CanterburyConsulting

Quarterly Asset Class Report
Private Equity

canterburyconsulting.com

June 30, 2021

Role in the Portfolio

Canterbury Consulting recommends a diversified portfolio of private capital strategies. Consistently committing to private capital drives long-term asset growth, net of inflation, by taking advantage of the illiquidity premium derived from inefficient markets and superior manager selection.

— Canterbury blends strategic and opportunistic approaches to construct private capital portfolios that are diversified by sector, geography, and vintage year.

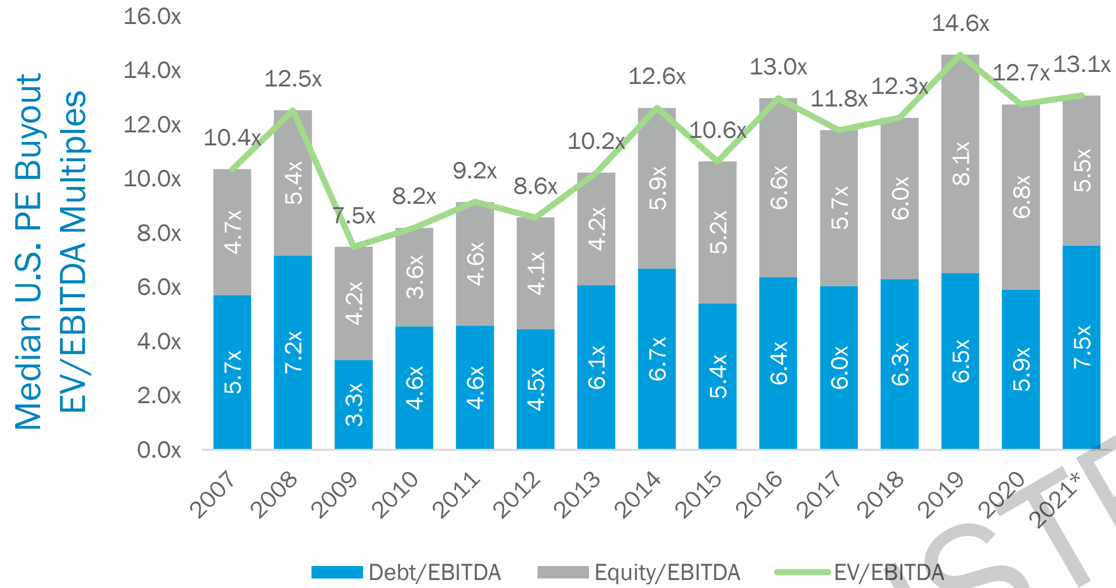
- Strategic: Using various market inputs to form a baseline, we create a recommended portfolio allocation.
- Opportunistic: We combine top-down and bottom-up analysis to achieve excess risk-adjusted returns through market intelligence and superior manager selection.

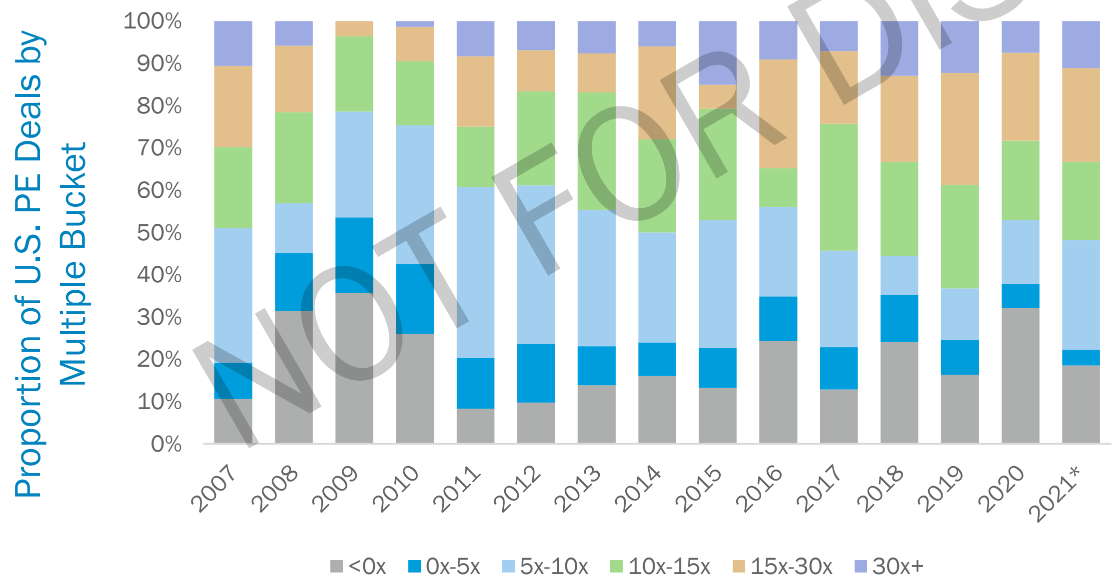
Role	Asset Categories	Risks
Growth	**Public and Private Equity**	**Market Decline**
Capital Preservation	Fixed Income, Hedge Funds	Rising Interest Rates, Highly Correlated Markets
Inflation Protection	Real Assets: Real Estate, Commodities	Deflation

