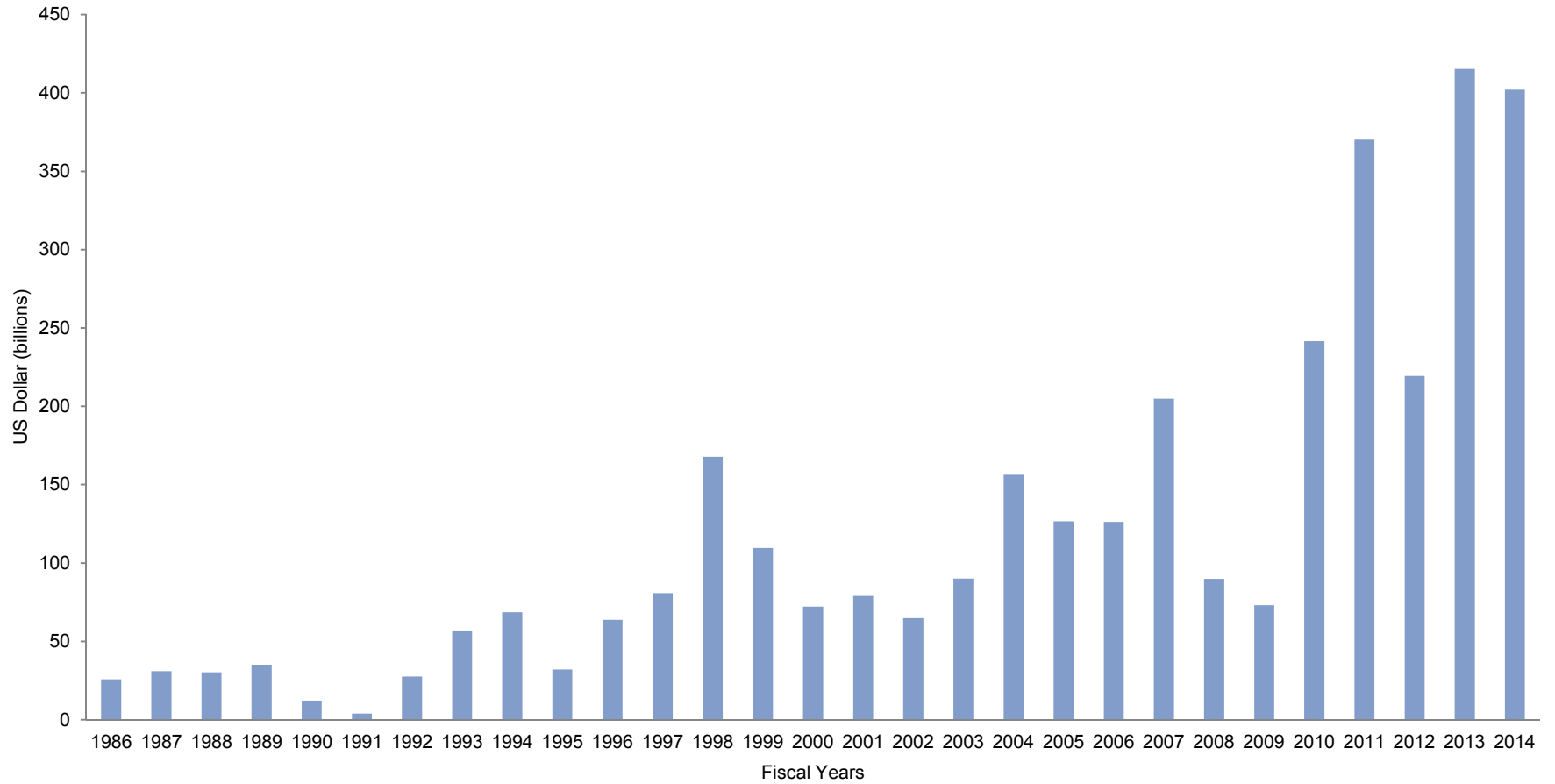
Source: Thomson Reuters Datastream.

