



## Review of Market Performance Fiscal Year 2015

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- ◆ In the fiscal year ended June 30, 2015, markets were driven to a large extent by a strengthening in the US dollar and a decline in oil prices, both of which impacted returns for a variety of risk assets. The year also witnessed a number of reversals, with European equities excluding the UK and emerging markets equities delivering strong performances in the second half of the year relative to the first for US\$ investors.
- ◆ The S&P 500 Index returned 7.4% in the fiscal year due partly to returns in the consumer discretionary, health care, and information technology sectors, which more than offset large energy sector losses. Developed markets equities returned 8.4% in local currency terms, but for unhedged US\$ investors, the dollar rally cut gains to 1.4%. Equities in Hong Kong and Ireland were the only developed markets to return double digits in US\$ terms this fiscal year.
- ◆ Emerging markets equities ended the fiscal year down 4.8% for US\$ investors, one of the worst fiscal year returns in 27 years of data. Equities in Latin America and Europe, the Middle East & Africa had particularly weak returns, with nine countries losing more than 10%. China, which sold off more than 5% in June, as concerns about a market bubble grew, still returned 25.0% this fiscal year to help emerging markets in Asia deliver aggregate positive performance.
- ◆ Bond markets delivered mixed results in the fiscal year. The benchmark Barclays US Aggregate returned 1.9%, but beyond the United States, fixed income positions struggled for US\$ investors, with the Barclays European Aggregate losing 15.8%. US high-yield bonds lost 0.4%, but high-yield new issuance remained near its fiscal year 2013 peak, despite stress in the energy sector. Ten-year Treasuries returned 3.8%, helped by a downward shift in the long end of the yield curve.

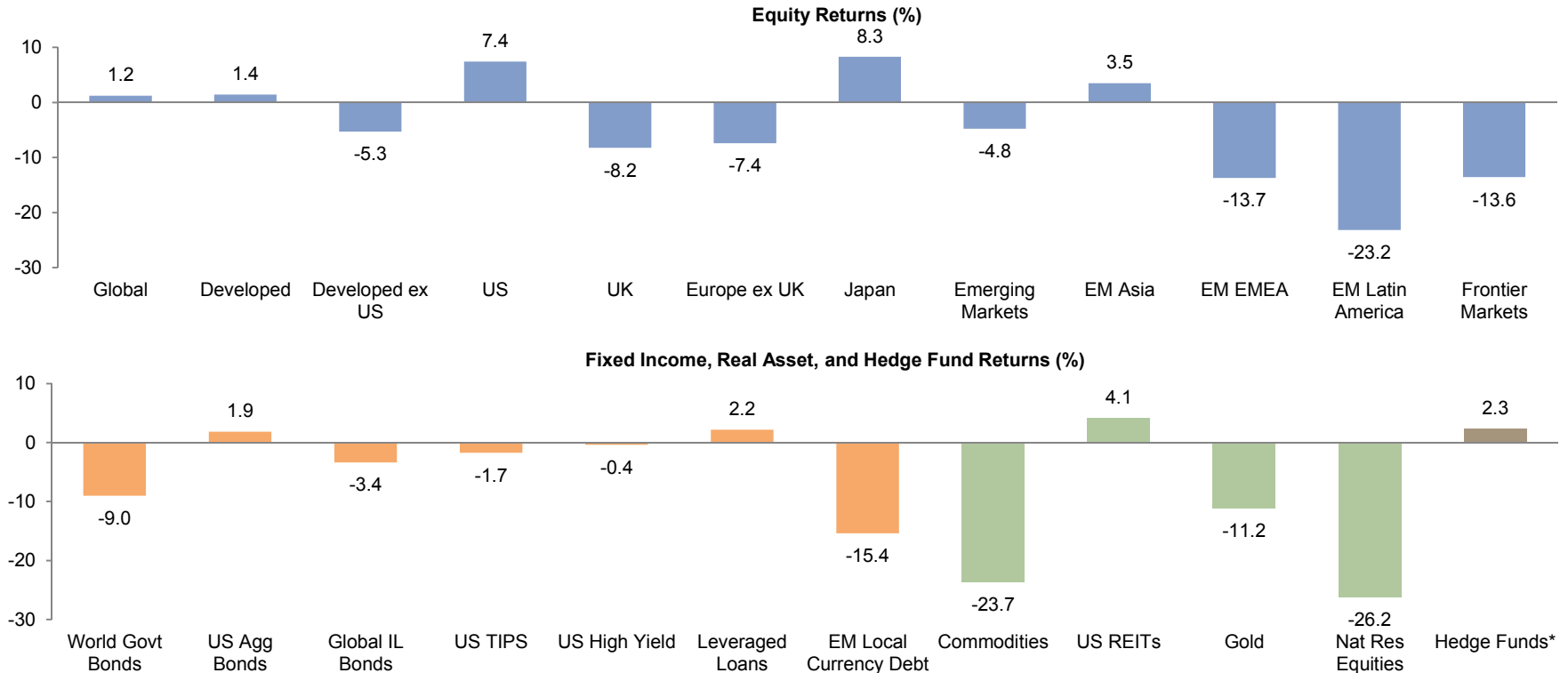
- ◆ Real assets performed poorly in the year ended June 30, with the MSCI World Natural Resources Index returning -26.2% and the Bloomberg Commodity Index, -23.7%. While energy sector weakness and US\$ strength moderated in the last quarter of the fiscal year, the two factors partly explain the weak performance. US REITs returned 4.1%, but in the last six months the asset class has lost 5.4%. Gold prices ended the year at \$1,169/troy ounce, down 11.2%.
- ◆ Preliminary index returns for hedge funds show low single-digit returns for most strategies. The widely followed HFRI Fund Weighted Composite Index returned 2.3%, down from 9.1% last fiscal year, and the HFRI Equity Hedge Index returned 2.6%, down from 12.5%.
- ◆ Preliminary one-year returns to March 31, 2015, for the Cambridge Associates LLC US Private Equity Index® and the Cambridge Associates LLC US Venture Capital Index® were a robust 10.6% and 20.1%, respectively. The corresponding five-year returns were 15.4% and 16.8%, respectively.
- ◆ Initial public offerings backed by US private equity and venture capital firms raised \$31.8 billion, an amount that is about half last fiscal year's. The total deal value for US private equity-linked mergers & acquisitions was \$93.1 billion, but firms continue to show restraint in deploying capital, with the total uninvested capital among the 2009 to 2014 calendar year vintages rising to over \$450 billion.
- ◆ The US dollar strengthened against all major developed currencies this fiscal year, rising particularly against the euro, the Australian dollar, and the Japanese yen. Of the 21 emerging currencies we track, 13 posted double-digit losses versus the dollar, and only the Chinese yuan managed to eke out a gain.

## Commodities and Related Assets Suffered in Fiscal Year 2015

Among equities, US and Asian markets led

### Asset Class Performance: Fiscal Year 2015

July 1, 2014 – June 30, 2015 • US Dollar



Sources: Barclays, Bloomberg L.P., Citigroup Global Markets, Credit Suisse, 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 Agg 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"), Bloomberg 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.

