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Global ex US PE/VC Benchmark Commentary

Quarter and Year Ending December 31, 2013

The Cambridge Associates LLC Global ex US Developed Markets Private Equity and Venture Capital (PE/VC) Index rose 6.5% in US$ terms in fourth quarter 2013, its sixth consecutive positive quarter, bringing its return for 2013 to 16.3%. The Cambridge Associates LLC Emerging Markets PE/VC Index rose 7.3% in fourth quarter and 13.6% for the year. Exchange rates fluctuated in 2013, with the euro strengthening most in the last four months of the year, helping to boost returns measured in US dollars. The investment environment in Europe improved slowly in 2013, as larger, healthier economies stabilized while others continued to feel lingering effects from the debt crisis. Both the global ex US developed and emerging markets PE/VC indexes outperformed public market counterparts in the fourth quarter, but only the emerging markets PE/VC index managed to do so for the year.

Performance for the Cambridge Associates LLC Global ex US Developed and Emerging Markets PE/VC indexes is derived from data compiled from institutional quality funds raised between 1986 and 2013. There are more than 700 funds in the developed markets index and about 500 in the emerging markets index. Funds in the global ex US developed market PE/VC index primarily invest in companies in Europe, but occasionally make investments in US companies as well.

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Table 1. Returns for the Global ex US Developed and Emerging Markets PE/VC Indexes vs Public Counterparts
US$ Terms • Percent (%)

	Qtr	1 Yr	3 Yr	5 Yr	10 Yr	15 Yr	20 Yr
CA Global ex US Dev Mkts PE/VC	6.5	16.3	10.9	13.0	13.8	13.8	14.2
CA Emerging Markets PE/VC	7.3	13.6	7.2	14.6	12.5	8.9	8.3
MSCI EAFE	5.7	22.8	8.2	12.4	6.9	4.5	5.7
MSCI Emerging Markets	1.9	-2.3	-1.7	15.1	11.5	11.2	5.7
S&P 500	10.5	32.4	16.2	17.9	7.4	4.7	9.2

Sources: Cambridge Associates LLC, MSCI Inc., Standard & Poor's, and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.
Notes: The global ex US developed markets index includes private equity and venture capital funds that invest primarily in developed markets in Asia/Pacific, Europe, and/or the Middle East as well as in Canada. The emerging markets index includes private equity and venture capital funds that invest primarily in Africa and/or Latin America & Caribbean as well as emerging countries in Asia/Pacific, Europe, and the Middle East. Because the indexes are capital weighted, performance is mainly driven by the largest vintage years. The PE/VC indexes' returns are based on limited partners' fund-level performance; the returns are net of fees, expenses, and carried interest.

This commentary reviews the indexes' performance. Highlights of the fourth quarter and year are:

- The developed markets PE/VC index outperformed the comparable public equity index (MSCI EAFE) for the fourth quarter but not for the year, though it has beaten the public market index in all other trailing time periods shown in Table 1. The emerging markets PE/VC index outperformed its public market counterpart (MSCI Emerging Markets Index) for the fourth quarter and the year, and has also outperformed over the trailing three and ten years ending December 31, 2013.
- In 2013, the developed markets PE/VC index enjoyed four positive quarters while the emerging markets PE/VC index was up in three; its only negative quarter was the second, an especially difficult period for public equity in the emerging markets, too.
- Based on market values at December 31, 2013, public companies accounted for slightly more than 15.6% of the developed markets PE/VC index, about a 3.5% drop from the end of 2012. The emerging markets PE/VC index also had a lower exposure to public companies than it did at the end of 2012, 18.8% versus 22.4%.

In 2013, the developed markets PE/VC index enjoyed four positive quarters while the emerging markets PE/VC index was up in three

Global ex US Developed Markets Private Equity and Venture Capital Performance Insights

The Cambridge Associates LLC Global ex US Developed Markets PE/VC Index returned 6.5% in fourth quarter 2013, bringing its return for the year to 16.3%, an improvement of 200 bps over its performance in 2012. Returns across the four largest vintage years in the index (2005 through 2008) ranged from 5.6% to 7.8% during the fourth quarter; for the year, they were all in double digits, ranging from 11.0% to 21.4% (Table 2). These years represented 75.4% of the benchmark's value; more than half of the index's value resided in the two largest vintages, 2006 and 2007. The only vintage year of the four largest to underperform the index in the fourth quarter and year was 2005; the 2008 vintage year was the best-performing in both the quarter and the year.

