CanterburyConsulting

Quarterly Asset Class Report
Private Equity

canterburyconsulting.com

March 31, 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.

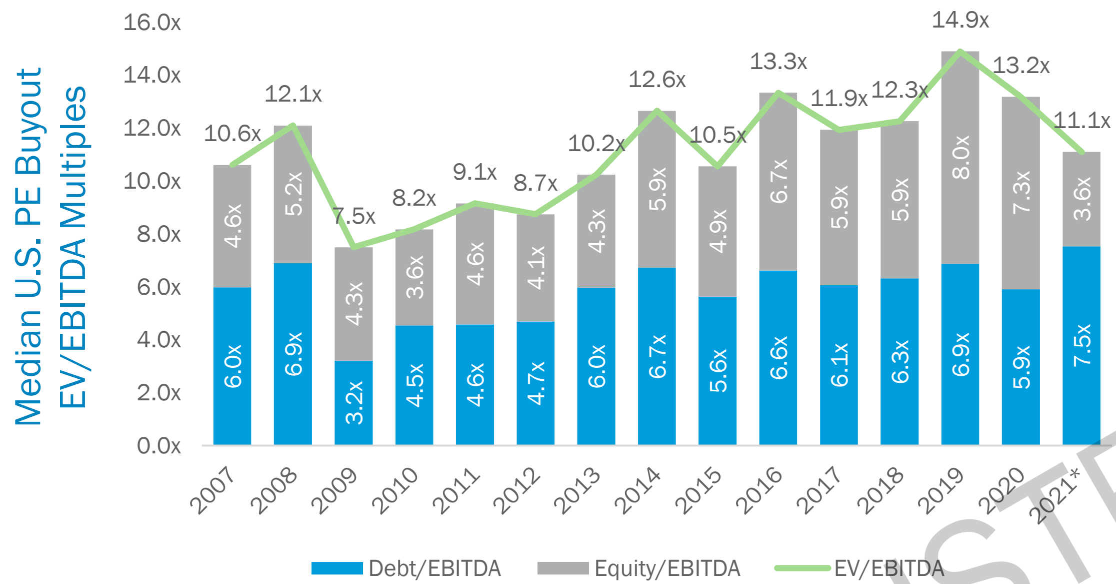
- Strategic: Using various market inputs to form a baseline, we create a recommended portfolio allocation.
- Opportunistic: We combine top-down and bottom-up analysis to achieve excess risk-adjusted returns through market intelligence and superior manager selection.

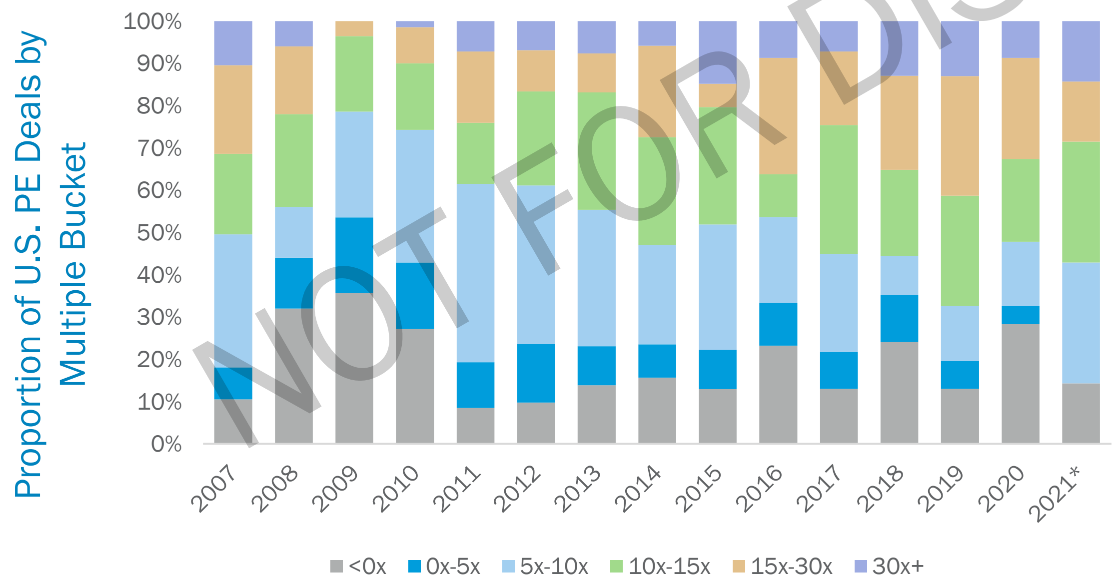
Role	Asset Categories	Risks
Growth	**Public and Private Equity**	**Market Decline**
Capital Preservation	Fixed Income, Hedge Funds	Rising Interest Rates, Highly Correlated Markets
Inflation Protection	Real Assets: Real Estate, Commodities	Deflation

