CanterburyConsulting

Quarterly Asset Class Report

Private Equity

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Quarter Ending December 31, 2018

Role in the Portfolio

Private Equity

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.

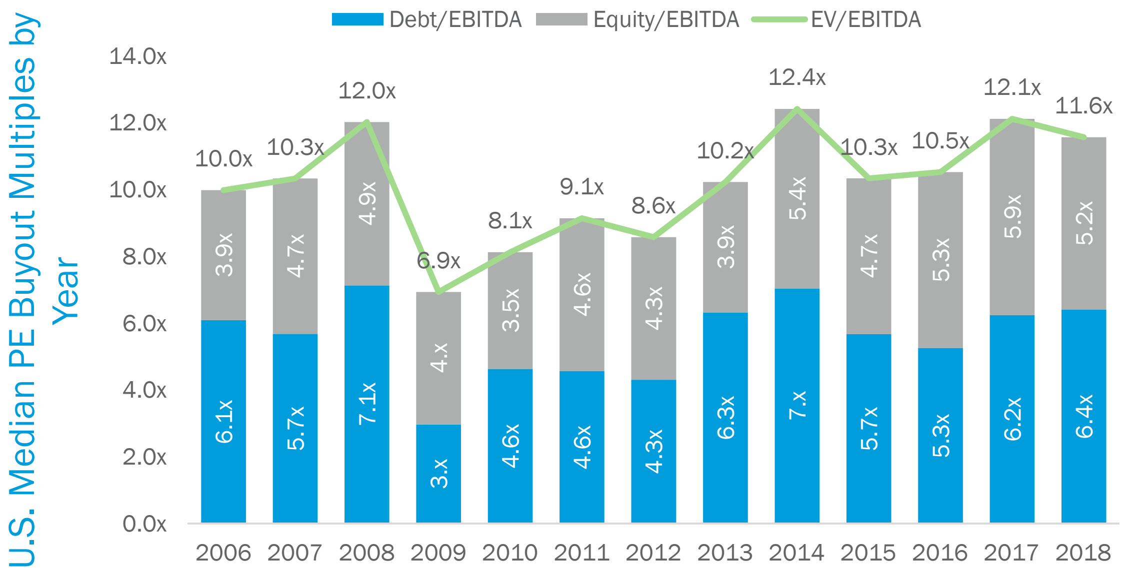
- Strategic: Using various market inputs to form a baseline, we create a recommended model portfolio allocation.
- Opportunistic: We combine top-down and bottom-up analysis to achieve excess risk-adjusted returns through market intelligence and superior manager selection.

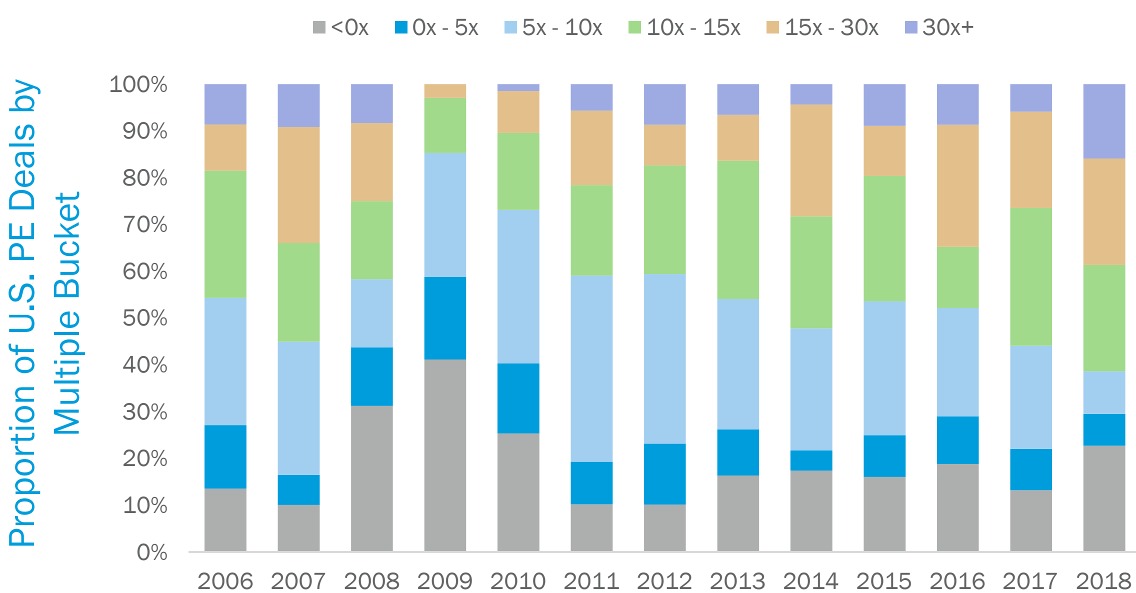
Role	Asset Categories	Risks
Growth	**Public and Private Equity**	**Market Decline**
Capital Preservation	Fixed Income, Hedge Funds	Rising Interest Rates, Highly Correlated Markets
Inflation Protection	Real Assets: Real Estate, Commodities	Deflation

— Over a full market cycle, private equity is expected 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.