The four largest vintage years in the developed markets PE/VC index had double-digit returns for 2013, ranging from 11.0% to 21.4%

Looking at these two vintage years, for vintage year 2008, write-ups in financial services and information technology (IT) companies were the key drivers of fourth quarter performance, whereas manufacturing and media businesses were the strongest performers in fourth quarter for vintage year 2005. For the year, consumer, IT, and financial services (in rank order) were the key drivers of vintage year 2008's results. In the 2005 vintage, write-ups were more modest overall and only financial services saw increases of more than $1.0 billion for the year.

Table 2. Global ex US Developed Markets PE/VC Index Vintage Year Returns: Net Fund-Level Performance

	Q4 2013 Returns (%)	CY 2013 Return (%)	12/31/13 Weight in Index (%)
2005	5.6	11.0	13.2
2006	6.4	19.2	27.4
2007	7.5	16.1	24.3
2008	7.8	21.4	10.6

Notes: Returns in US$ terms. Vintage year fund-level returns are net of fees, expenses, and carried interest.

The dollar-weighted return of the three largest sectors outperformed the broad developed markets PE/VC index for the fourth quarter and the year

All Seven Key Sectors Posted Positive Returns for the Quarter and Year, with Media in the Lead. Fourth quarter returns were positive across the seven sectors that each represented at least 5% of the index ("meaningfully sized"). The three largest sectors—consumer, health care, and IT—represented nearly half of the index's total value and on a dollar-weighted basis gained 8.8%, beating the index's return by 20 bps. Among the meaningfully sized sectors, media turned in the best performance for the quarter with a 16.9% return (Table 3). Most of the write-ups in media companies took place in vintage years 2001

Table 3. Global ex US Developed Markets PE/VC Index Sector Returns: Gross Company-Level Performance

	Q4 2013 Returns (%)	CY 2013 Return (%)	12/31/13 Weight in Index (%)
Consumer	8.3	20.7	25.3
Energy	4.4	13.0	5.5
Financial Services	8.0	24.9	9.2
Health Care	7.4	15.0	13.5
IT	11.7	30.9	10.7
Manufacturing	8.9	18.0	8.7
Media	16.9	42.7	5.9

Notes: Returns in US$ terms. Industry-specific gross company-level returns are before fees, expenses, and carried interest.

and 2004 through 2007, with 2005 leading the way. Energy lagged the group with a return of 4.4%, as only vintage years 2006 and 2007 had better than modest gains in the sector.

For the year, all of the meaningfully sized sectors produced double-digit positive returns. The range between worst and first was quite large, from the energy sector's 13.0% to media's 42.7%. On a dollar-weighted basis, the three largest sectors returned 21.2% for the year, outperforming the total gross benchmark by 120 bps. IT was the best performer among the largest three sectors.

Portfolio Companies Based in Germany Performed Best for the Quarter; US-Based Companies Performed Best for the Year.

Fourth quarter returns for the five meaningfully sized geographic regions ranged between the US's 6.5% and Germany's 11.7% (Table 4). Five countries—the United Kingdom, the United States, Germany, France, and Sweden (in rank order)—accounted for 62.3% of the index's value. Most of the portfolio companies in the index are located in western Europe, but because some of the larger funds in the index invest in businesses based in the United States, the United States is the second largest region in the index. Two other countries, Italy and Spain, each represent nearly 5% of the index.

For the fourth year in a row, all of the meaningfully sized geographic regions produced positive annual returns; the United States led all others in 2013 with a return of 24.5%. The United Kingdom came in a close second after leading in 2012. For the second consecutive year, France was the worst-performing country among the large regional components of the index.

More than 82% of the write-ups across funds in the developed markets PE/VC index were attributed to Western European companies

Table 4. Global ex US Developed Markets PE/VC Index Regional Returns: Gross Company-Level Performance

	Q4 2013 Returns (%)	CY 2013 Return (%)	12/31/13 Weight in Index (%)
France	8.3	13.3	7.5
Germany	11.7	15.5	9.8
Sweden	10.1	16.2	6.0
United Kingdom	9.1	23.3	23.0
United States	6.5	24.5	16.1

Notes: Returns in US$ terms. Geographic region–specific gross company-level returns are before fees, expenses, and carried interest.