– 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

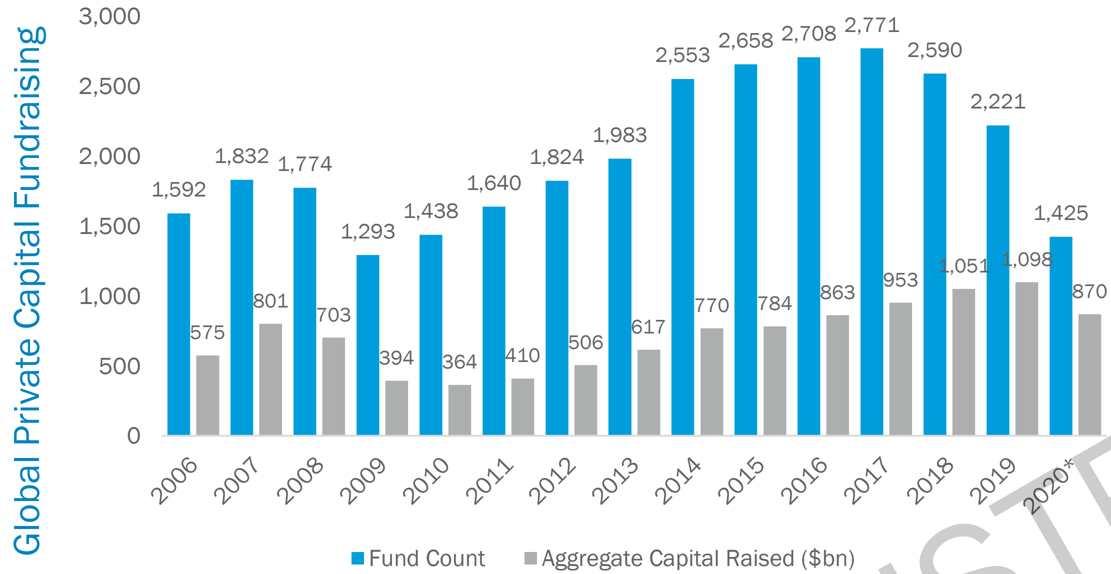


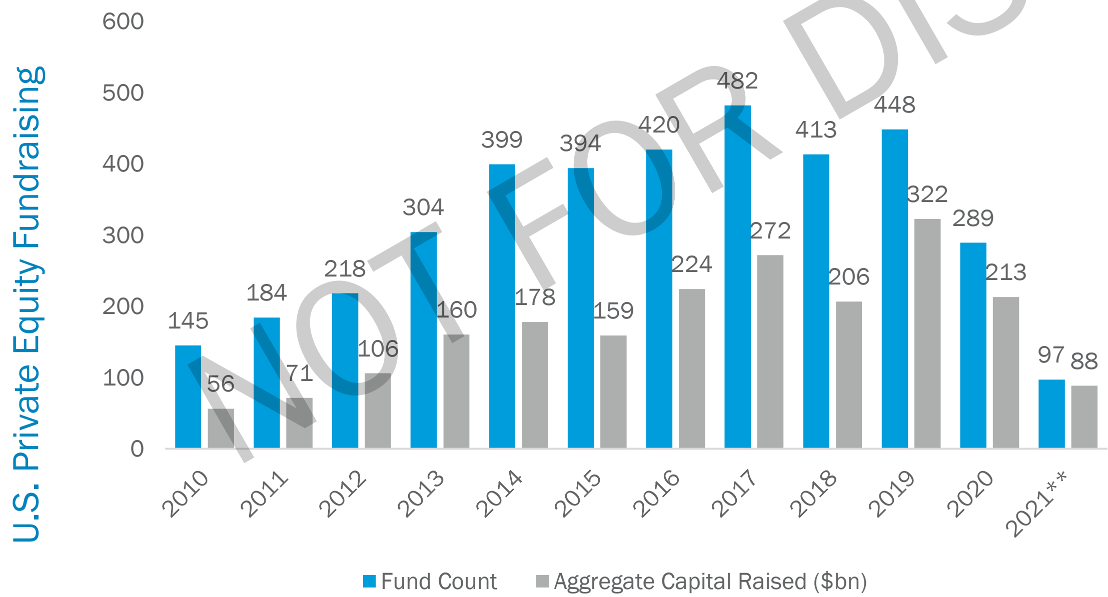


- U.S. median buyout multiples during the quarter trended downward following a robust 2020. However, several large carve-outs and take-private transactions were announced during the quarter, which may apply upward pressure on purchase multiples throughout the year.
- GPs have continued to add to dry powder levels, as several mega funds closed in 2020 and a queue of $10 billion+ funds have announced fundraising (i.e., KKR, Dyal, Hellman & Friedman, TA Associates, and Insight Partners).
- The public markets are playing a greater role in PE exit activity. Strategic buyers with multi-billion dollar balance sheets are also looked at as viable exit options, putting upward pressure on prices.

Source: PitchBook Q1 2021 U.S. PE Breakdown
**As of March 31, 2021*

Private Equity Fundraising Activity





