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# Global ex US PE/VC Benchmark Commentary

Quarter Ending March 31, 2014

## Overview

During the first quarter, the Cambridge Associates LLC Global ex US Developed Markets Private Equity and Venture Capital (PE/VC) Index rose 3.4% in US$ terms. Although a decrease from the previous quarter, this was the seventh consecutive positive quarter. The Cambridge Associates LLC Emerging Markets PE/VC Index rose 2.7% in the first quarter. Both the global ex US developed and emerging markets PE/VC indexes outperformed their public market counterparts in the first quarter, which is consistent with the indexes' general outperformance over the long term.

The euro fluctuated during the quarter and ended where it began at about $1.4/ €. With a significant portion of the private equity activity tracked by the Global ex US Developed Markets PE/VC Index centered in Europe, the economic health of this region plays a critical role. During the first quarter European economies continued to show signs of recovery before coming to a halt in the second quarter.

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



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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 | 3.4 | 20.9 | 10.0 | 15.6 | 14.1 | 13.9 | 14.1 |
| CA Emerging Markets PE/VC | 2.7 | 14.4 | 7.5 | 15.5 | 12.3 | 9.2 | 8.5 |
| MSCI EAFE | 0.7 | 17.6 | 7.2 | 16.0 | 6.5 | 4.5 | 5.5 |
| MSCI Emerging Markets | -0.4 | -1.1 | -2.5 | 14.8 | 10.5 | 10.3 | 6.2 |
| S&P 500 | 1.8 | 21.9 | 14.7 | 21.2 | 7.4 | 4.5 | 9.5 |

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.

and about 500 in the emerging markets index. Funds in the Global ex US Developed Markets PE/VC Index primarily invest in companies in developed Europe, but occasionally make investments in companies in the United States and emerging Europe as well.

## First Quarter 2014 Highlights

- With the exception of the five-year period, the developed markets PE/VC index outperformed the comparable public equity index (MSCI EAFE) in all time periods ending March 31, 2014, listed in Table 1, with the spread particularly wide in the longer horizons.
- Similarly, the emerging markets PE/VC index bested its corresponding public market benchmark (MSCI Emerging Markets Index) across all the periods highlighted in the table except the 15-year period. The outperformance was particularly strong at the one- and three-year periods.
- Concentration continues to be an important theme highlighted by both the developed and emerging markets private equity indexes. Both saw a limited number of vintage year funds accounting for a substantial share of each index. The developed markets index was dominated by Western European companies, while over half the emerging markets index was made up of businesses located in just three countries.
- Based on market values at March 31, 2014, public companies accounted for nearly 15% of the developed markets PE/VC index—about a 1% decrease from the prior quarter. At nearly 19%, the emerging markets PE/VC index also had a slightly lower exposure to public companies than it did at the end of fourth quarter 2013.

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

- Just four vintages represented more than 5% of the index ("meaningfully sized") in first quarter 2014, one less than the year before. Funds raised in 2008 earned the best first quarter return among the four meaningfully sized vintage years (Table 2). The health care sector was by far the largest driver of performance for the 2008 funds with smaller, yet sizeable, write-ups coming from at least five other sectors.
- At the other end of the performance spectrum, the 2006 funds experienced particularly large losses in financial services, which outweighed the substantial write-ups in health care, IT, manufacturing, and media. The 2007 vintage, which was second in returns and index weight, also experienced healthy write-ups in health care, IT, and manufacturing. The top four vintages represented more than 73% of the index with three additional vintage years falling right under the 5% threshold, accounting for another 12% of the index's value.
- Developed markets private equity and venture capital funds called $8.3 billion from investors during the quarter, a 12.9% increase from the prior quarter and the highest quarterly contribution since fourth quarter 2012. Distributions totaled $9.1 billion, representing a 53% decrease from previous quarter's total, and the lowest quarterly distribution since second quarter 2012. Despite the steep fall in distributions, this was the eighth consecutive quarter they have outpaced contributions, but the gap was smaller this quarter than it was during the previous four.
- Managers of funds raised in 2007, 2011, and 2012 called almost $6.2 billion, or about 74% of the total capital called during the quarter. Despite moving past its normal investment period, the