More than 82% of the write-ups across the index were attributed to western European companies; western Europe and US-based companies combined represented more than 94% of the valuation increases. Vintage years 2004 through 2008 accounted for the lion's share of the increases in western European businesses. Vintage year 2006 alone was responsible for more than half of the US company write-ups.

Distributions Continue to Outpace Contributions. In the fourth quarter, managers in the global ex US developed markets index called $7.1 billion from limited partners, while returning $19.2 billion. Capital calls fell by $285.1 million, or 3.9%, from the third quarter while distributions rose nearly $4.4 billion, or 29.3%. Investors in funds launched in 2006, 2007, 2011, and 2012 all contributed more than $1.0 billion during the quarter; as a group, they contributed $5.7 billion (or 81% of the total called). On the other hand, investors in funds launched in 2004 through 2008 received approximately $16.4 billion, or 85.2%, of the capital distributed. For the seventh quarter in a row, and the 11th out of the past 12, distributions outpaced contributions.

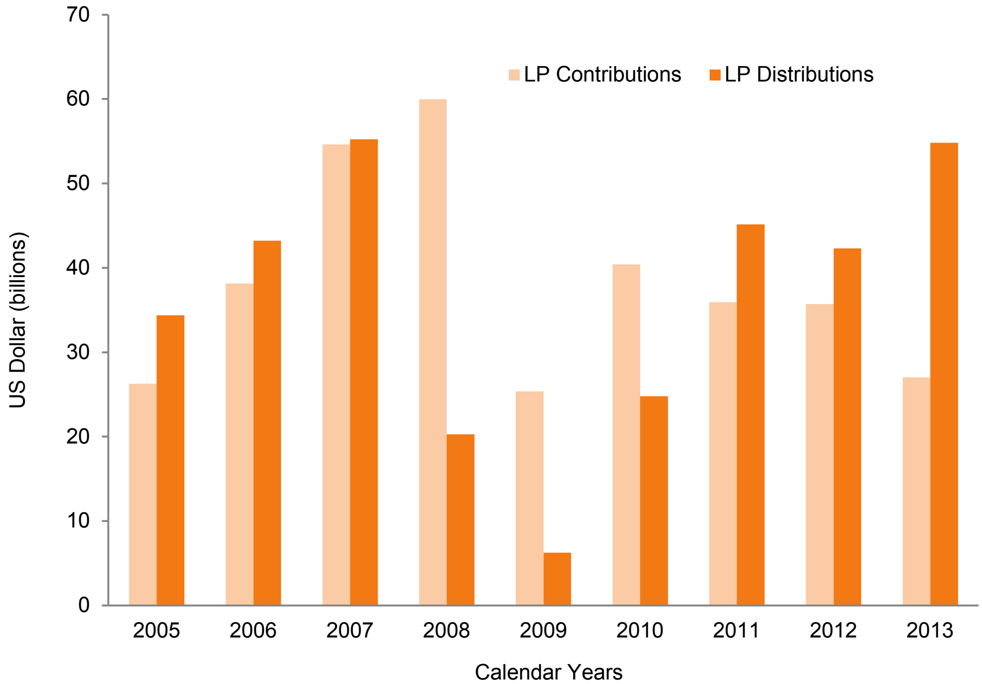
Capital calls for funds in the developed markets PE/VC index fell slightly for fourth quarter, while distributions rose 29.3%

For the year, contributions were down 24.3% and distributions were up 29.6% from levels hit in 2012. It was the third consecutive year that distributions were higher than contributions (Figure 1).

Fund managers in the developed markets index invested most heavily in health care, manufacturing, and consumer companies in the fourth quarter; the three sectors together represented nearly 55% of total investments, about 5.5% higher than their combined long-term norm. Health care and manufacturing allocations were higher than average, while consumer companies accounted for less than half of what they have over the long term. For the year, consumer and health care businesses were by far the largest recipients of invested capital.