- Global private capital fundraising in 2020 fell significantly compared to prior years, brought on by LP reluctance to commit to the private markets in light of the public market volatility in the first half of the year. While the number of funds in market dropped significantly, this did not result in the same proportional drop in aggregate capital raised, which points to LPs realigning their private market portfolios to larger, more established fund managers.
- Funds $100 million and lower constituted 45.4% of total fund count in 2019, but only 35.6% in 2020. Their share was redistributed to funds between $100 million and $5 billion.
- The U.S. PE market experienced healthy fundraising activity to start the year, with approximately $88 billion raised, including closes by flagship offerings by New Mountain, Silver Lake, Clayton, Dubilier & Rice, and Blackstone's inaugural growth fund vehicle.

Sources: PitchBook 2020 Private Fund Strategies Report and PitchBook Q1 2021 U.S. PE Breakdown.

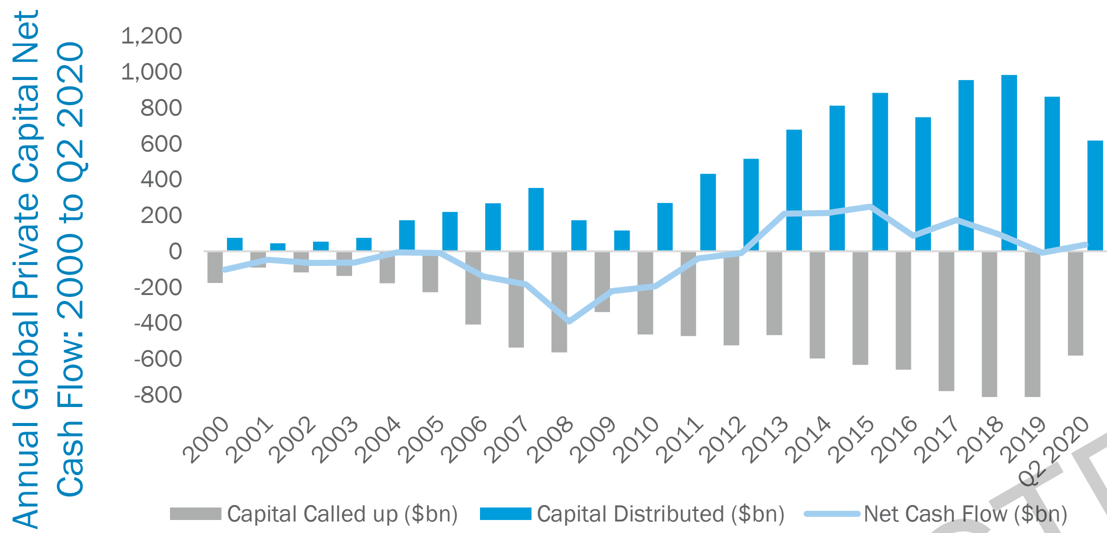
Private equity funds include: buyout, growth/expansion, diversified private equity, mezzanine, secondaries, co-investment, restructuring/turnaround, venture capital, private debt, energy, real estate, and fund of funds.