High-Yield New Issuance Remained Strong in FY2014

Issuance in recent fiscal years has far outpaced earlier periods

High-Yield New Issuance by Fiscal Year

Fiscal Years 1986–2014



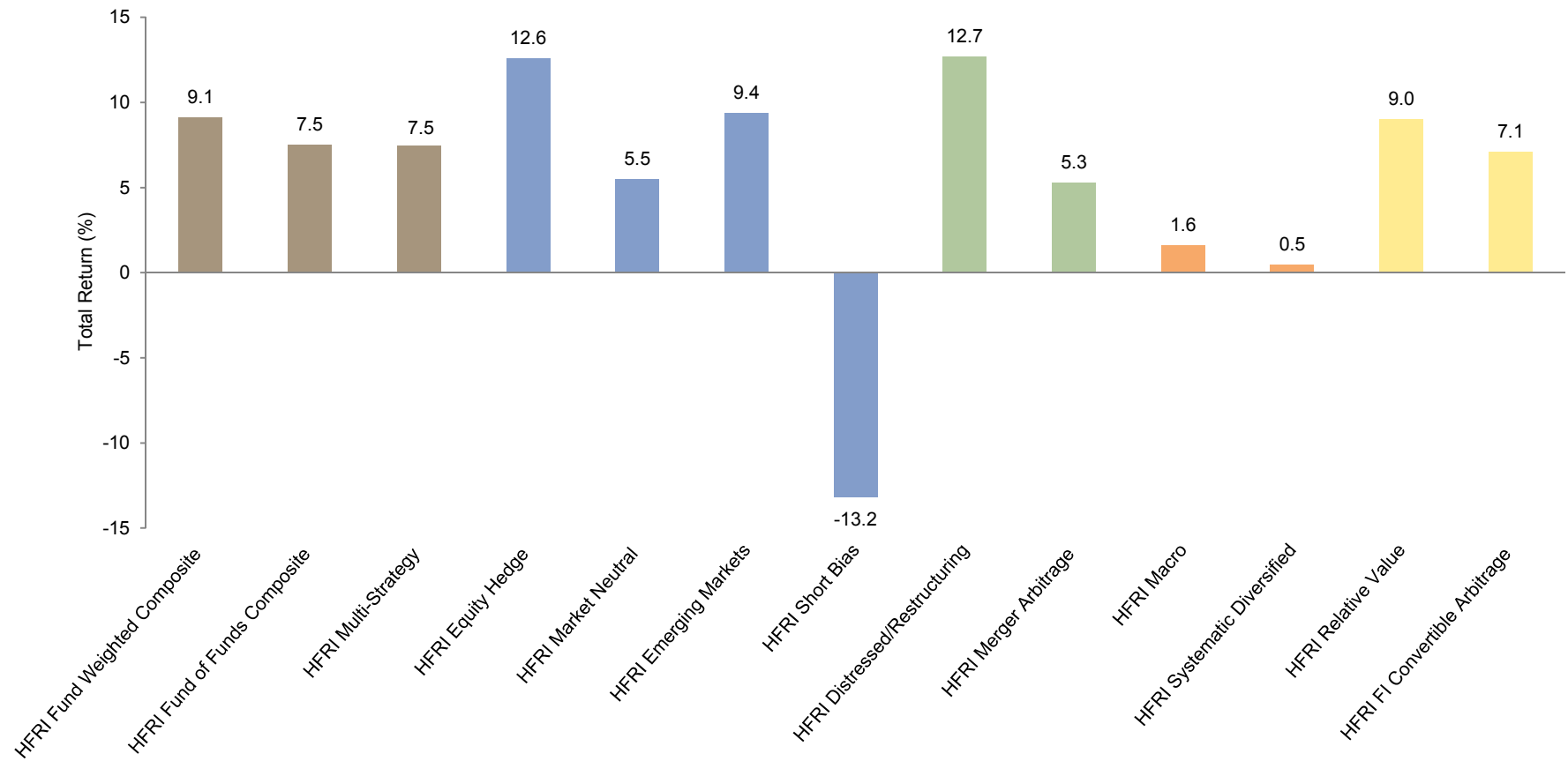
Source: BofA Merrill Lynch.