For the year, consumer and health care businesses were by far the largest recipients of invested capital in the developed markets PE/VC index

Figure 1. Contributions & Distributions for the Global ex US Dev Mkts PE/VC Index
2005–13



2013 was the third consecutive year that distributions were higher than contributions for the developed markets PE/VC index

Just over 70% of the capital invested in the fourth quarter by fund managers in the developed markets index went to companies based in western Europe, about 6.5% less than the long-term average. US-based businesses attracted almost 22% of the money invested, over 9% more than the long-term norm.

Emerging Markets Private Equity Performance Insights

The Cambridge Associates LLC Emerging Markets PE/VC Index posted a 7.3% gain in fourth quarter 2013. Returns for the six vintage years that made up 87.7% of the index ranged from 4.7% and 12.0% for the fourth quarter (Table 5), with four of the largest vintage years underperforming the index for the quarter (2005, 2007, 2008, and 2010).

For the year, the emerging markets PE/VC index returned 13.6%. The best-performing vintages for the year, 2008 and 2011, both saw their largest gains in the IT sector. The two largest vintage years, 2006 and 2007, accounted for approximately 52% of the benchmark's value and generated returns of 17.9% and 12.5%, respectively, for the year. Within the 2006 vintage, write-ups were concentrated in the following three sectors, in order of size: health care, manufacturing, and IT. The 2007 vintage's gains were more widespread and modest, with consumer and manufacturing leading the way. Similar to vintage year 2007, the 2005 vintage underperformed the index for the quarter and the year. The 2005 vintage's gains in manufacturing and media companies were largely offset by write downs in construction, IT, and financial services (in rank order).

The best-performing vintages for the year in the emerging markets PE/VC index, 2008 and 2011, both saw their largest gains in the IT sector

Table 5. Emerging Markets PE/VC Index Vintage Year Returns: Net Fund-Level Performance

	Q4 2013 Returns (%)	CY 2013 Return (%)	12/31/13 Weight in Index (%)
2005	4.7	5.2	10.9
2006	9.6	17.9	17.2
2007	6.7	12.5	34.7
2008	6.4	19.2	11.8
2010	7.2	15.6	8.0
2011	12.0	19.0	5.1

Notes: Returns in US$ terms. Vintage year fund-level returns are net of fees, expenses, and carried interest.

Four of the Five Key Sectors Posted Double-Digit Returns for the Year; Health Care's Return for the Year Was Double the Next Closest Sector. The gross, company-level return for the index was 8.6% in fourth quarter 2013. All five sectors that represented at least 5% of the index ("meaningfully sized") produced positive returns during the fourth quarter (Table 6). The largest sectors—consumer, manufacturing, IT, health care, and financial services—composed about 71% of the index's value and returned 10.8% during the quarter on a dollar-weighted basis. Two sectors, energy and electronics, represented

Table 6. Emerging Markets PE/VC Index Sector Returns:
Gross Company-Level Performance

	Q4 2013 Returns (%)	CY 2013 Return (%)	12/31/13 Weight in Index (%)
Consumer	5.6	15.8	21.4
Financial Services	9.8	9.8	10.2
Health Care	15.9	51.0	10.6
IT	17.1	25.5	12.1
Manufacturing	10.9	17.8	16.4

Notes: Returns in US$ terms. Industry-specific gross company-level returns are before fees, expenses, and carried interest.

more than 4% of the index. IT companies earned the fourth quarter's highest return, driven largely by portfolio company write-ups of more than $300 million in vintage years 2006, 2010, and 2011.

IT companies earned the highest return in the emerging markets PE/VC index for the quarter, driven largely by portfolio company write-ups of more than $300 million

For the year, companies in the emerging markets index achieved a gross, dollar-weighted return of 18.0%. Of the five meaningfully sized sectors, health care and IT companies were the primary return drivers. By the end of 2013, health care company representation in the index had jumped almost 250 bps over its level at the end of 2012 because of the sector's strong performance in the year. The financial services sector, the only one that did not earn a double-digit return for the year, saw the bulk of its gains in the fourth quarter.

Returns on Investments in Companies in China For the Year Were Double Those for the Next Closest Country. Fourth quarter returns across the three meaningfully sized geographic regions ranged from India's 4.7% to China's 16.0% (Table 7). These three countries—China, India, and South Korea—represented nearly 52% of the index's value; China alone represented 37% of the index. Companies headquartered in China continued to receive more capital than any other region during the fourth quarter.