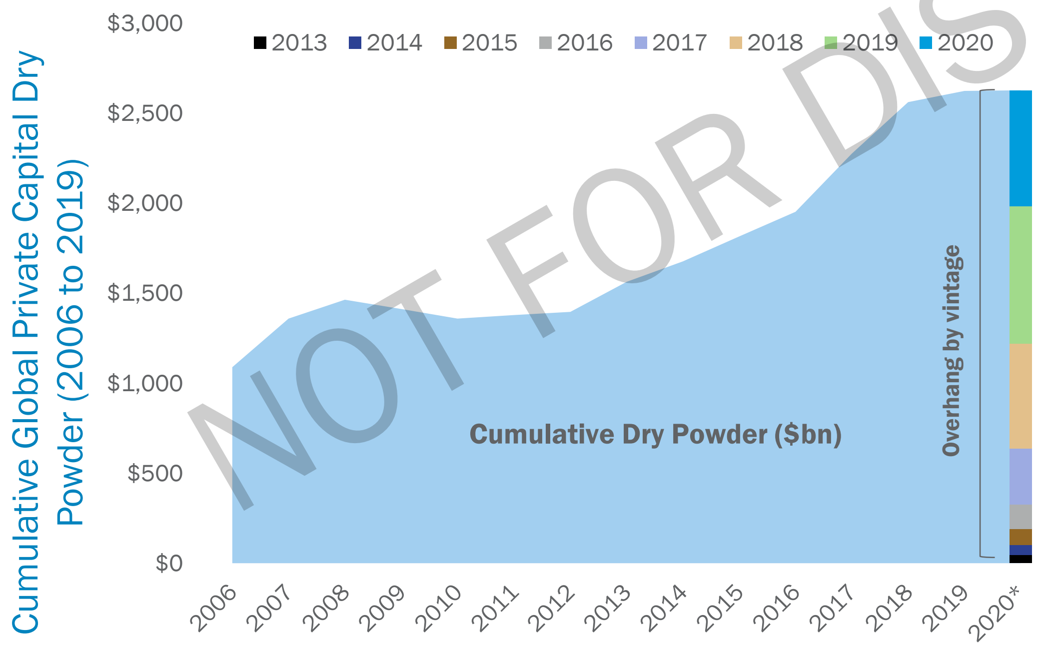
**Global Private Capital Fundraising as of December 31, 2020*