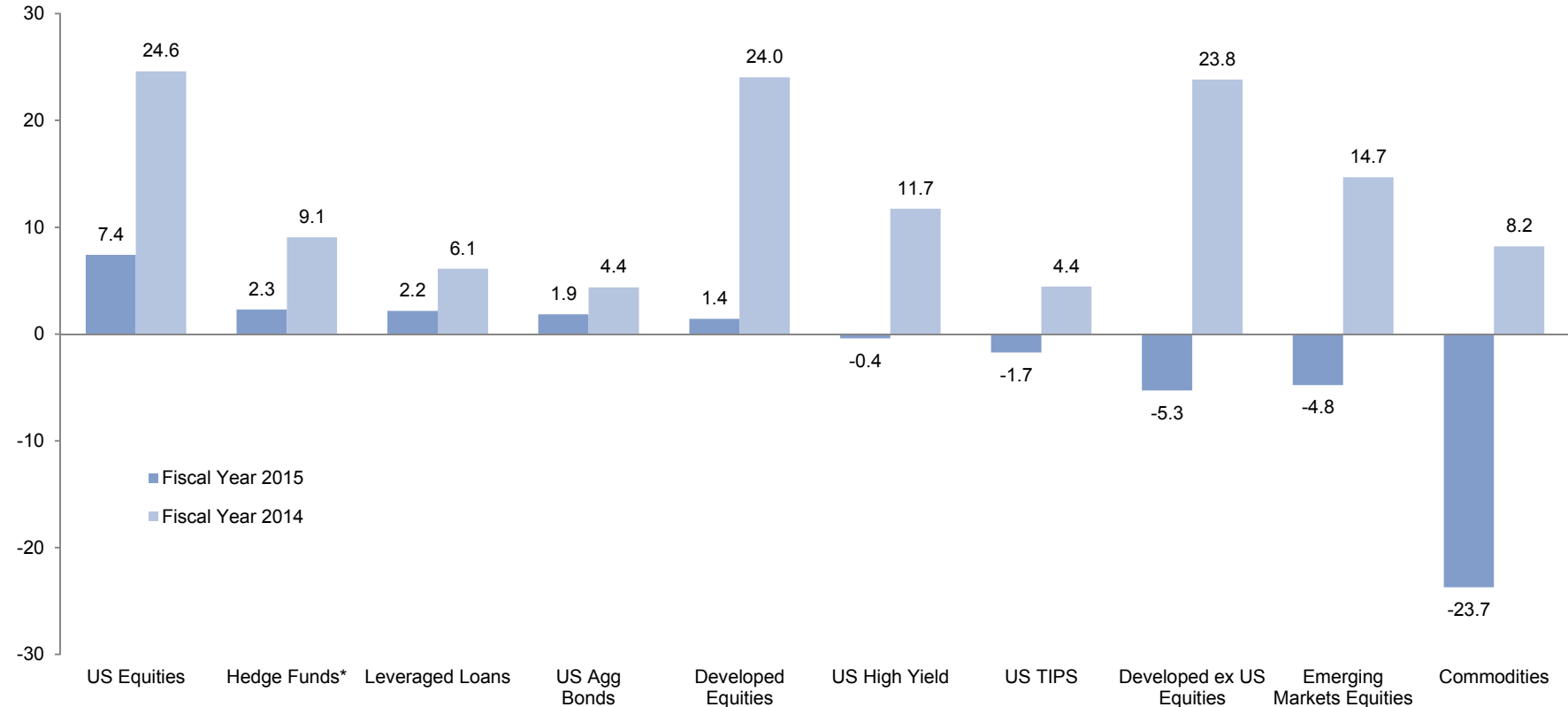
\* Based on preliminary data.

## Returns in Fiscal Year 2015 Were Weak Compared to Prior Fiscal Year

The negative commodity return was driven by a 43% decline in energy assets

### Asset Class Performance: Fiscal Years 2014 & 2015

Fiscal Years Ended June 30 • US Dollar • Return (%)



Sources: Barclays, Bloomberg L.P., Citigroup Global Markets, Credit Suisse, 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: Asset classes represented by the following: S&P 500 Index ("US Equities"), HFRI Fund Weighted Composite Index ("Hedge Funds"), Credit Suisse Leveraged Loan ("Leveraged Loans"), Barclays Aggregate Bond Index ("US Agg Bonds"), MSCI World Index ("Developed Equities"), Barclays High-Yield Composite ("US High Yield"), Barclays US TIPS Index ("US TIPS"), MSCI World ex US Index ("Developed ex US Equities"), MSCI Emerging Markets Index ("Emerging Markets Equities"), and the Bloomberg Commodity Index ("Commodities"). 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.

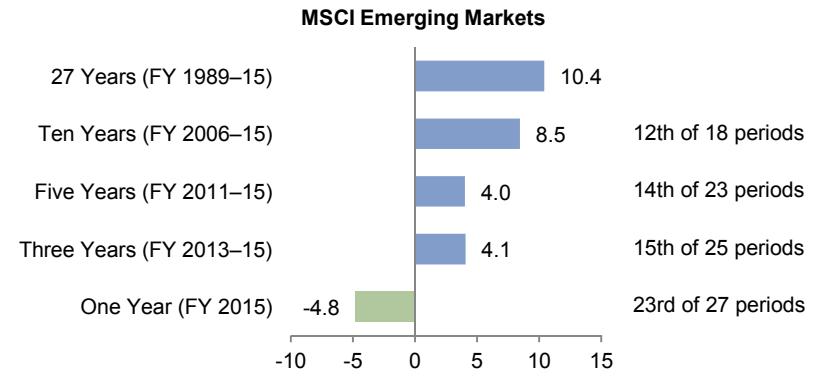
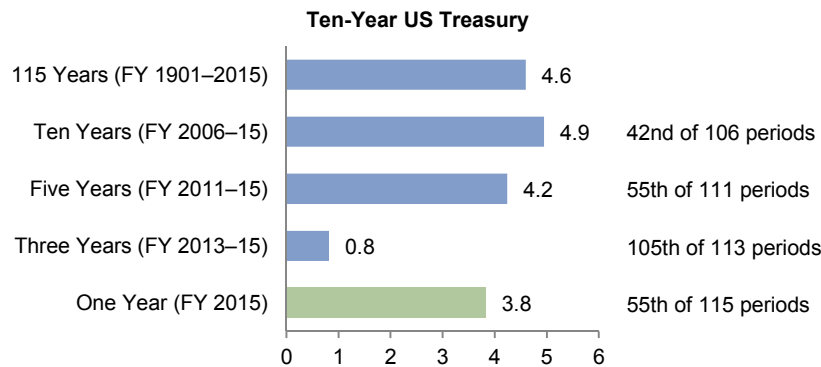
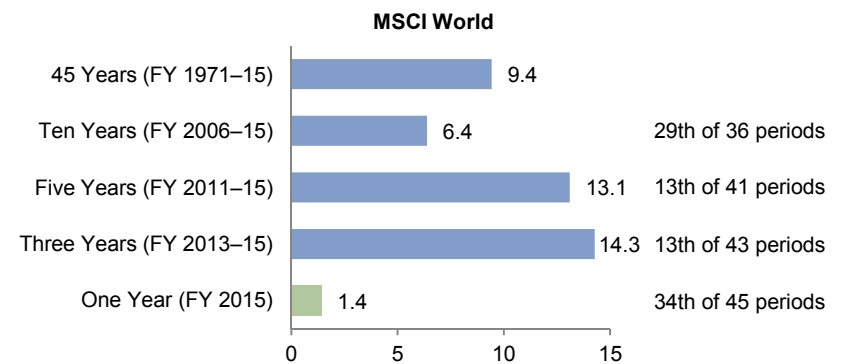
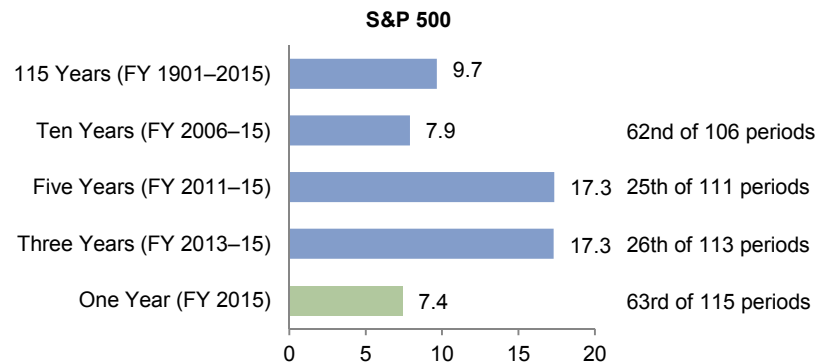
\* Returns for fiscal year 2015 based on preliminary data.