Notes: Fiscal years are July 1 to June 30. Data are quarterly.

Nearly All Hedge Fund Strategies Posted Positive Returns in FY2014

Preliminary Fiscal Year 2014 Hedge Fund Performance: HFRI Indexes

July 31, 2013 – June 30, 2014



Source: Hedge Fund Research, Inc.

Note: Hedge Fund Research data are preliminary for the preceding five months.

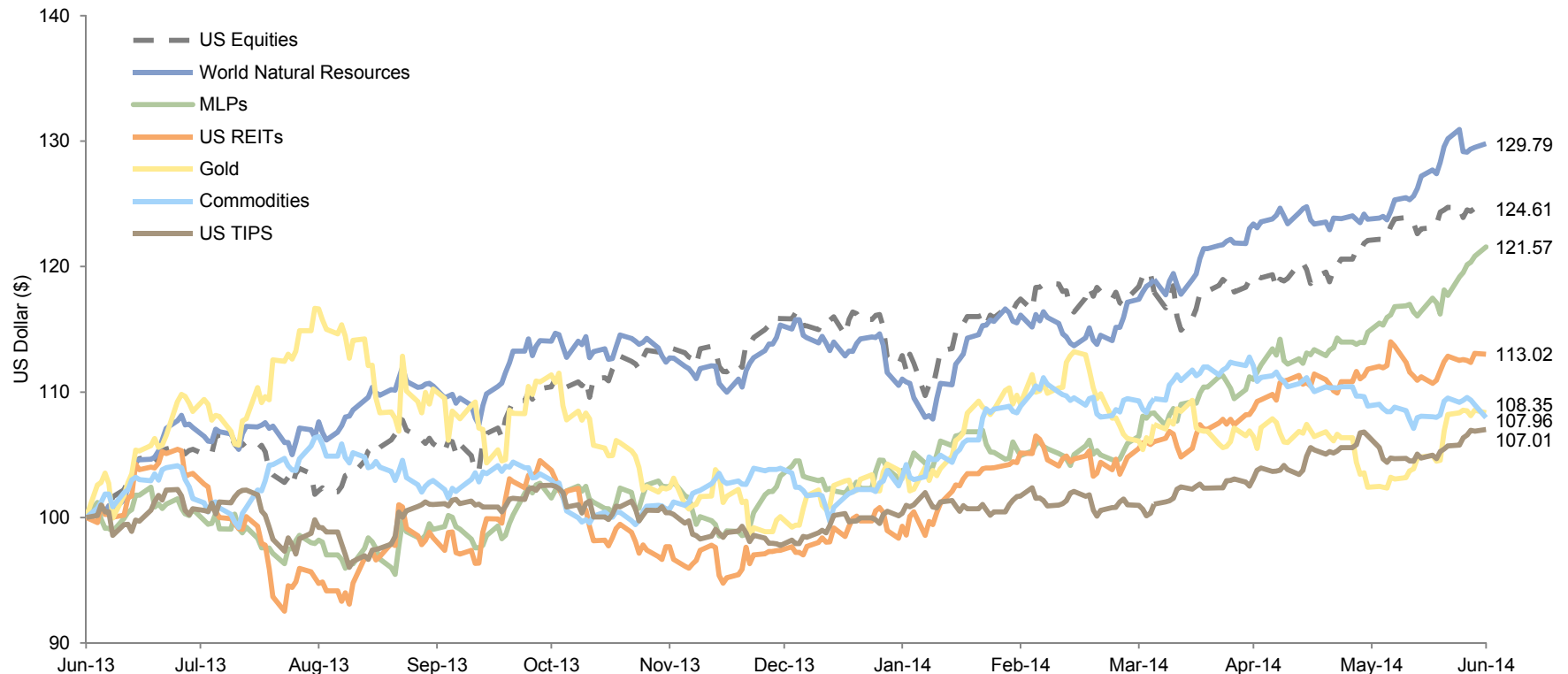
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Most Public Real Assets Also Did Not Keep Up With Equities in FY2014