***U.S. Private Equity Fundraising as of March 31, 2021*

Global Private Capital: Performance and Dry Powder

Private Equity



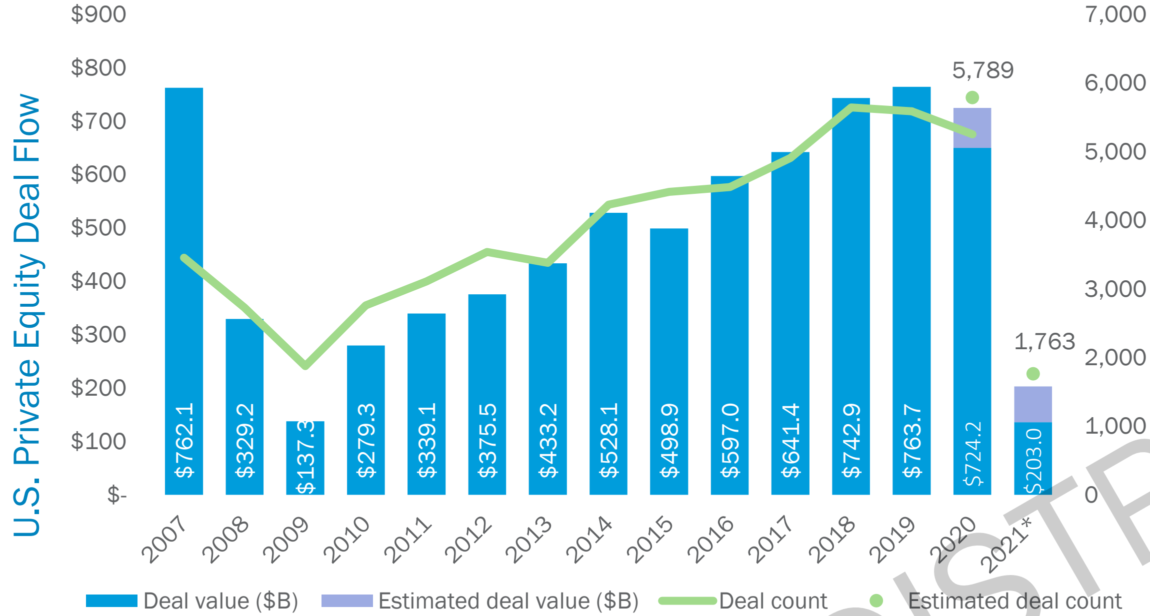


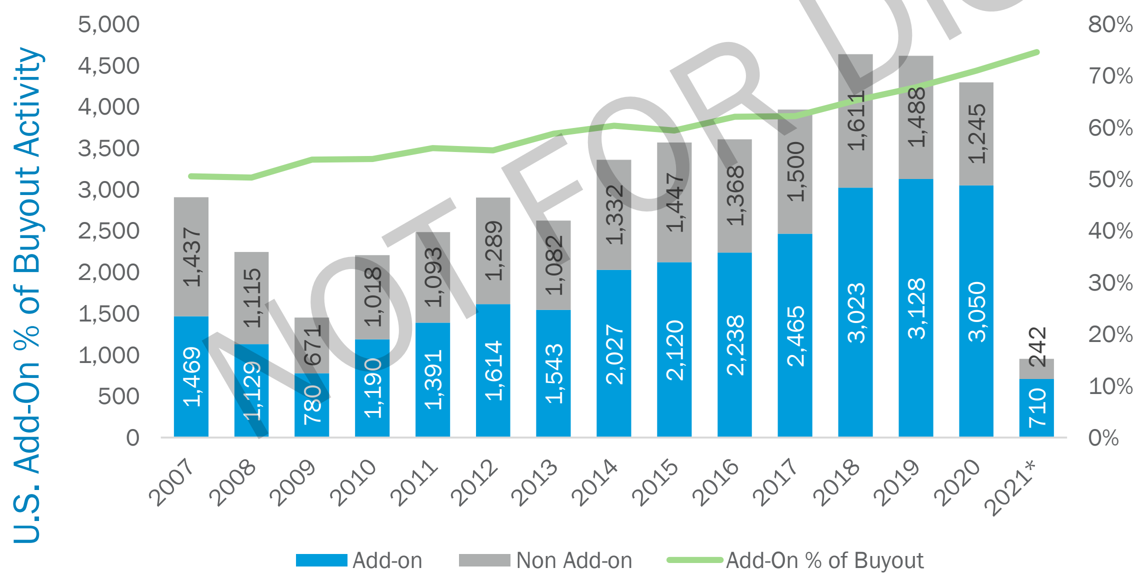
- Through Q2 2020 (the most recent data available), global LPs had received approximately $617 billion in distributions, compared to $582 billion in contributions, resulting in positive cash flow to LPs despite COVID-19. This was driven in part by the outsized venture capital exit activity that took place in 2019 and spilled over into 2020 with the expiration of lock-up mechanisms that restricted 2019 IPO proceeds.
- U.S. PE exit activity continued from it's pace from the previous quarter. During Q1, GPs exited 289 portfolio companies for a combined value of $162 billion. Tech companies accounted for much of the exit value, with Blackstone having been part of two of the three largest exits in this space (Refinitiv and Bumble). The median exit size among public listings has jumped significantly, driven by the combination of robust public market performance and the exponential growth in SPACs over the last two fiscal years. The median exit value for sponsor and corporate strategic acquisitions have remained steady.
- Global private capital dry powder stood at over $2.6 trillion as of Q2 2020. $1.4 trillion, or 53.6%, of dry powder, is from funds raised in 2019 and 2020.