## One-Year Returns Were Generally Lackluster Compared to Historical Periods

Fiscal year 2015 marked the sixth negative one-year return for emerging markets in 27 periods

### Average Annual Compound Returns for Various Time Periods

Periods Ended June 30, 2015 • US Dollar



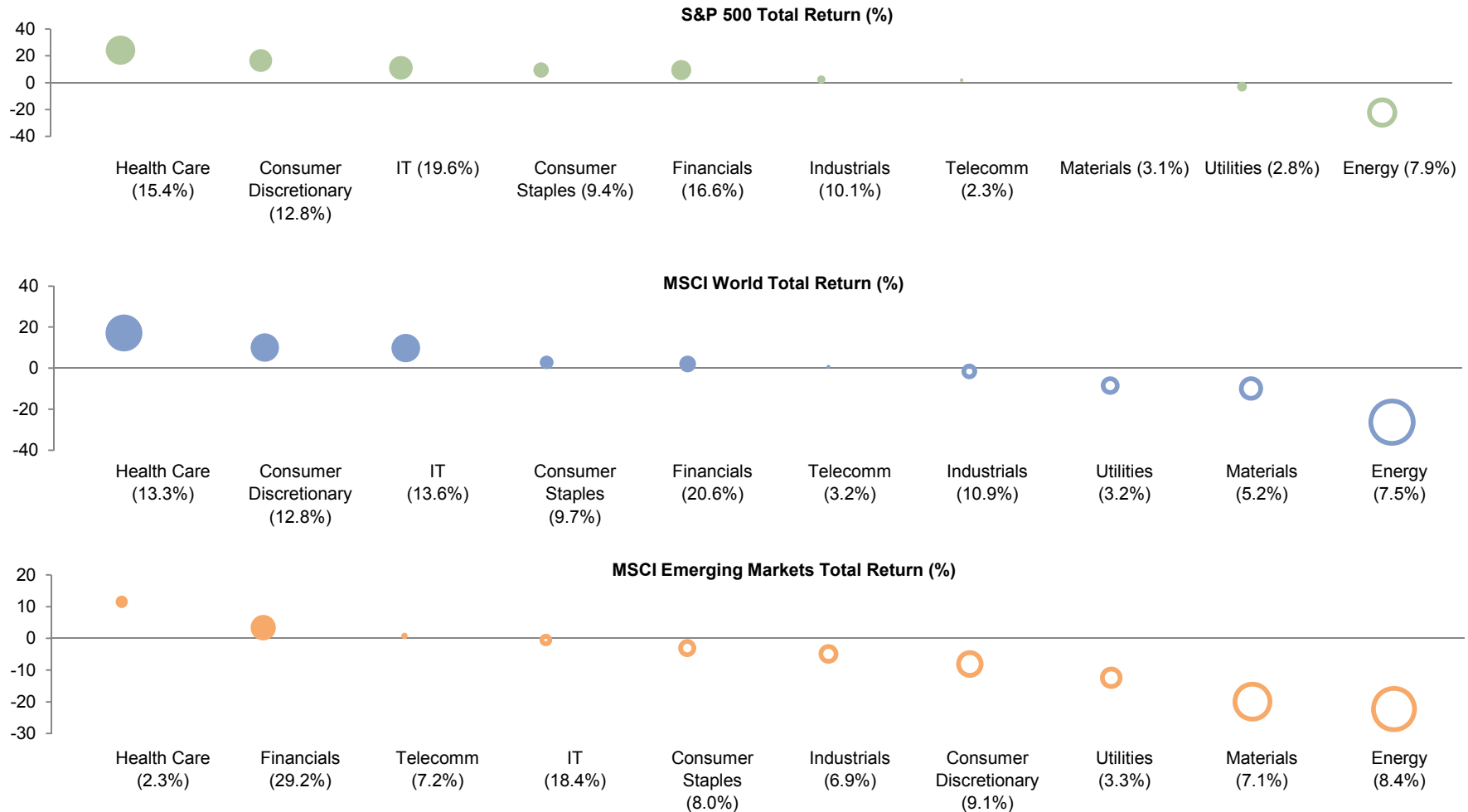
Sources: Global Financial Data, Inc., MSCI Inc., Standard & Poor's, and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties. Notes: A ranking of first indicates the best performance among all periods. Total returns for MSCI developed markets indexes are net of dividend taxes. Total returns for MSCI emerging markets indexes are gross of dividend taxes.

# Unsurprisingly, Given Oil's Price Drop, the Energy Sector Weighed on Markets

Health care sector performance was driven partly by merger & acquisition activity

## Global Equity Sector Performance: Fiscal Year 2015

July 1, 2014 – June 30, 2015 • 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 indexes are gross of dividend taxes.

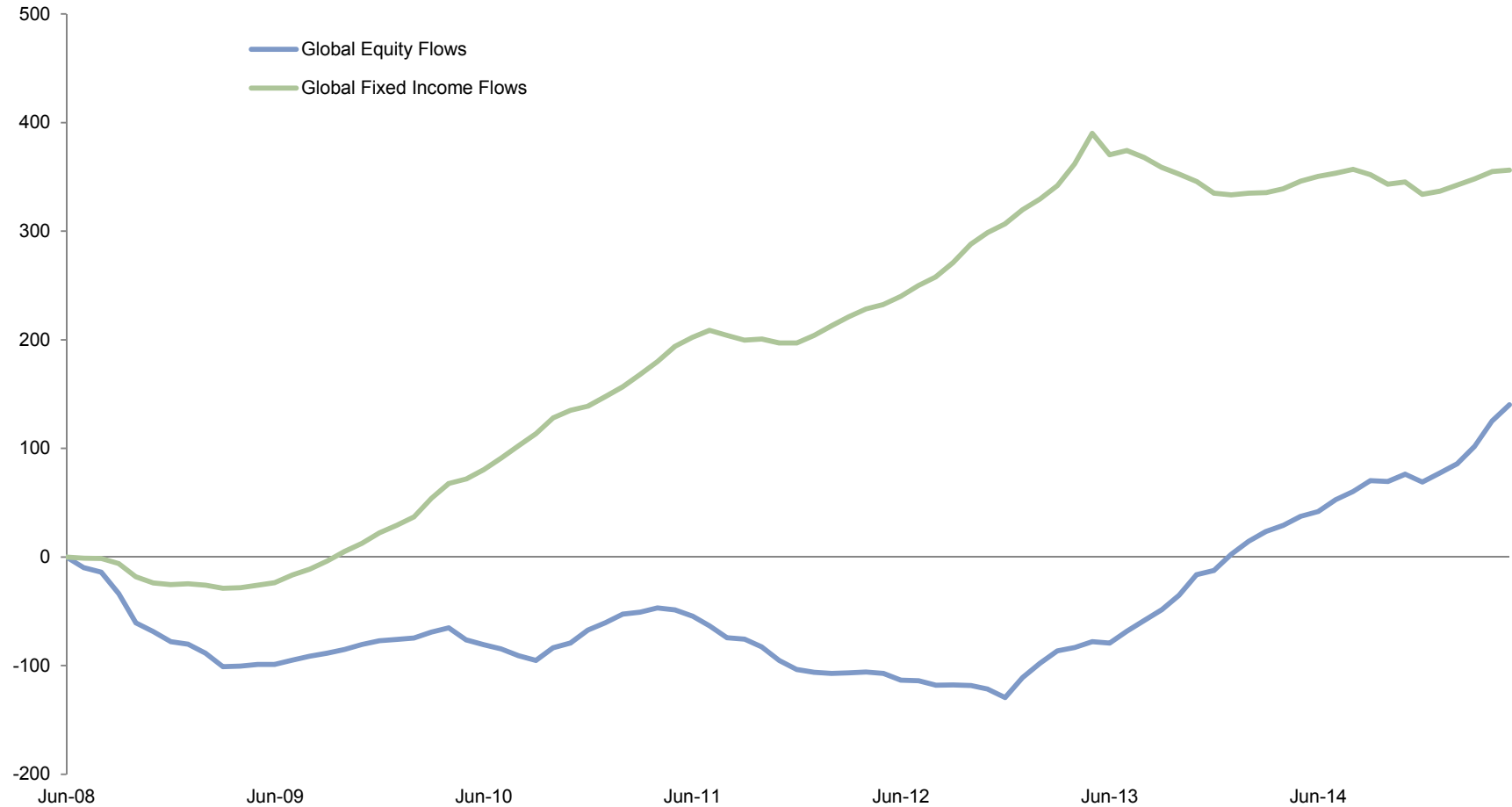
Bubble size determined by contribution to return. Bubbles with outlines were negative contributors to the overall index return. Sector weight below index name as of fiscal year end 2015.