— Over a full market cycle, private equity is intentioned to generate above-market returns commensurate with risks associated with the asset class (i.e., illiquidity, time horizon, etc.).

— Given the length of the time required to deploy capital and constant evolution of the opportunity set, investors in private equity must commit consistently across cycles and avoid "market timing" in order to generate returns.

U.S. Private Equity Valuation Overview

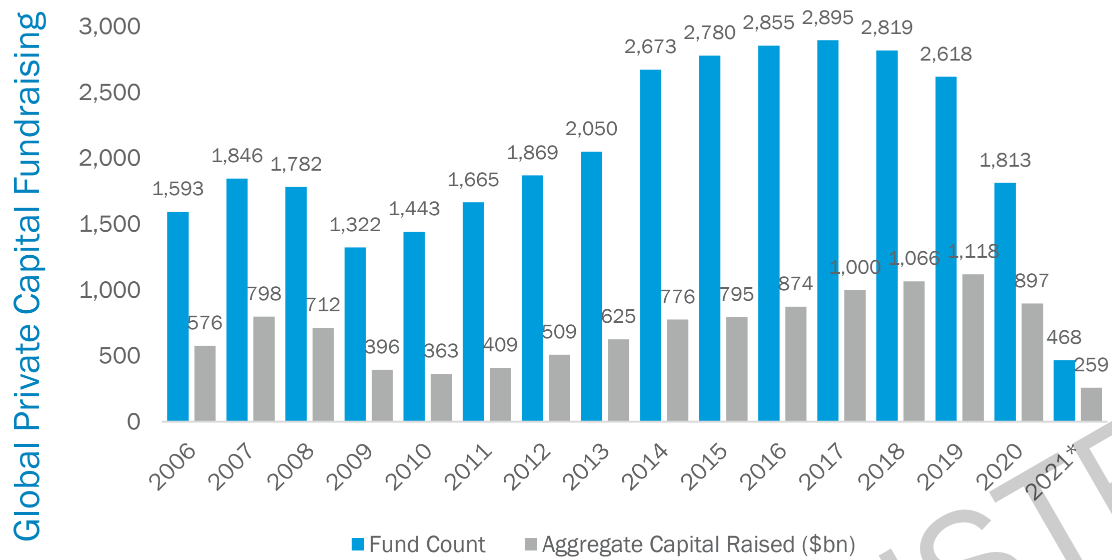


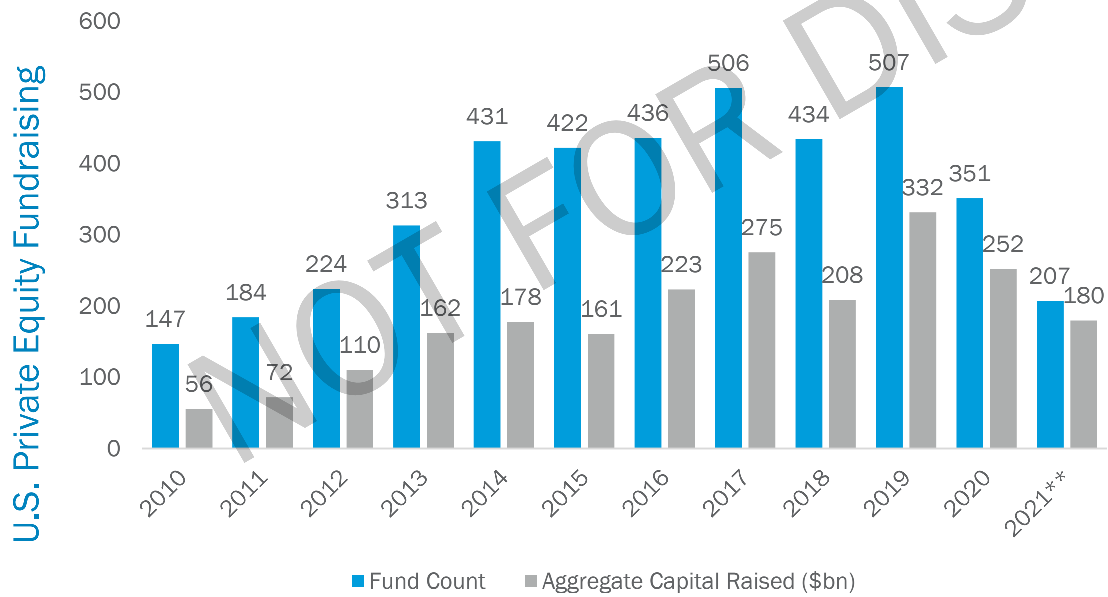


- U.S. PE buyout multiples continued to exhibit upward pressure, in part driven by continued accommodative monetary policies and demand for high-yield debt. This can be seen through the 7.5x debt-to-EBITDA ratio, which is at its highest level since 2008.
- PE firms are taking advantage of historically low interest rates to not only fund leveraged buyouts, but also to fund dividend recapitalizations and refinance loans that are near maturity.
- A key driver to the higher debt levels has been mega buyout deals, which are often financed by large financial institutions. Conversely, the lower middle market sources its debt capital primarily from smaller private lenders, and the mild uptick in purchase multiples within this segment has been driven by the uptick in EBITDA multiples, with debt-to-EV ratios remaining near 50% on average.

Source: PitchBook Q2 2021 U.S. PE Breakdown
**As of June 30, 2021*

Private Equity Fundraising Activity





- After a subdued 2020, global private capital fundraising experienced strong activity to start the year, and is on pace to surpass prior year totals, but is still lower than what we saw in 2018 and 2019. Strong structural tailwinds are contributing to higher fundraising totals to start the year, including a sustained low interest rate environment and positive sentiment among LPs following a volatile public market environment during the first half of 2020.
- Fundraising was inconsistent across strategies. Secondaries funds saw capital commitments grow nearly 100% over the last 12 months through March 2021, but real assets funds saw a decline of 53.1%.
- Within the U.S., PE fundraising activity remained healthy. The industry continues to benefit from the ongoing trend of large institutions seeking to boost exposure to alternatives.
- PE mega funds continue to account for the bulk of capital raised in the U.S. Q2 saw four mega funds close for a combined $39.5 billion, led by TA Associates' $12.5 billion growth equity fund and Bain Capital's $11.8 billion flagship vehicle.

Sources: PitchBook Q1 2021 Private Fund Strategies Report and PitchBook Q2 2021 U.S. PE Breakdown.