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

| | Q1 2014 Returns (%) | 3/31/14 Weight in Index (%) |
|---|---|---|
| 2005 | 2.4 | 12.4 |
| 2006 | 2.3 | 26.4 |
| 2007 | 3.0 | 23.9 |
| 2008 | 4.1 | 10.5 |

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

2007 vintage called as much capital as the 2012 vintage and more than the 2011 vintage—highlighting what a strong fund-raising year it was. Vintage years 2004 through 2008 each distributed over $1 billion; the 2007 vintage led the way with more than $2 billion of distributions. Combined, these five vintage years accounted for more than 81% of the total capital distributed in the quarter.

- All but one of the seven sectors that represented at least 5% of the index's value (meaningfully sized) earned positive returns for the quarter, with financial services being the exception (Table 3). Media companies stood head and shoulders above other meaningfully sized sectors with a 15% return for the first three months of 2014. This followed the sector's strong 2012 and 2013 performance. Vintage year 2004 was by far the greatest contributor to the sector's performance. The consumer sector, which was the largest, had the second lowest return while health care, the second largest sector, posted the second highest return of the group. The three largest sectors—consumer, health care, and IT—represented nearly half of the index's value and on a dollar-weighted basis returned 3.9%.
- The consumer, media, and software, sectors garnered the most capital during the quarter—nearly 47% of the total. Software and media both attracted significantly more than their long-term norms—6 and 1.8 times as much, respectively—whereas the consumer sector attracted much less.
- All five of the countries representing the bulk of the index posted positive returns during the first quarter (Table 4). Returns ranged from 0.6% for companies headquartered in Germany to 6.7% for those based in the United States. Companies headquartered in

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

| | Q1 2014 Returns (%) | 3/31/14 Weight in Index (%) |
|---|---|---|
| Consumer | 2.6 | 25.1 |
| Energy | 4.7 | 5.5 |
| Financial Services | -1.9 | 8.6 |
| Health Care | 5.7 | 13.7 |
| IT | 4.5 | 10.4 |
| Manufacturing | 4.7 | 8.7 |
| Media | 15.0 | 6.2 |

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

Western Europe were responsible for nearly 66% of the write-ups followed by those based in the United States (25% of the total).

- Western European companies attracted over 76% of the capital invested during the quarter, which is slightly above the amount attracted a year earlier and just shy of its historical average of 77%. Only about 3% of the capital invested in the quarter went to US-based companies, which was significantly below its 12% historical average. Attracting just over 14% of the total capital, companies in emerging Europe made a strong showing, as did companies in Canada and the developed Asia/Pacific region, which each nearly equaled the share garnered by US companies.

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

| | Q1 2014 Returns (%) | 3/31/14 Weight in Index (%) |
|---|---|---|
| France | 5.7 | 7.5 |
| Germany | 0.6 | 9.7 |
| Sweden | 2.8 | 5.9 |
| UK | 4.2 | 23.5 |
| US | 6.7 | 15.9 |

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

## Emerging Markets Private Equity and Venture Capital Performance Insights

- As indicated, concentration persisted across a few important dimensions of the Emerging Markets PE/VC Index. Five vintages—2007, 2006, 2008, 2005, and 2010—accounted for more than 81% of the index during the quarter. Five sectors—consumer, financial services, health care, IT, and manufacturing—represented more than 70% of the value, and just over half of the index was made up of businesses located in just three countries: China, India, and South Korea.