## Nearly \$100 Billion Flowed Into Equity Markets this Fiscal Year

Capital allocations to fixed income markets were flat

### Cumulative Wealth of Global Flows Into Equity and Fixed Income Funds

June 30, 2008 – May 31, 2015 • US Dollar (billions)



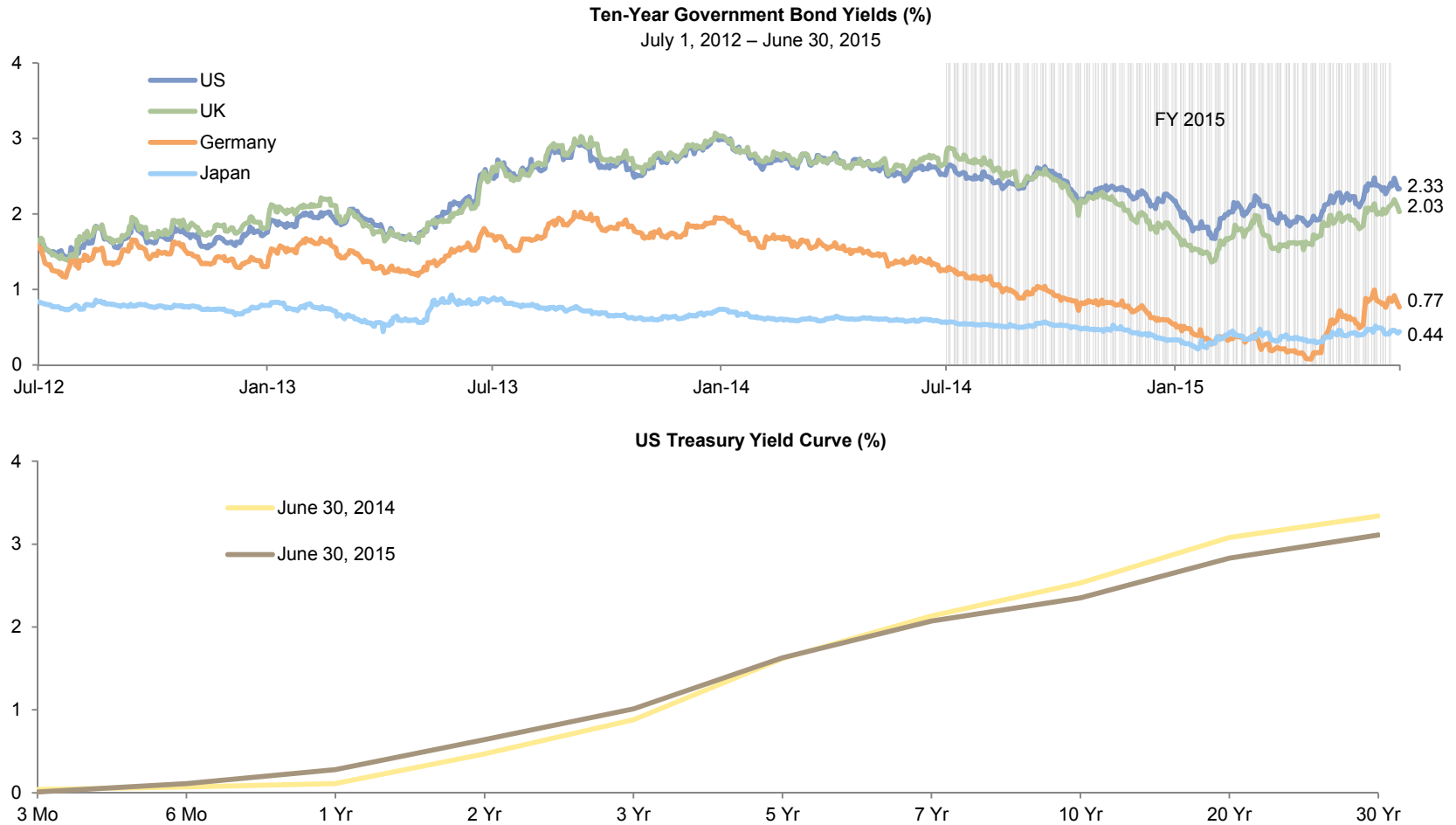
Source: EPFR Global.