Natural resources equities outperformed US equities by 500 bps

Cumulative Wealth of Public Real Assets: Fiscal Year 2014

June 30, 2013 – June 30, 2014 • June 30, 2013 = \$100



Sources: Alerian, Barclays, Dow Jones Indexes, FTSE International Limited, MSCI Inc., Standard & Poor's, and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: Data are daily. "US Equities" represented by the S&P 500 Index, "World Natural Resources" by the MSCI World Natural Resources Index, "MLPs" by the Alerian MLP Index, "US REITs" by the FTSE® NAREIT All Equity REITs Index, "Gold" by the Gold Bullion Spot Price, "Commodities" by the DJ-UBS Commodity Spot Price Index, and "US TIPS" by the Barclays US TIPS Index.

The Fiscal Year Ended with Low Levels of Volatility Across Asset Classes

Implied and Realized Volatility of Various Markets



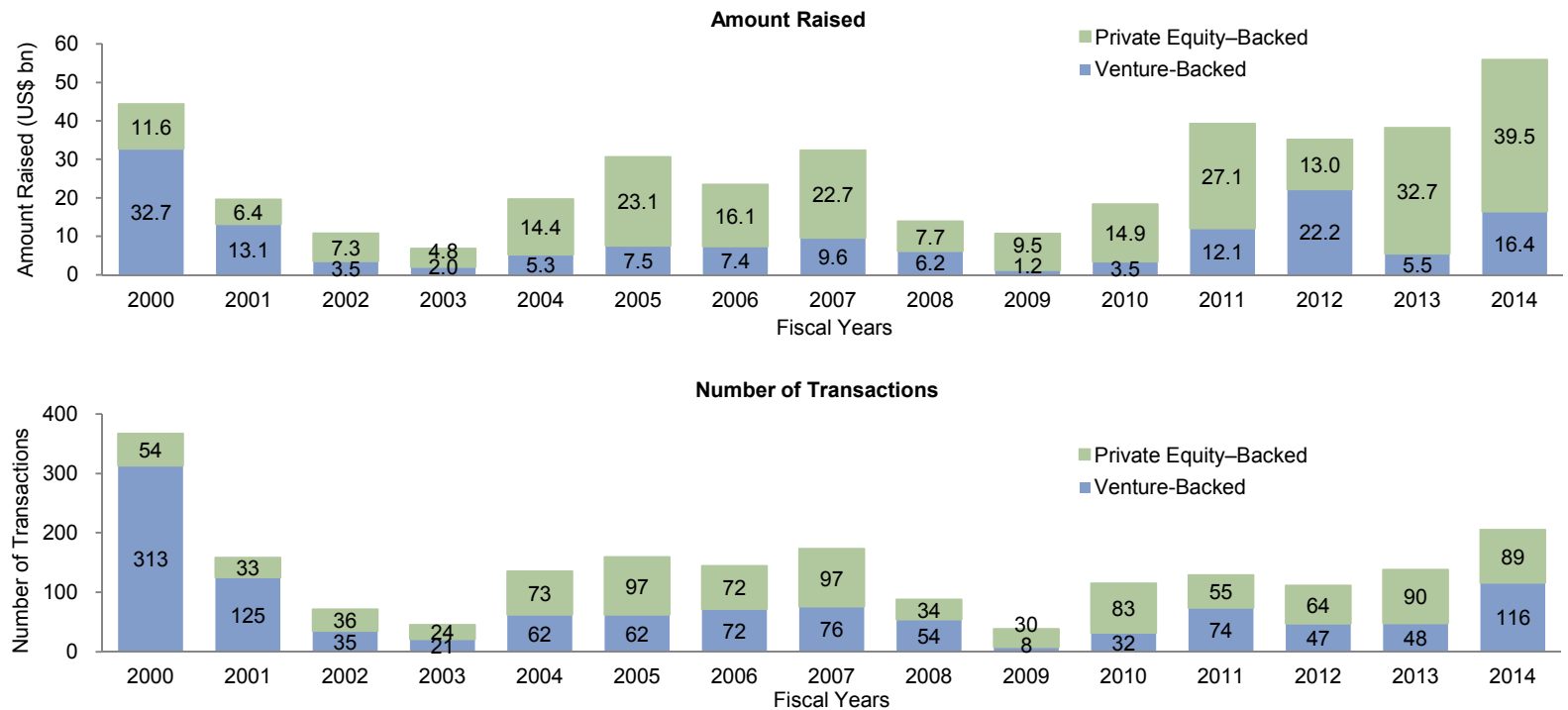
Sources: Barclays, Chicago Board of Exchange, Dow Jones Indexes, Standard & Poor's, STOXX, and Thomson Reuters Datastream.
 Notes: Data are daily. "Korean Equities" represented by the KOSPI, "Oil" by the CBOE Crude Oil Volatility Index, "Commodities" by the Dow Jones-UBS Commodity Index, and "HY Bonds" by the Barclays HY Bond Index.