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

**As of June 30, 2020*

U.S. Private Equity Deal Activity



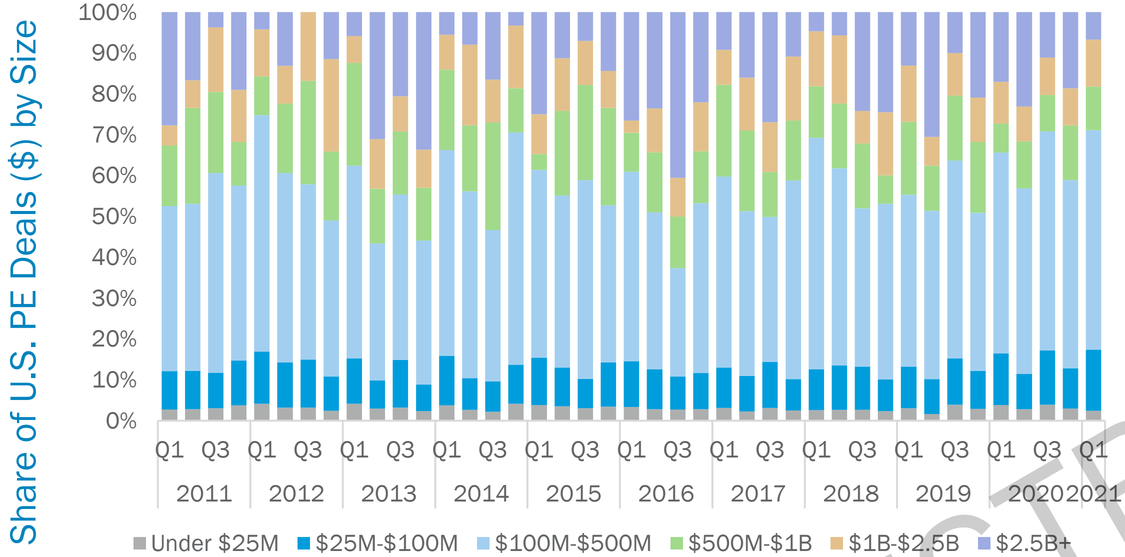


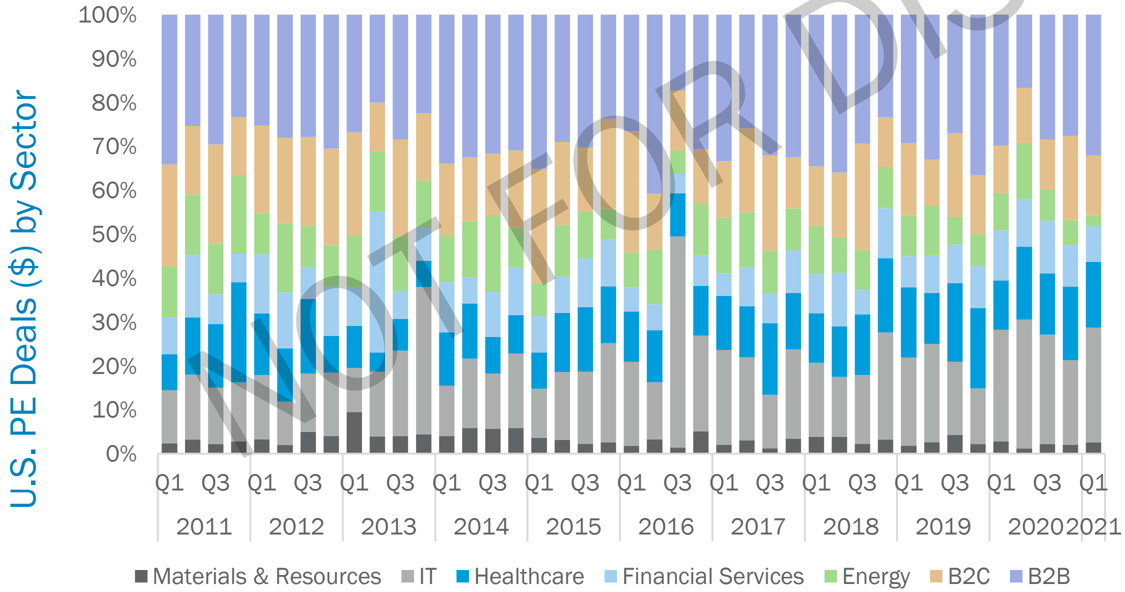
- U.S. PE deal activity began the year strong with an estimated 1,763 deals totaling $203 billion in value, yet did not match the deal activity from the prior quarter. As business and economic conditions steadily return to normal, it would not be unreasonable to forecast 2021 deal activity to surpass 2020 in both deal value and volume.
- The quarter saw large corporate carve-outs and take-private transactions announced. Among them are Peraton's (a Veritas Capital portfolio company) completion of a $3.4 billion add-on acquisition of Northrop Grumman's IT and mission-support business; and a $6.0 billion take-private acquisition of real estate data and analytics firm CoreLogic, led by Stone Point Capital and Insight Partners.
- A continued driver in PE deal activity has been the growing use of SPAC-related transactions. So far in 2021, 300 SPAC IPOs have been executed on, totaling close to $90 billion in capital raised, which surpassed all 2020 totals. However, the SEC has stepped up its scrutiny over SPAC mergers and it remains to be seen if the growing volume in SPAC mergers will persist.
- Over 70% of buyout transactions currently comprise add-on acquisitions. GPs have been employing this "buy-and-build" strategy to accelerate the growth of its platform investments, and in doing so are able to blend down the overall purchase multiple of the underlying platform investment.