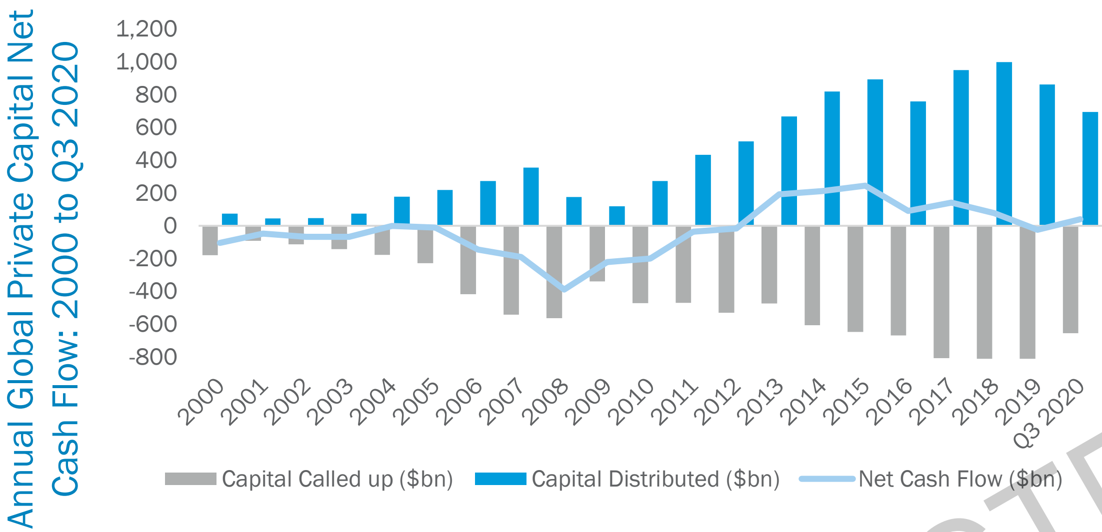
Private equity funds include: buyout, growth/expansion, diversified private equity, mezzanine, secondaries, co-investment, restructuring/turnaround, venture capital, private debt, energy, real estate, and fund of funds.

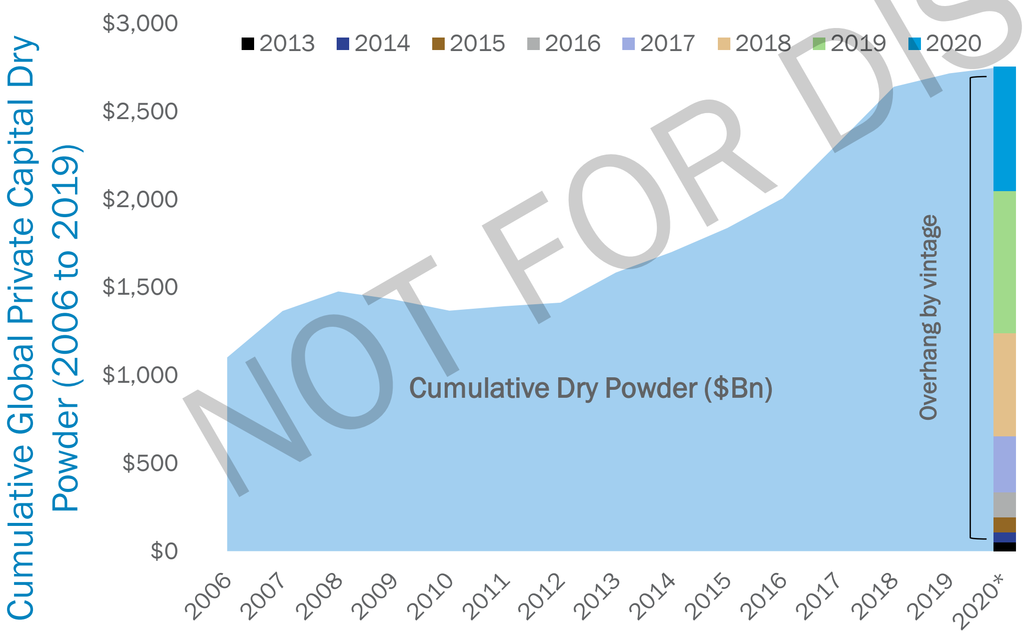
**Global Private Capital Fundraising as of March 31, 2021*