PE- and VC-Backed IPOs in FY2014 Reached Their Highest Number Since FY2000

Average amount raised for PE-backed deals was the second highest in the 2000s

US Private Equity- & Venture-Backed Initial Public Offerings by Fiscal Year

Fiscal Years 2000–14



Average Amount Raised Venture-Backed IPOs

(US\$ millions)	104.6	105.2	99.3	95.4	84.9	121.5	102.5	125.9	114.3	148.1	107.9	163.5	472.1	114.9	141.8
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Average Amount Raised Private Equity-Backed IPOs

(US\$ millions)	215.4	194.6	203.1	199.6	197.3	238.4	222.9	234.5	227.3	315.3	178.9	493.4	202.9	363.1	443.3
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Sources: Dealogic, National Venture Capital Association, and Thomson Reuters.

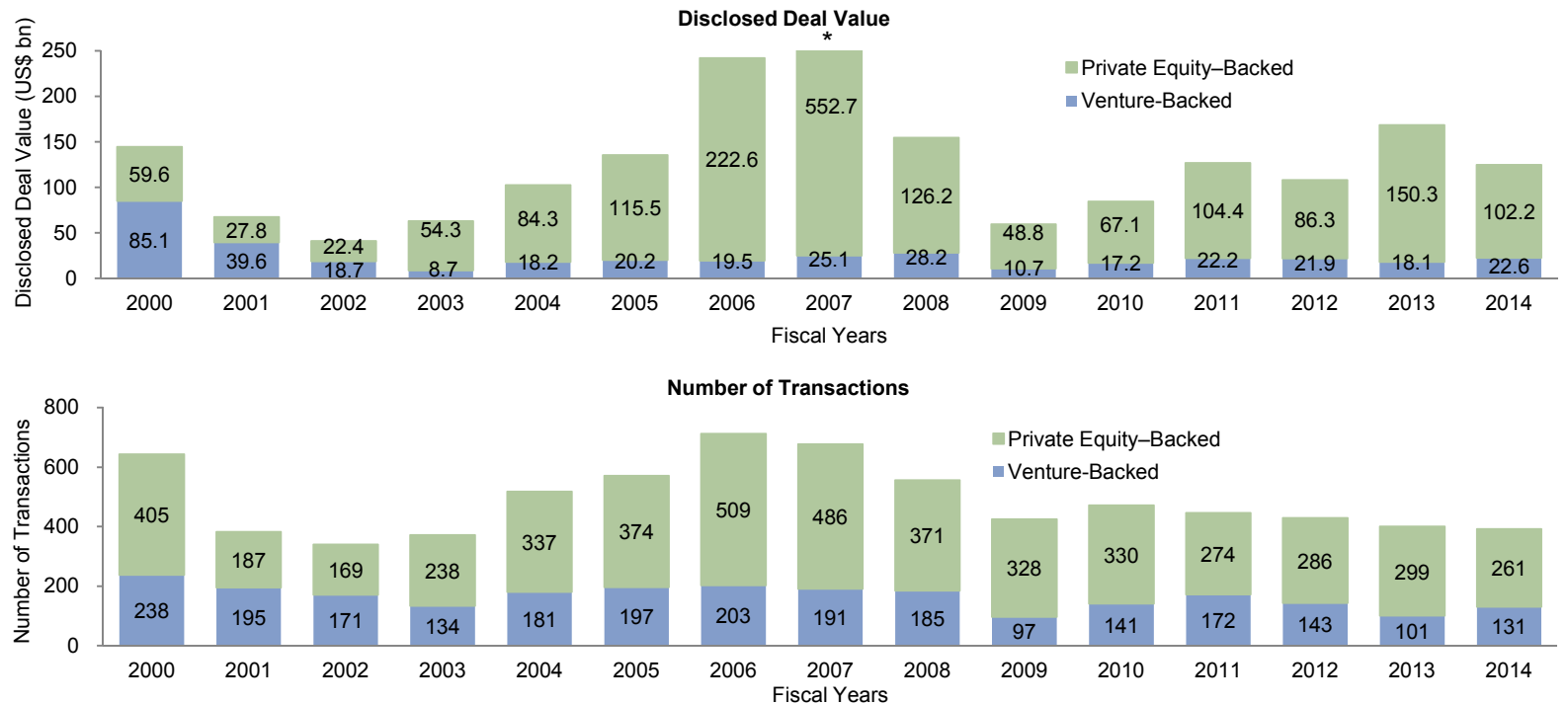
Notes: Fiscal years are July 1 to June 30. Data are quarterly. Dealogic updates its database on a regular basis, therefore historical data may change.