- Funds raised in 2006 earned the best first quarter return among the five vintages that represented the greatest share of the emerging markets index (Table 5). Valuation increases in the health care and IT sectors were the two biggest drivers of vintage year 2006's positive performance. Representing just over one-third of the index's value, vintage year 2007 had the greatest impact on the benchmark's return and was driven most by strong write-ups in the consumer sector

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

| | Q1 2014 Returns (%) | 3/31/14 Weight in Index (%) |
|---|---|---|
| 2005 | 1.9 | 9.8 |
| 2006 | 4.4 | 17.1 |
| 2007 | 4.1 | 33.4 |
| 2008 | 2.1 | 12.1 |
| 2010 | 2.9 | 9.1 |
| 2011 | 0.2 | 6.5 |

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

and aided by healthy increases in financial services, health care, and manufacturing. Vintage year 2011 had the lowest return for the group as changes in value across all sectors were modest.

- Emerging markets private equity and venture capital funds called $3.4 billion from investors in first quarter 2014, a 27.6% decrease from the prior quarter and the lowest quarterly contribution since first quarter 2013. Distributions totaled $4.2 billion, representing a more than 16% increase from previous quarter's total, and a second all-time quarterly high following last year's second quarter peak of $5.7 billion. The emerging markets stand out as the private equity subcategory where contributions have long surpassed distributions. Over the last ten years, in only nine quarters have distributions outpaced contributions.
- Managers of funds raised in 2010 and 2011 called the most capital for the quarter, $2.2 billion combined or nearly 64% of the total. In terms of distributions, LPs in the 2005 and 2007 funds were the biggest beneficiaries; combined, the two vintage years accounted for over 68% of the total capital distributed in the quarter.
- All five of the meaningfully sized sectors posted positive quarterly returns (Table 6). Health care earned the best return at 6.1% while manufacturing had the lowest return at 0.2%. Write-ups in the 2006 through 2008 vintage years drove the health care sector's return. For the manufacturing sector, substantial write-ups in the 2007 vintage were largely offset by write-downs suffered in the 2008, 2006, and 2004 vintage years.
- On a gross, dollar-weighted basis, the five largest sectors by market value—consumer, financial services, health care, IT, and manufacturing—returned 3.3% during the quarter, slightly outperforming the return for all companies.

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

| | Q1 2014 Returns (%) | 3/31/14 Weight in Index (%) |
|---|---|---|
| Consumer | 3.5 | 21.2 |
| Financial Services | 3.3 | 10.1 |
| Health Care | 6.1 | 11.2 |
| IT | 4.6 | 11.9 |
| Manufacturing | 0.2 | 15.7 |

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

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

| | Q1 2014 Returns (%) | 3/31/14 Weight in Index (%) |
|---|---|---|
| China | 3.7 | 37.1 |
| India | 6.5 | 8.8 |
| South Korea | 1.5 | 5.9 |

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

- Health care companies were the top recipients of invested capital during the quarter, accounting for about 17% of the total, and were closely followed by the IT sector. Health care attracted just over twice the capital as it has over the long term, while IT attracted 1.6 times its long-term norm.
- Highlighting the index's concentration in businesses headquartered in a relatively few countries, China, India, and South Korea were again the only three that made up more than 5% of the index by market value, and hence met the meaningful size threshold (Table 7). Together these three countries accounted for nearly 52% of the index. Concentration was also evident in where capital was directed, with companies headquartered in emerging Asia attracting over 48% of the total invested by managers in the index. Companies located in Africa, emerging Europe, and Latin America attracted less than 10% each.
- On a dollar-weighted basis, China, India, and South Korea returned 3.9%. India, the second largest constituent, earned the best return of the three regions. Although under the threshold, companies in both Indonesia and Singapore boosted the benchmark's performance by returning 16.0% and 6.6%, respectively, for the quarter. ■

## 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 March 31, 2014, the database comprised 711 global ex US developed markets private equity and venture capital funds formed from 1986 to 2013 with a value of about $290 billion. Ten years ago, as of March 31, 2004, the benchmark index included 334 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 March 31, 2014, the database comprised 532 emerging markets funds formed from 1986 to 2013 with a value of about $134 billion. Ten years ago, as of March 31, 2004, the benchmark index included 190 emerging markets funds, whose value was more than $14 billion.