***U.S. Private Equity Fundraising as of June 30, 2021*

Global Private Capital: Performance and Dry Powder

Private Equity





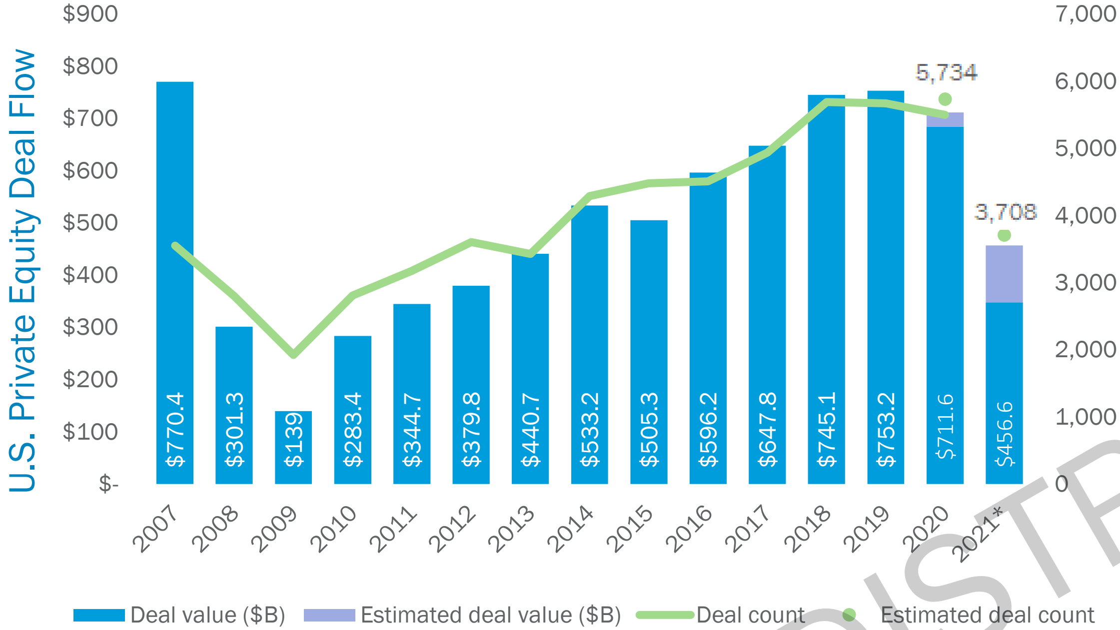
- Despite the fears of untimely capital calls from GPs to support struggling portfolio companies during the ensuing business disruption from the COVID-19 pandemic, the first nine months of 2020 showed more distributions than contributions on private market investments. While not the case across all strategies, venture capital's active exit environment and flows back to LPs led to an overall $38.6 billion in net cash flow back to investors.
- Though only halfway through 2021, U.S. PE exit activity has already exceeded 2019's annual figure at $355.9 billion. This has been primarily attributed to a large number of exits, especially among public listings via IPOs and SPAC mergers. Altogether, these accounted for 12.1% of the total PE exit count as of Q2 2021. Since the recovery from the public market volatility in 2020, public equity multiples are now significantly higher, and PE firms have aimed to capitalize on the favorable public market environment.
- Global private capital dry powder stood at over $2.7 trillion as of Q3 2020. $1.5 trillion, or 56.0%, of dry powder, is from funds raised in 2019 and 2020.