# Treasury Yield Curve Twist Drove Performance in Long Treasuries

German bund yields fell to historical lows in April

## Ten-Year Government Bond Yields and US Treasury Yield Curve



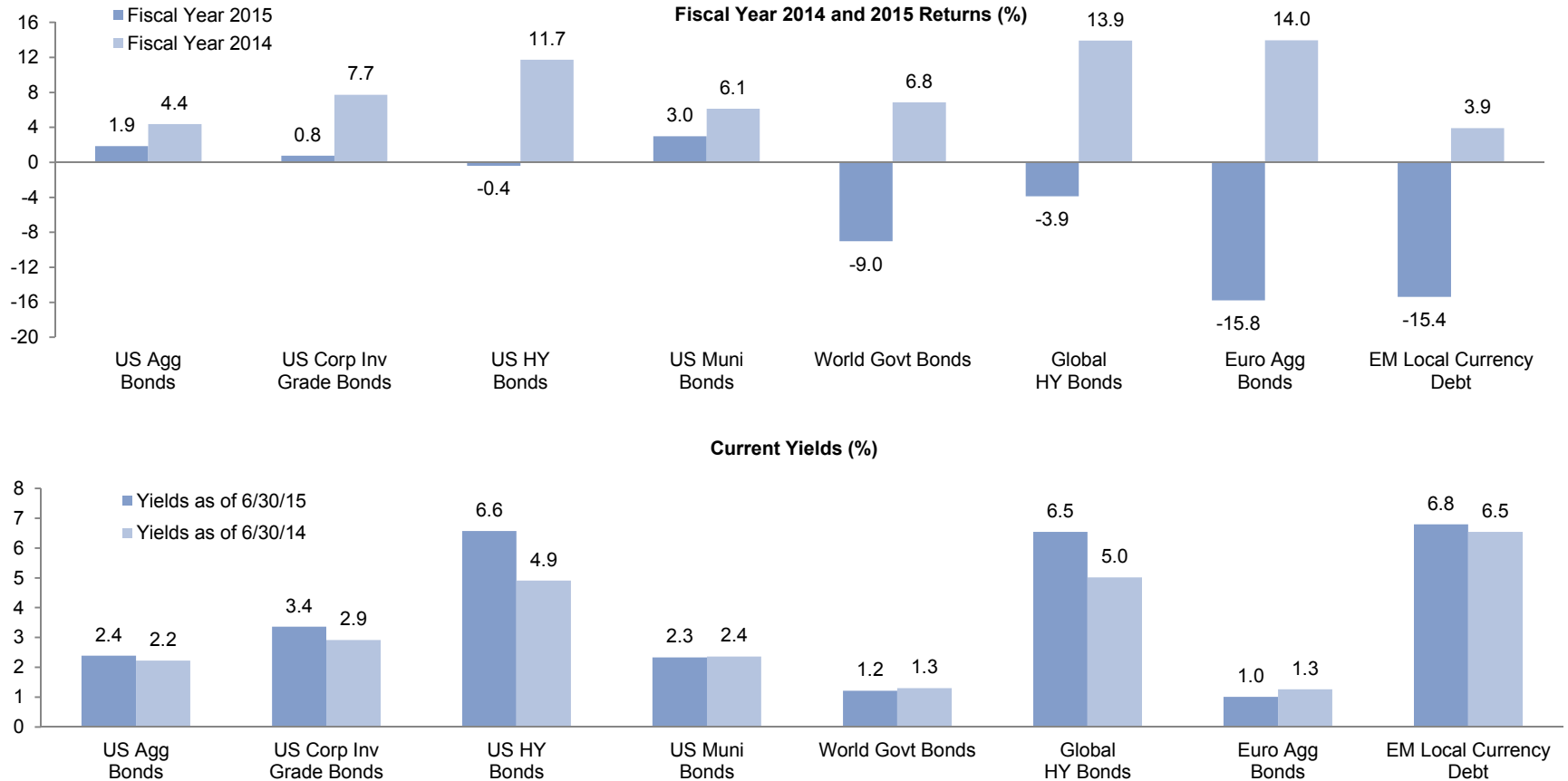
Source: Thomson Reuters Datastream.

## Fixed Income Market Performance Weak Relative to Prior Fiscal Year

Economic data improvements helped the current yields of US investment-grade debt widen

### Fixed Income Market Summary

US Dollar



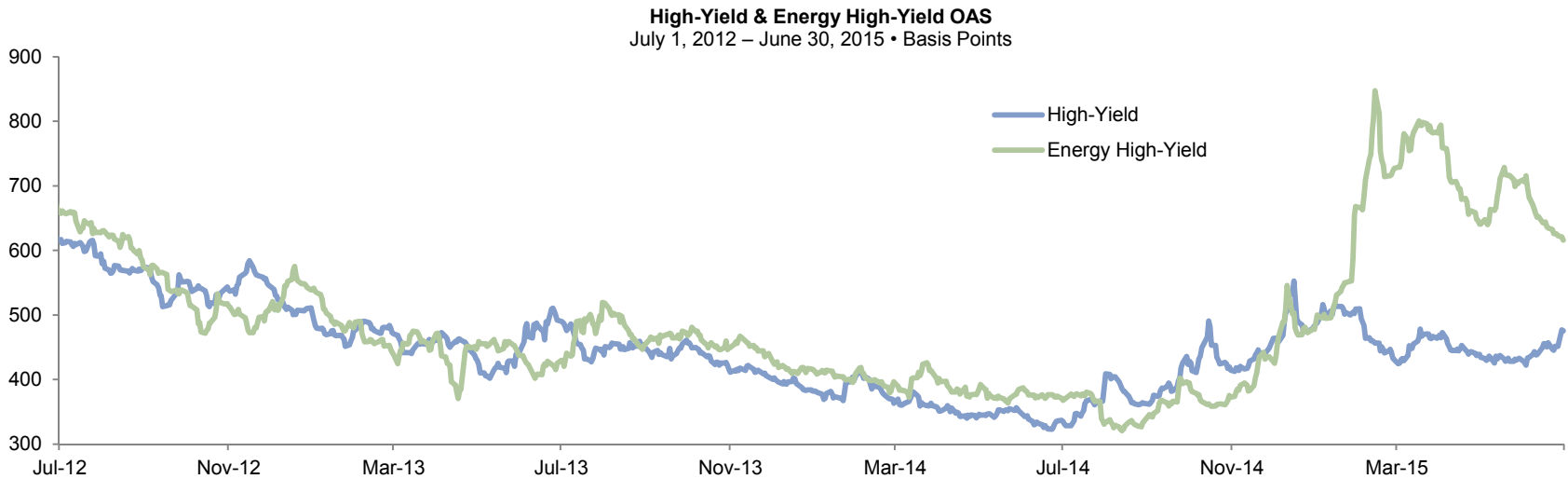
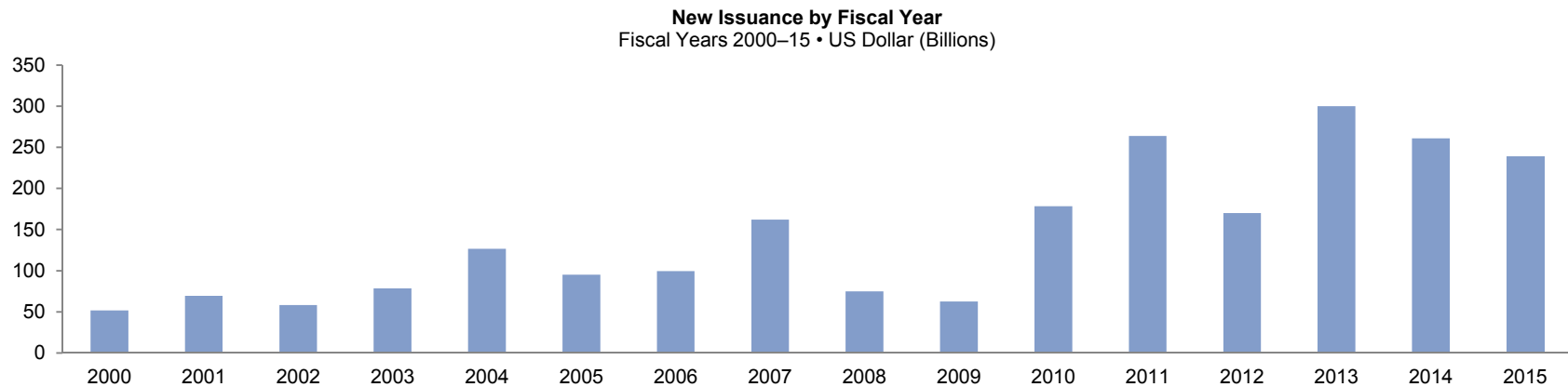
Sources: Barclays, J.P. Morgan Securities, Inc., and Thomson Reuters Datastream.

Notes: Asset classes represented by: Barclays US Aggregate Bond Index ("US Agg Bonds"), Barclays US Corporate Investment Grade Bond Index ("US Corp Inv Grade Bonds"), Barclays US Corporate High Yield Bond Index ("US HY Bonds"), Barclays US Municipal Bond Index ("US Muni Bonds"), Citigroup World Government Bond Index ("World Govt Bonds"), Barclays Global High Yield Bond Index ("Global HY Bonds"), Barclays European Aggregate Bond Index ("Euro Agg Bonds"), and J.P. Morgan GBI-EM Global Diversified Index ("EM Local Currency Debt").