Source: PitchBook Q1 2021 U.S. PE Breakdown
**As of March 31, 2021*

U.S. Private Equity Deal Activity

Private Equity



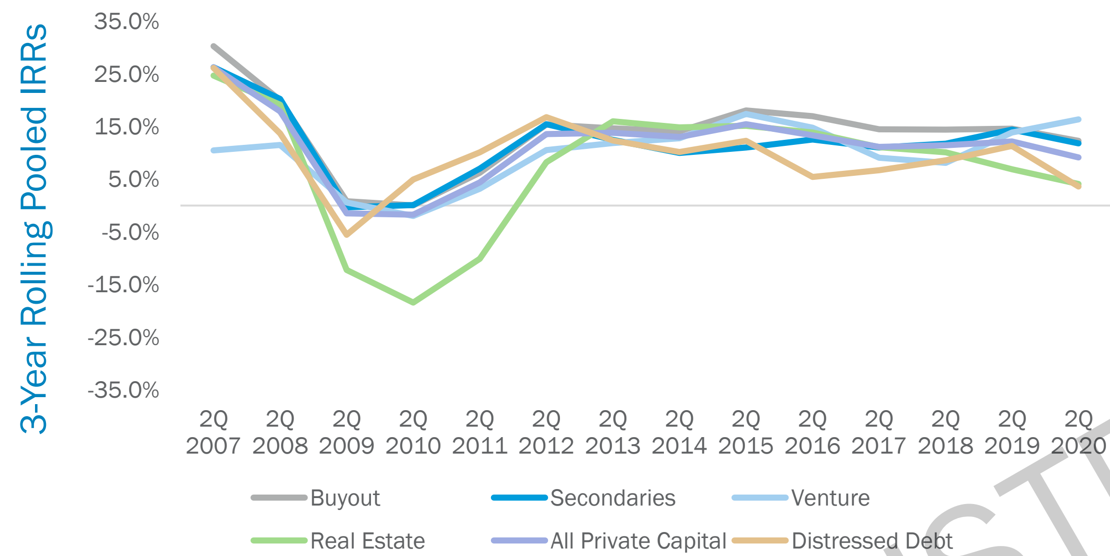


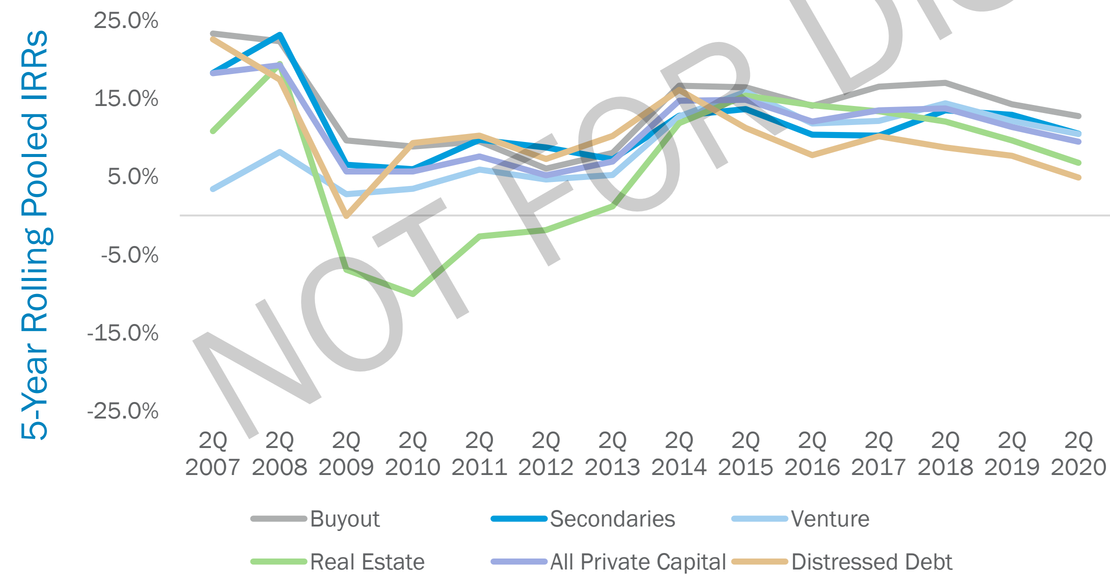
- As of the end of the quarter, 54% of deals are valued in the $100 million to $500 million range, compared to 46% a quarter ago.
- Deals valued in the $1 billion+ range comprise about one-fifth of deals, and will likely increase as aforementioned larger transactions are announced.
- Consistent with 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 one-quarter of deal activity.

Source: PitchBook Q1 2021 U.S. PE Breakdown

Horizon Performance

Private Equity





- Through Q2 2020, venture capital has outpaced other private capital strategies over a three-year rolling basis. The dispersion of returns, characterized by the dispersion between first quartile and fourth quartile returns, is greater among venture capital funds than among other private capital strategies such as buyout and secondaries, whose return outcomes are less volatile. As a result, these returns are being driven primarily by top quartile and decile managers.
- Over a five-year rolling basis, buyout has consistently outperformed its private market peers since 2014, while real estate and distressed debt have continued to lag.

Source: PitchBook, as of June 30, 2020