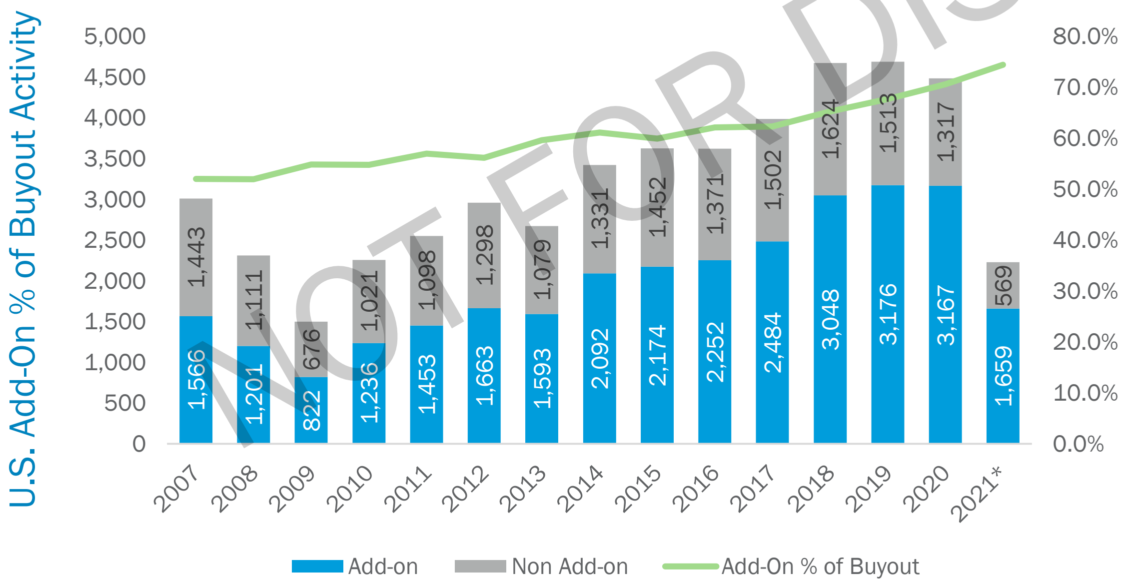
Sources: PitchBook Q1 2021 Global Fund Performance Report as of September 30, 2020; PitchBook Q2 2021 U.S. PE Breakdown; PitchBook Q1 2021 Private Fund Strategies Report,