Private Equity Valuation Overview

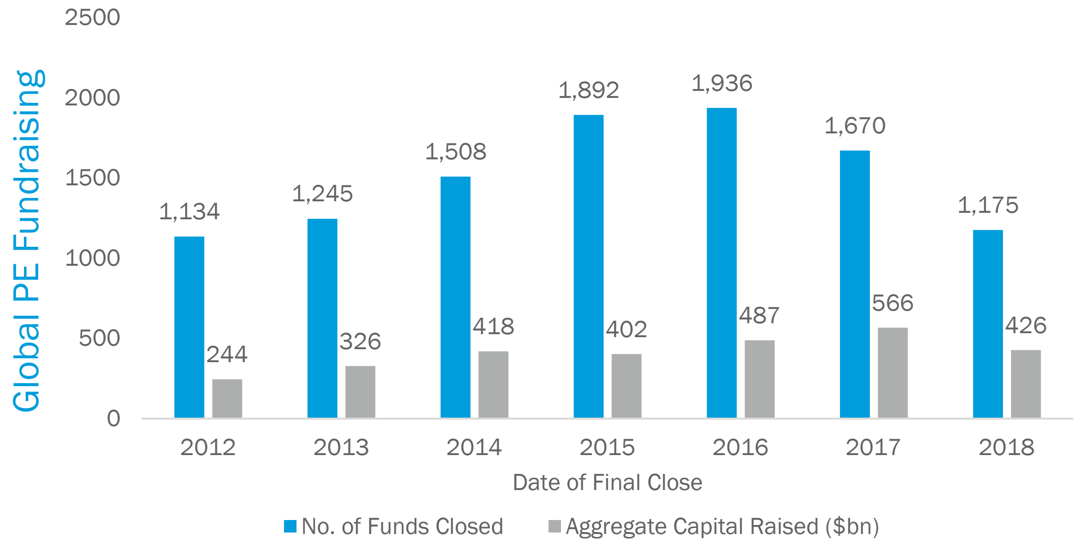


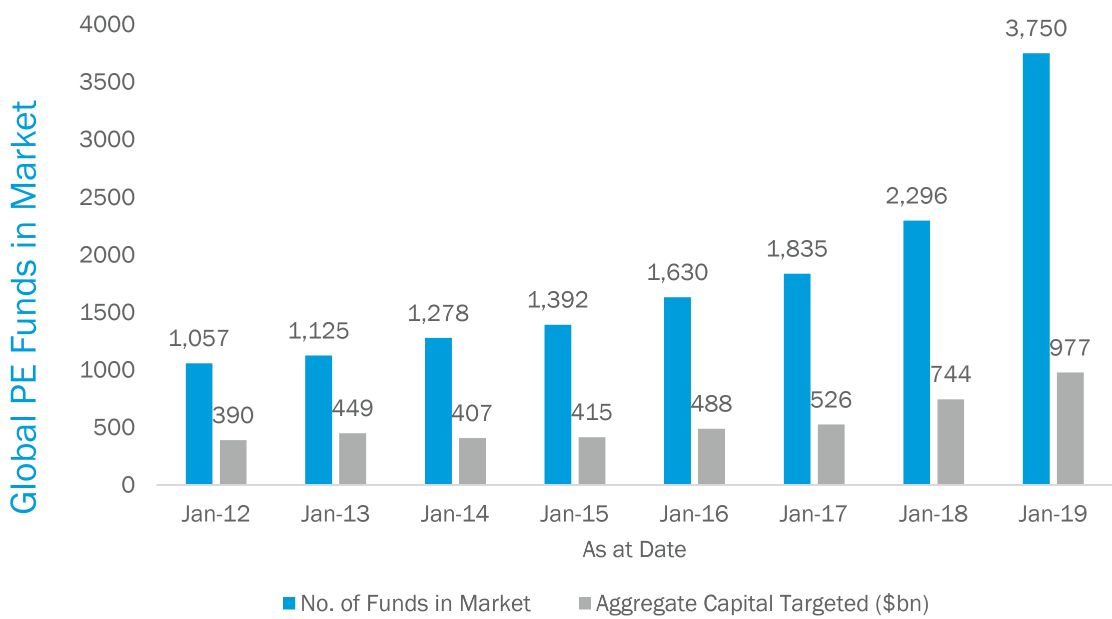


- U.S. median private equity buyout multiples dipped in 2018, but remain above the 12-year average of 10.2x. Factors that have contributed to the elevated PE multiples are:
  - **Low-priced debt and equity flooding the private equity market:** Relatively attractive lending terms, especially among private direct lending firms, have been an instrumental part of private equity transactions. Increased equity dollars have also been important, as investors are seeking higher yielding investments and increased diversification. This has contributed to the higher debt levels from prior years.
  - **Increased competition in the private equity buyout space:** The increased dollars raised has increased competition for assets throughout the private equity markets, propelling deal multiples upwards.
- The proportion of deals priced above 10x hit the highest rate on record at 61.4%. This is indicative of the intense competition in the PE buyout space.