## High-Yield Issuance Remained Strong Despite Energy Sector Volatility

Energy sector appears to be recovering following first quarter spike in option-adjusted spreads

### High-Yield New Issuance and Option-Adjusted Spreads



Sources: Barclays and BofA Merrill Lynch.

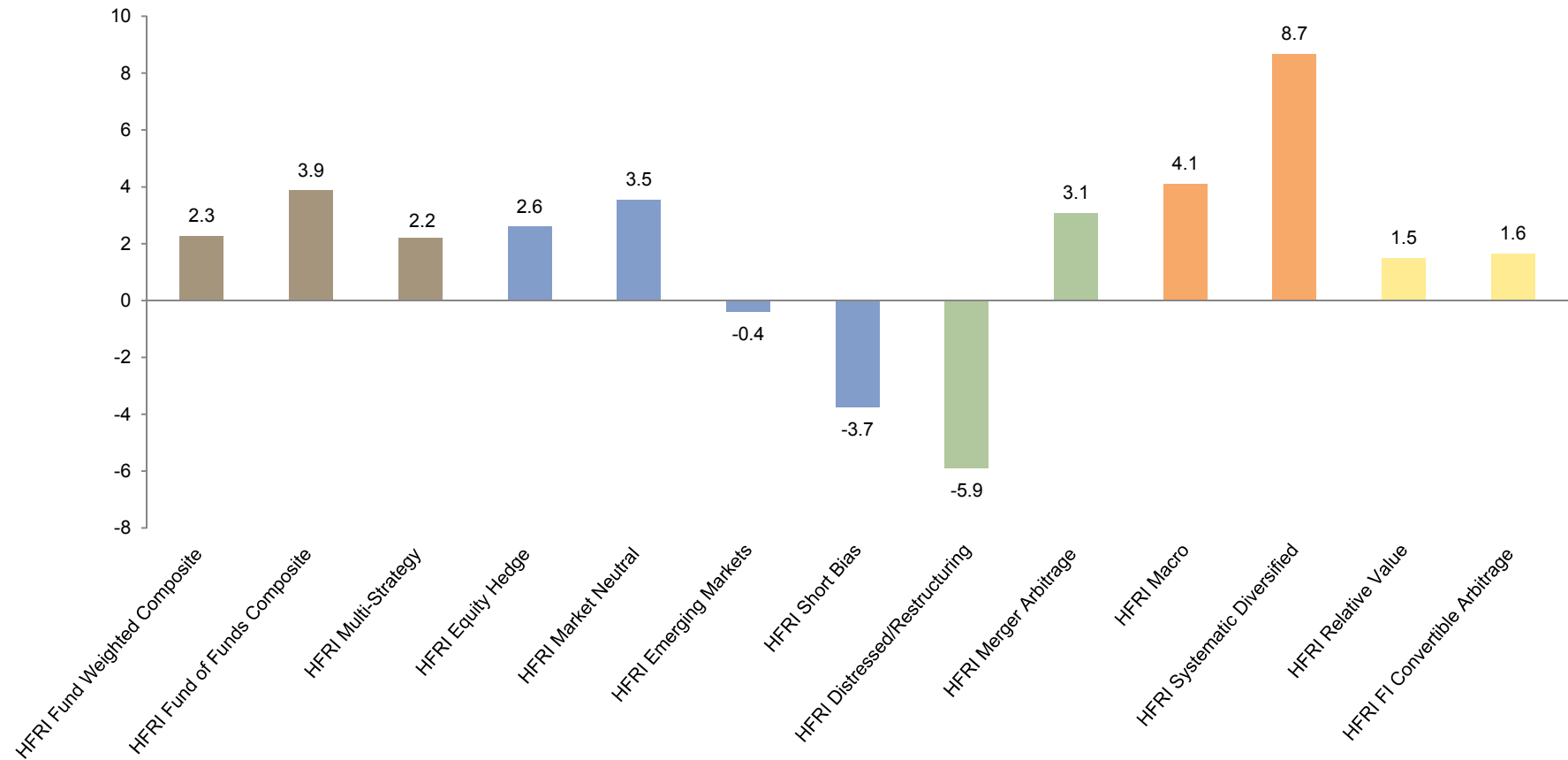
Notes: Fiscal years are July 1 to June 30. Issuance for 2015 are through May 31.

## On an Index Basis, Nearly All Hedge Fund Strategies Posted Low Single-Digit Returns

Discretionary and systematic macro traders tended to benefit from US\$ rally

### Preliminary Fiscal Year 2015 Hedge Fund Performance: HFRI Indexes

July 1, 2014 – June 30, 2015 • Total Return (%)



Source: Hedge Fund Research, Inc.

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

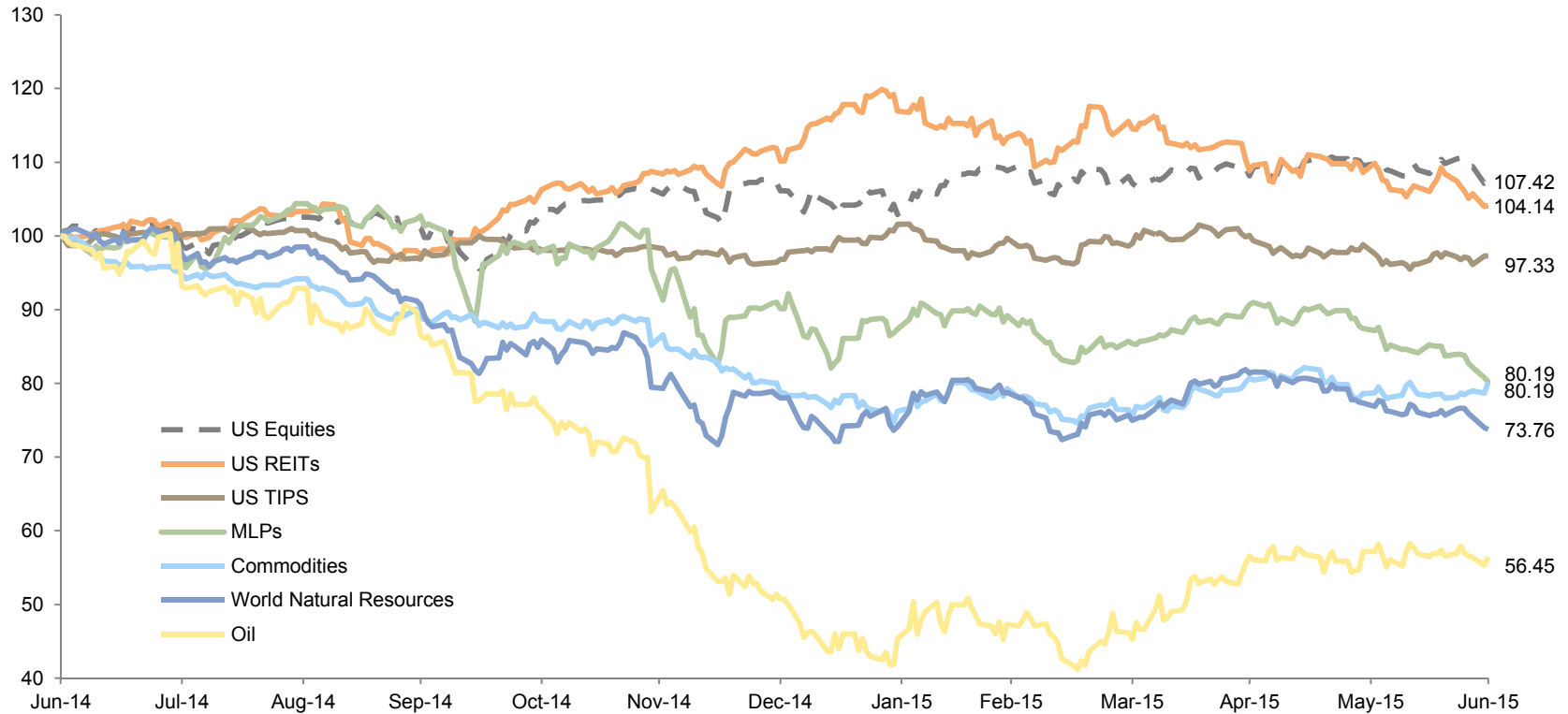
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## Real Assets Underperformed US Equities