**As of September 30, 2020*

U.S. Private Equity Deal Activity

Private Equity

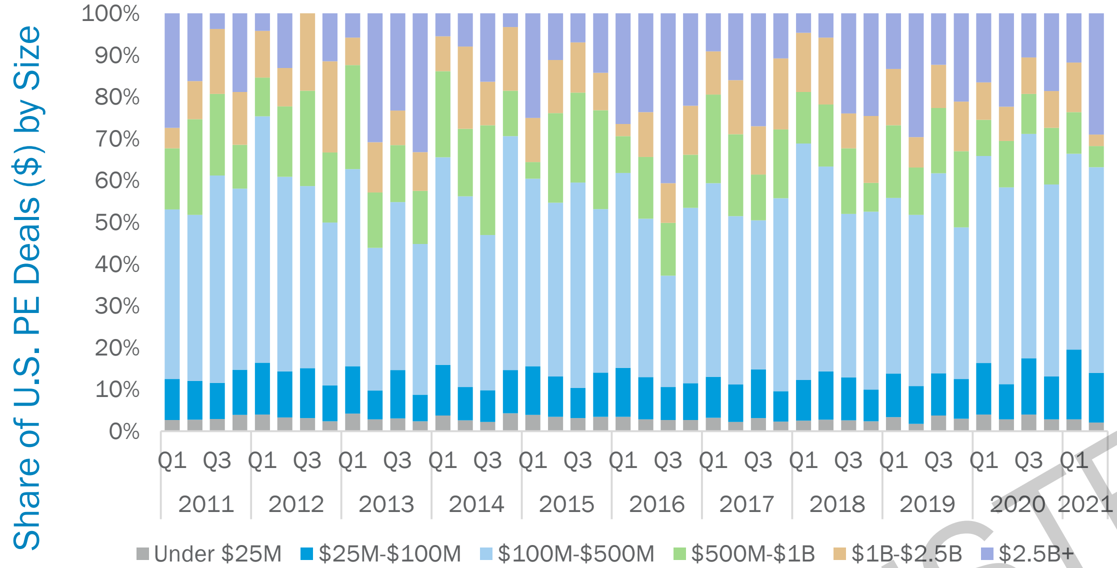


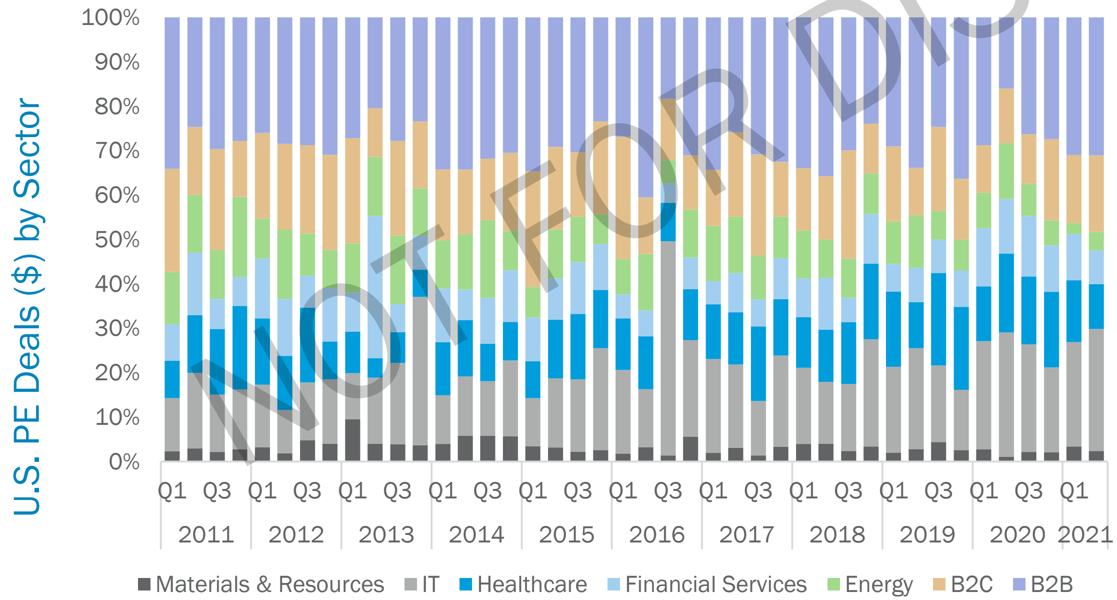


- U.S. PE deal activity continued at a furious pace, with PE firms closing on 3,708 deals to date worth a combined $456.6 billion. This is nearly two-thirds of the deal value that was recorded in all of 2020. Q2 also registered the second-highest deal activity in the past decade, after Q4 2020.
- One particular buyout deal that was announced during the quarter was Medline Industries, which was valued at $34 billion. Blackstone, Carlyle, Hellman & Friedman, and GIC will be participating in this deal. The deal value marks the largest deal since the GFC, but at a more conservative debt-to-equity ratio of 50%.
- 74.5% of buyout transactions currently comprise add-on acquisitions. GPs have been employing a “buy-and-build” strategy to accelerate the growth of platform investments and, in doing so, are able to blend down the overall purchase multiple of the underlying platform investment.