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PE- and VC-Backed M&A Activity Was Slightly Below FY2013 in Volume and Value

US Private Equity– & Venture-Backed Mergers & Acquisitions by Fiscal Year

Fiscal Years 2000–14



Average Deal Value Venture-Backed M&A

(US\$ millions)	357.6	203.0	109.4	64.8	100.3	102.4	96.1	131.4	152.4	110.3	121.8	129.4	153.1	179.3	172.7
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Average Deal Value Private Equity-Backed M&A

(US\$ millions)	147.1	148.6	132.6	228.0	250.1	308.8	437.4	1,137.1	340.3	148.8	203.4	381.0	301.7	502.5	391.5
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Sources: Dealogic, National Venture Capital Association, and Thomson Reuters.

Notes: Fiscal years are July 1 to June 30. Data are quarterly. Dealogic updates its database on a regular basis, therefore historical data may change. Deal value data only include deals for which a deal value was reported.

* Scale capped for graphing purposes.

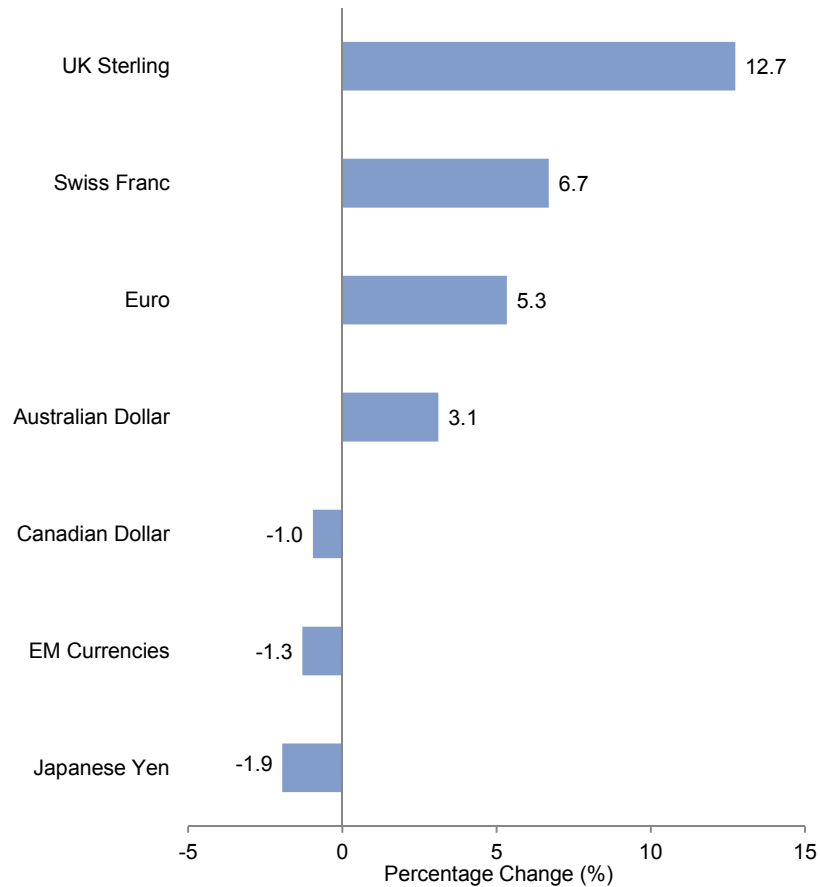
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The US Dollar Ended FY2014 Lower Against the Euro and the Pound