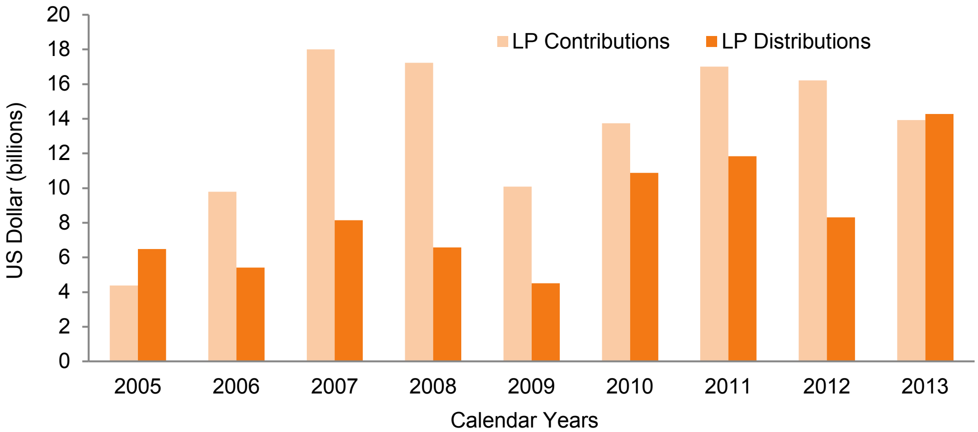
Companies based in China posted by far the highest return among the meaningfully sized countries in the emerging markets PE/VC index in 2013, and health care did the most to boost the return

Table 7. Emerging Markets PE/VC Index Regional Returns:
Gross Company-Level Performance

	Q4 2013 Returns (%)	CY 2013 Return (%)	12/31/13 Weight in Index (%)
India	4.7	-2.0	8.5
Mainland China	16.0	31.6	36.9
South Korea	9.9	15.4	6.1

Notes: Returns in US$ terms. Geographic region–specific gross company-level returns are before fees, expenses, and carried interest.

Figure 2. Contributions and Distributions for the Emerging Markets PE/VC Index
2005–13



For the year, the three largest regions earned a combined return of 23.0%, beating the index's gross return by 500 bps. Companies based in China posted by far the highest return among the meaningfully sized countries in 2013, and health care did the most to boost the return. India was the only large country with a negative return for the year but other smaller geographies, such as Israel (pre-2010 deals), Singapore, and South Africa suffered the same fate. If Chinese companies were excluded from the index, the gross return for 2013 would have dropped from 18.0% to 11.1%.

In 2013, Distributions Outpaced Contributions for the First Year Since 2005. In the fourth quarter, managers in the emerging markets index called $4.4 billion from limited partners, an increase of 9.9% from the previous quarter. Distributions were also slightly higher in the fourth quarter than they were in the third. Investors received $3.4 billion from fund managers, a 14.2% increase over the prior quarter. Managers of funds raised in 2007, 2010, and 2011 called $3.0 billion, or 68% of the total capital called during the quarter. Investors in funds launched in 2005 and 2007 received more than $800 million each in distributions, or 50% of the total.

2013 was the first year since 2005 that distributions outnumbered contributions for the emerging markets PE/VC index

During 2013, managers in the emerging markets index called $13.9 billion, a decrease of $2.3 billion from 2012 (Figure 2). The $14.3 billion distributed to investors in 2013 was 72% higher than what was distributed in 2012. It was the first year since 2005 that distributions outnumbered contributions. ■

About the Indexes

Cambridge Associates derives its Global ex US Developed Markets Private Equity and Venture Capital Index from the financial information contained in its proprietary database of global ex US private equity and venture capital funds. As of December 31, 2013, the database comprised 706 global ex US developed markets private equity and venture capital funds formed from 1986 to 2013 with a value of about $283 billion. Ten years ago, as of December 31, 2003, the benchmark index included 324 global ex US developed markets funds, whose value was roughly $62 billion.

Cambridge Associates derives its Emerging Markets Private Equity and Venture Capital Index from the financial information contained in its proprietary database of global ex US private equity and venture capital funds. As of December 31, 2013, the database comprised 504 emerging markets funds formed from 1986 to 2013 with a value of about $126 billion. Ten years ago, as of December 31, 2003, the benchmark index included 185 emerging markets funds, whose value was more than $14 billion.