Source: Pitchbook 2018 US Annual PE Breakdown

Private Equity Fundraising Overview



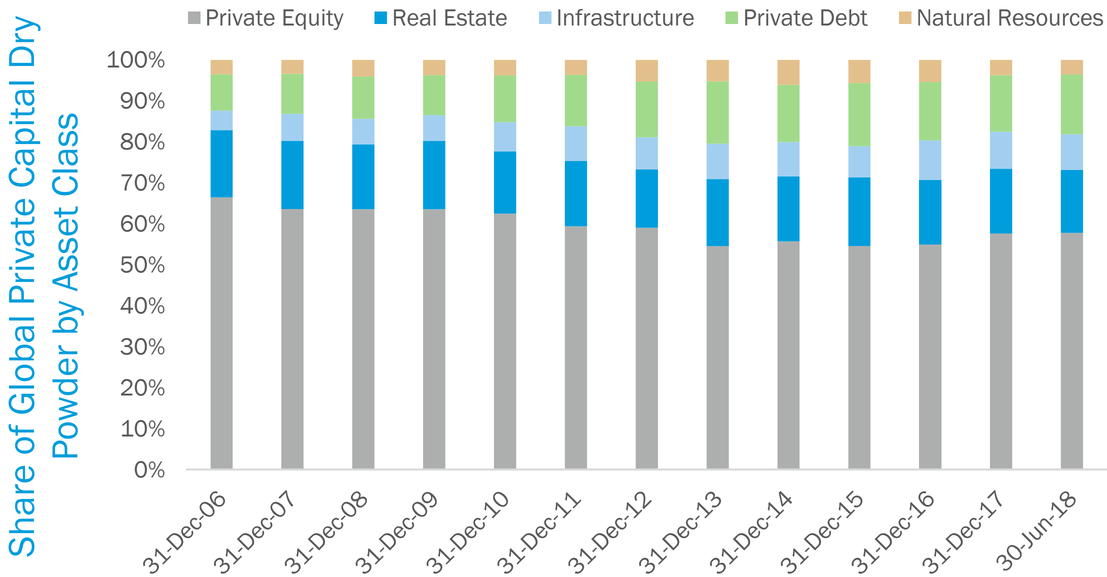


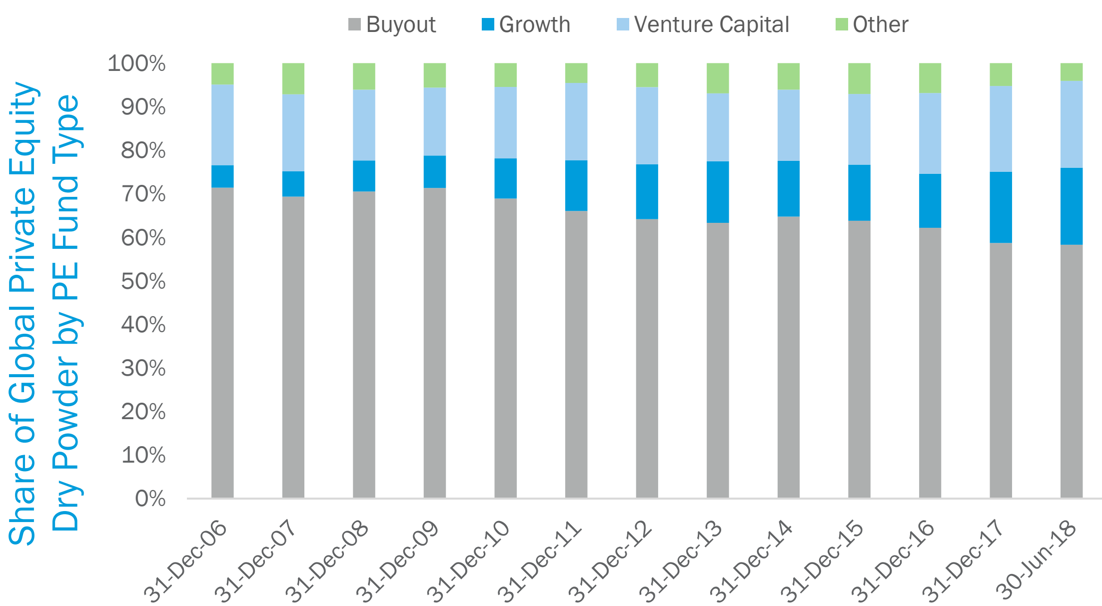
- Global private equity fundraising slowed down in 2018, with 1,175 funds closing. This is in stark contrast to the 1,670 private equity funds that closed in 2017. The average fund size of $363 million in 2018 surpassed the 2017 average of $339 million.
- During 2018, there were more private equity funds closed in Asia than Europe for the first time ever: 250 compared to 196.
- Geographically, funds focused in North America constituted over 56% of aggregate capital raised, followed by funds focused in Europe (21%) and Asia (19%).