Source: PitchBook Q2 2021 U.S. PE Breakdown
**As of June 30, 2021*

U.S. Private Equity Deal Activity



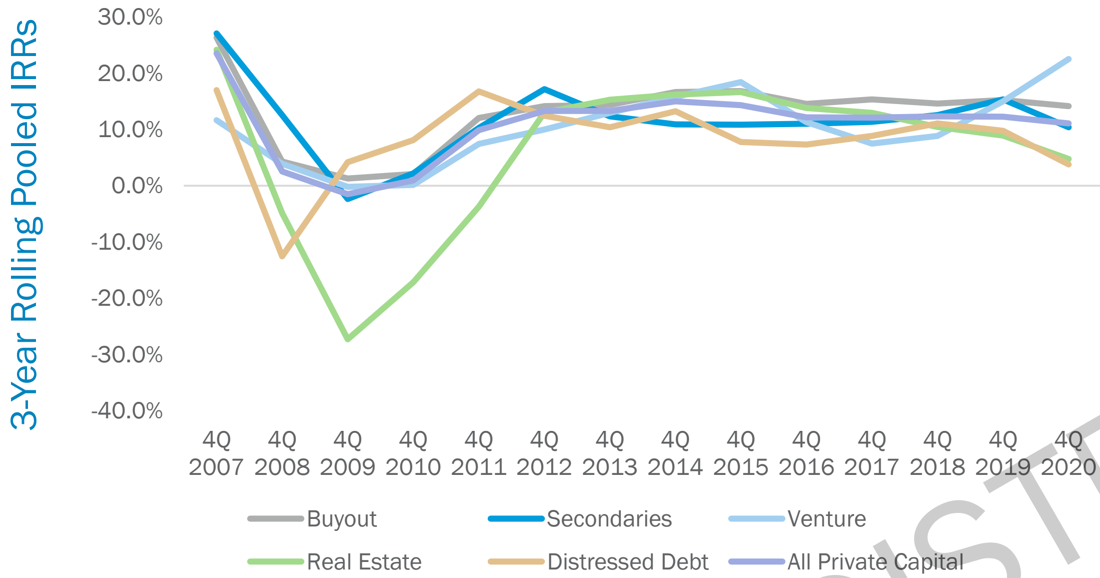


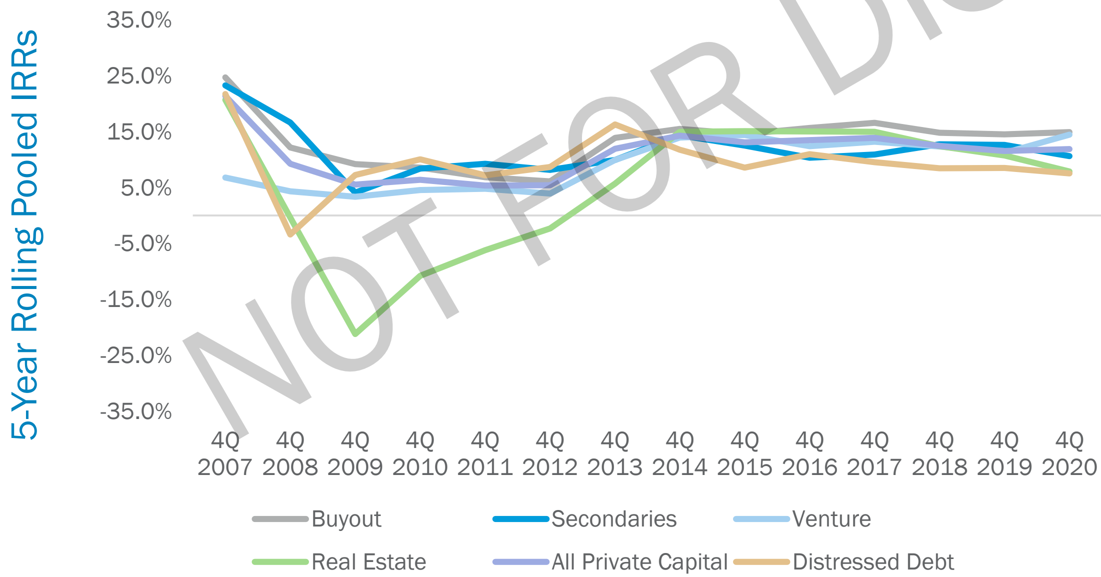
- As of the end of the quarter, approximately half of deals are valued in the $100 million to $500 million range, compared to 47% a year ago.
- Deals valued in the $1 billion+ range comprise 32% of deals, the highest since Q4 2019. This proportion will likely continue to increase as aforementioned larger transactions are announced, driven by IPOs and SPAC mergers.
- Consistent with prior quarters, close to half of PE deals in the U.S. have been in Business Services. Transactions in the IT sector have also remained constant, comprising over one-quarter of deal activity.

Source: PitchBook Q2 2021 U.S. PE Breakdown

Horizon Performance

Private Equity





- Through Q4 2020, venture capital has outpaced other private capital strategies over a three-year rolling basis. Venture capital's relative outperformance during this time period was driven in large part by the robust IPO market as venture-backed "unicorns" have filed for public listing during the second half of 2020.
- Over a five-year rolling basis, buyout has consistently outperformed its private market peers since 2014, with venture capital now converging due to its recent outperformance. Conversely, Distressed Debt and Real Estate strategies both continue to underperform their private market peers, both on a 3-year and 5-year rolling period.

Source: PitchBook, as of December 31, 2020