NREs trailed US equities by nearly 3,400 bps after outperforming by 500 bps in fiscal year 2014

### Cumulative Wealth of Public Real Assets: Fiscal Year 2015

June 30, 2014 – June 30, 2015 • June 30, 2014 = \$100



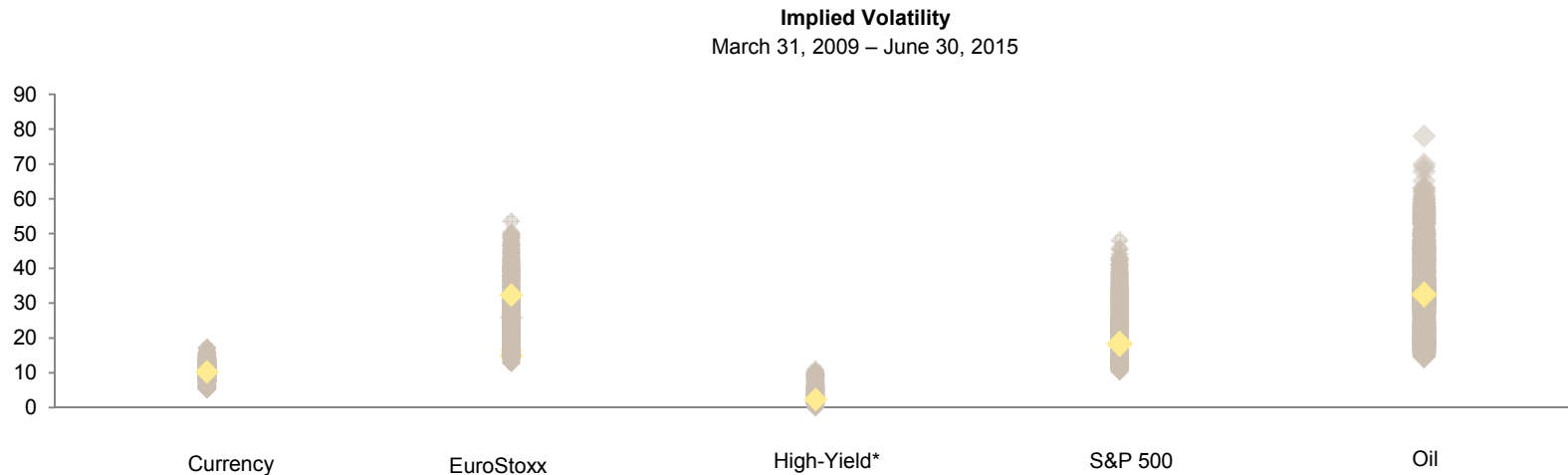
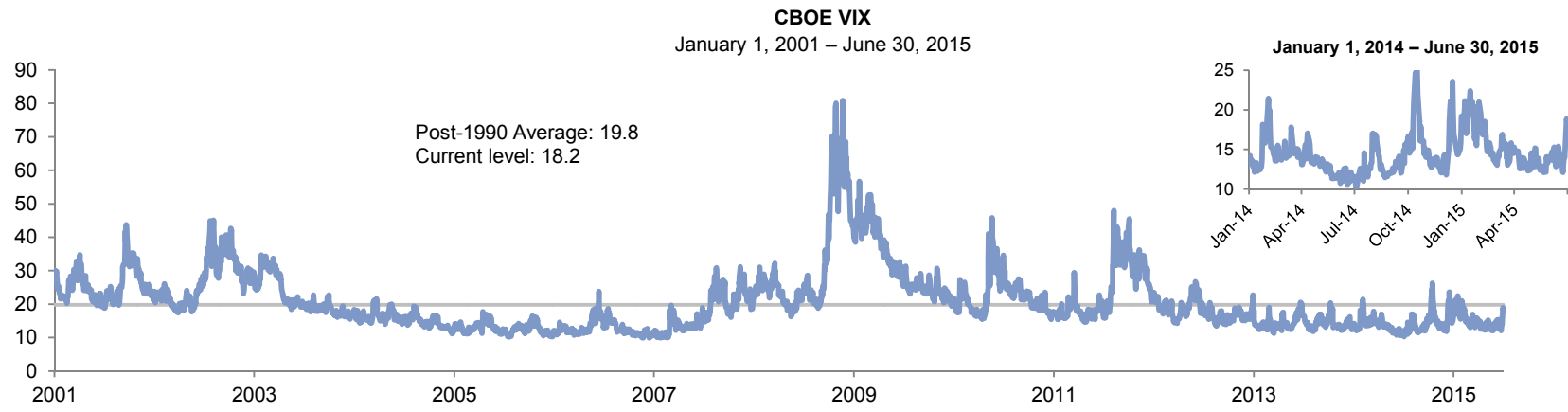
Sources: Alerian, Barclays, Bloomberg L.P., FTSE International Limited, MSCI Inc., Standard & Poor's, and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: Data are daily. Asset classes represented by the following: S&P 500 Index ("US Equities"), FTSE® NAREIT All Equity REITs Index ("US REITs"), Barclays US TIPS Index ("US TIPS"), Alerian MLP Index ("MLPs"), Bloomberg Commodity Index ("Commodities"), MSCI World Natural Resources Index ("World Natural Resources"), and WTI Crude Oil Spot Price ("Oil").

## VIX Volatility Currently Below Long-Term Average

Implied oil volatility moderated at fiscal year end, following elevated levels in February

### Volatility of Various Markets



Sources: Bloomberg L.P., BofA Merrill Lynch, Chicago Board of Exchange, J.P. Morgan Securities, Inc., Standard & Poor's, STOXX, and Thomson Reuters Datastream.  
Notes: Data are daily. Asset classes represented by the following: J.P. Morgan G7 Volatility Index ("Currency"), VSTOXX Volatility Index ("EuroStoxx"), Barclays High-Yield Bond Index ("High-Yield"), CBOE SPX Volatility (VIX) Index ("S&P 500"), and CBOE Crude Oil Volatility Index ("Oil").