The US dollar was up slightly over the course of the year against the yen

Currency Performance vs the US Dollar: Fiscal Year 2014

July 31, 2013 – June 30, 2014

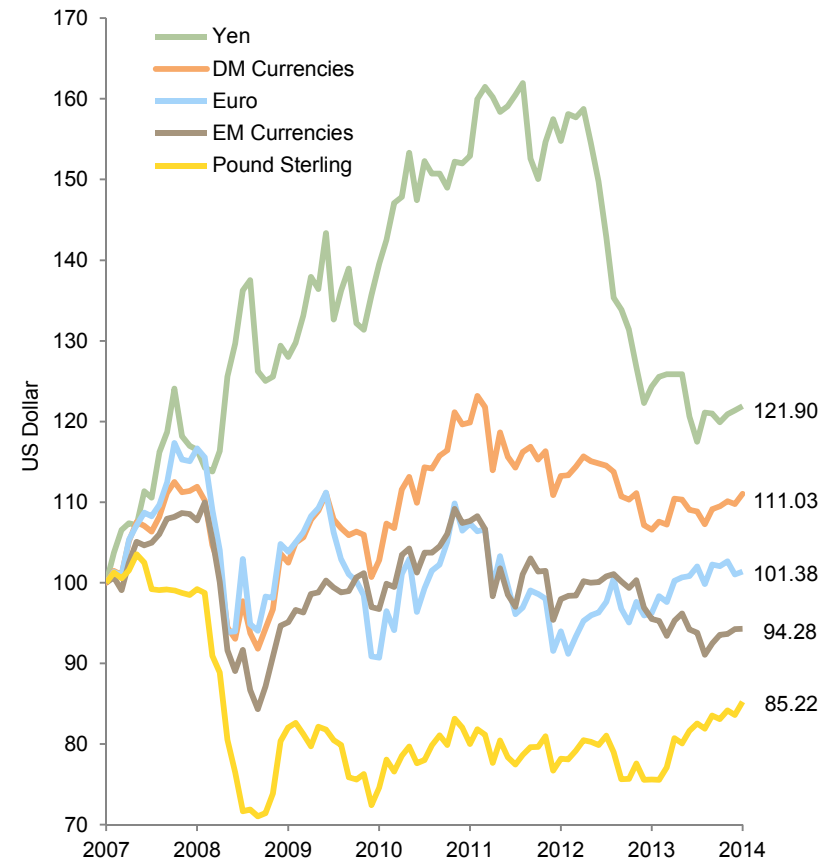


Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express

Note: EM currencies is an equal-weighted basket of 20 currencies.

Cumulative Wealth for Various Currencies in US\$ Terms

July 1, 2007 – June 30, 2014 • June 30, 2007 = \$100



Sources: Thomson Reuters Datastream and WM/Reuters.

Notes: DM currencies is an equal-weighted basket of six currencies. EM currencies is an equal-weighted basket of 20 currencies.