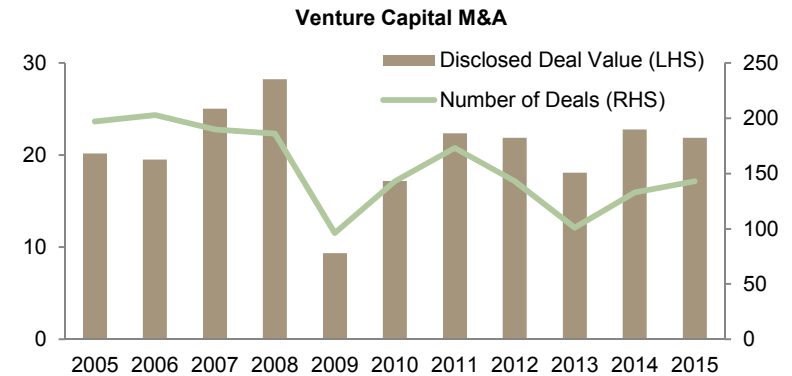
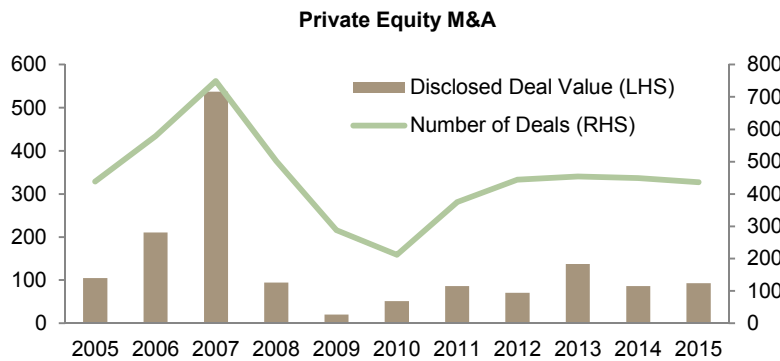
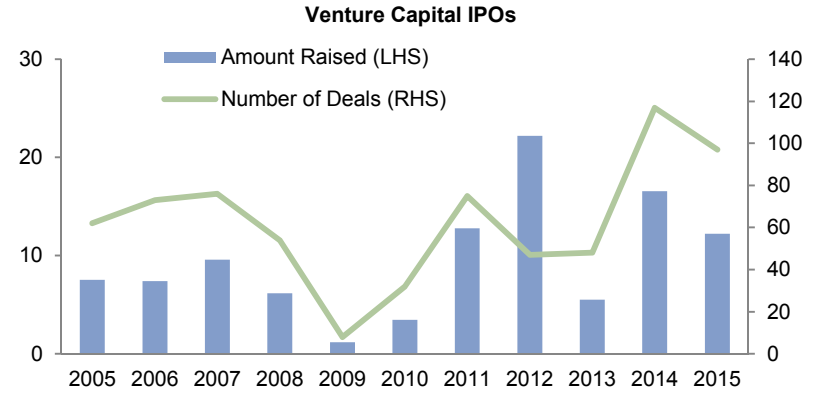
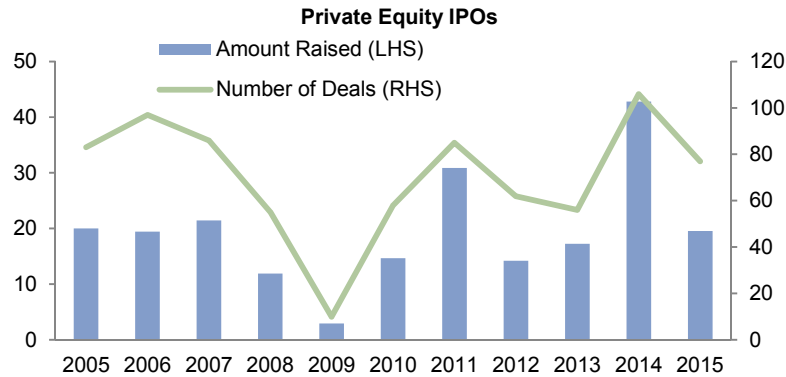
\* Data for high-yield represent trailing realized volatility.

## Money Raised in Private Equity–Backed IPOs Fell in Fiscal Year 2015

Transaction deal value linked to private equity and venture capital firms remained consistent

### US Private Equity–Backed and Venture Capital–Backed Activity

Fiscal Years 2005–15



Sources: Dealogic, National Venture Capital Association, and Thomson Reuters.

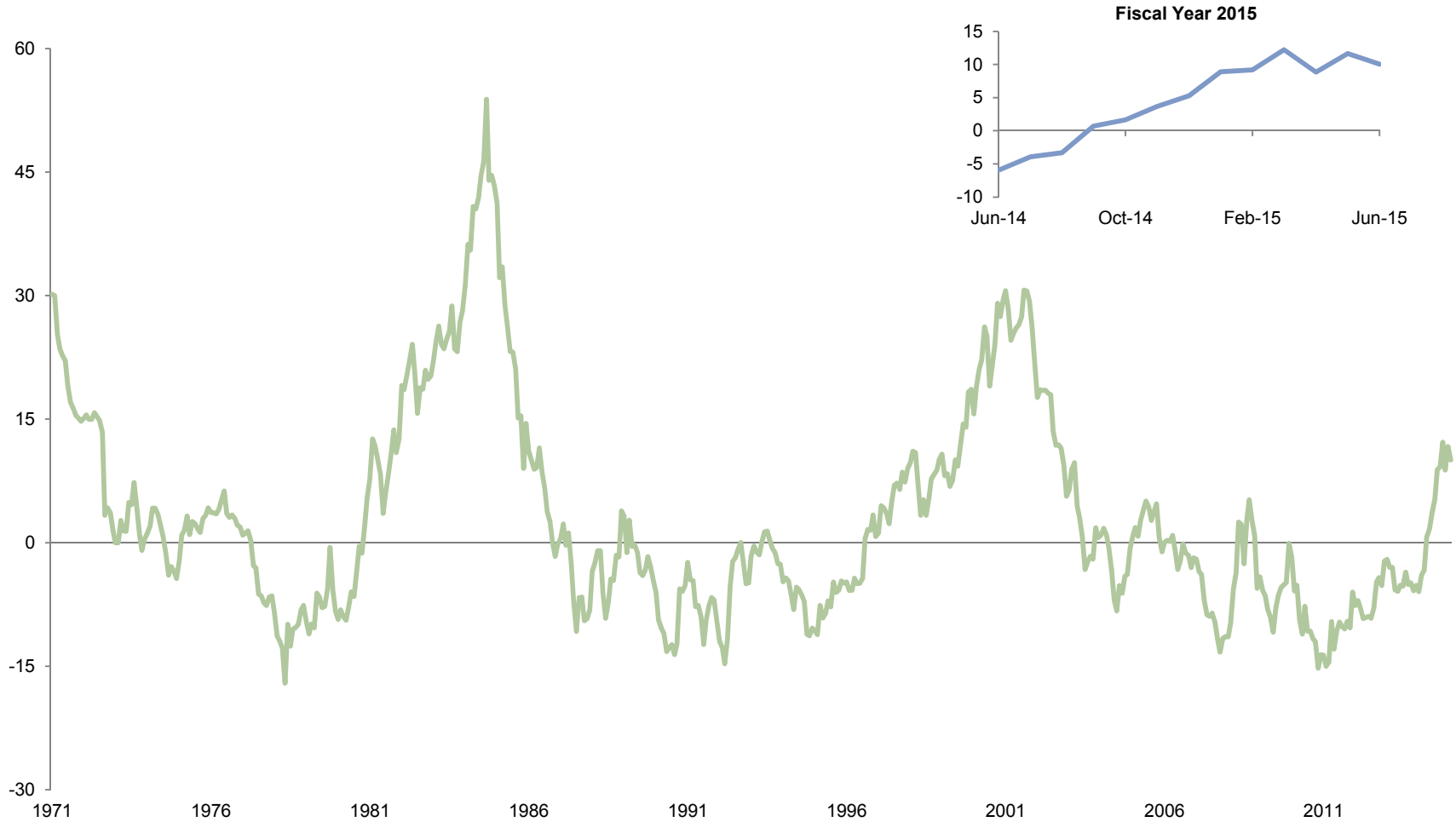
Notes: Fiscal years are July 1 to June 30. Data are quarterly. Dealogic updates its database on a regular basis, therefore, historical data may change. Amount raised and disclosed deal values are in US\$ billions. Venture capital IPO data are not available for second quarter 2008 and first quarter 2009.

## US Dollar Rallied Against a Basket of Currencies

Diverging growth and monetary policy outlooks contributed to the strengthening

### US Dollar Basket Real Exchange Rate: % From Median

June 30, 1971 – June 30, 2015



Source: Thomson Reuters Datastream.



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