- Global PE funds in market reached a new all-time high as at January 2019, with nearly 3,800. The total amount of capital targeted is also at an all-time high of $977 billion.
- The five largest funds currently in market are seeking a combined $219 billion, led by SoftBank's Vision Fund at $100 billion.

Source: Preqin
**2018 figures are through 12/31/2018, unless otherwise noted*

Private Capital Dry Powder

Private Equity





- As of June 30, 2018, global private capital dry powder stood at nearly $2.1 trillion. Of this, 58% was allocated to the private equity asset class ($1.2 trillion). Private debt and real estate combined totaled 30% of global dry powder.

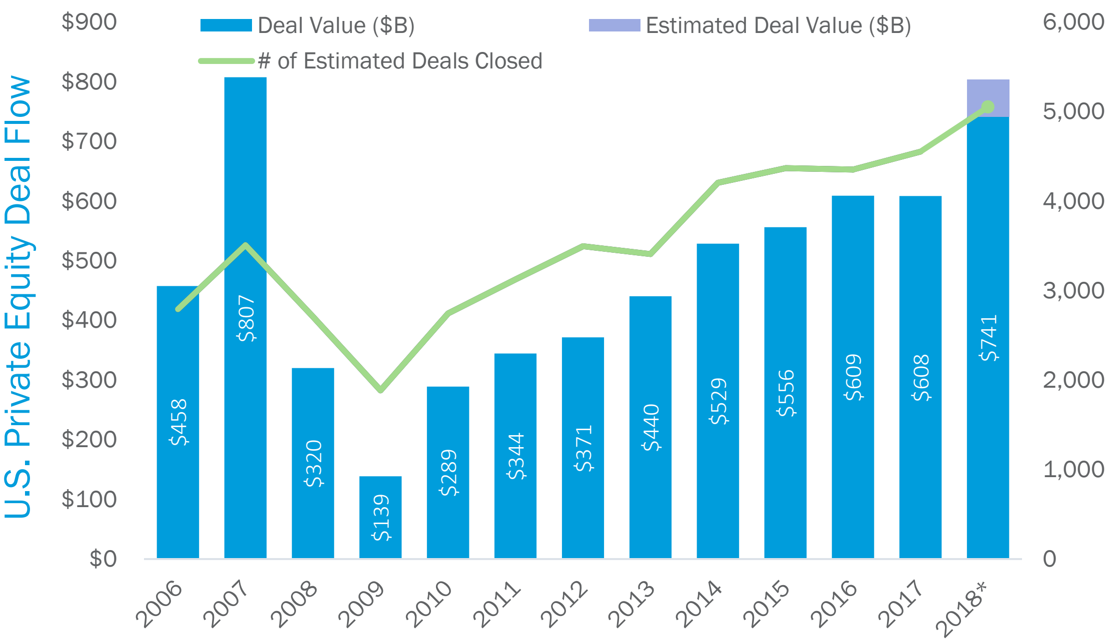
- Within private equity, 58% of total dry powder was allocated to buyout funds, followed by venture (20%) and growth (18%) funds.

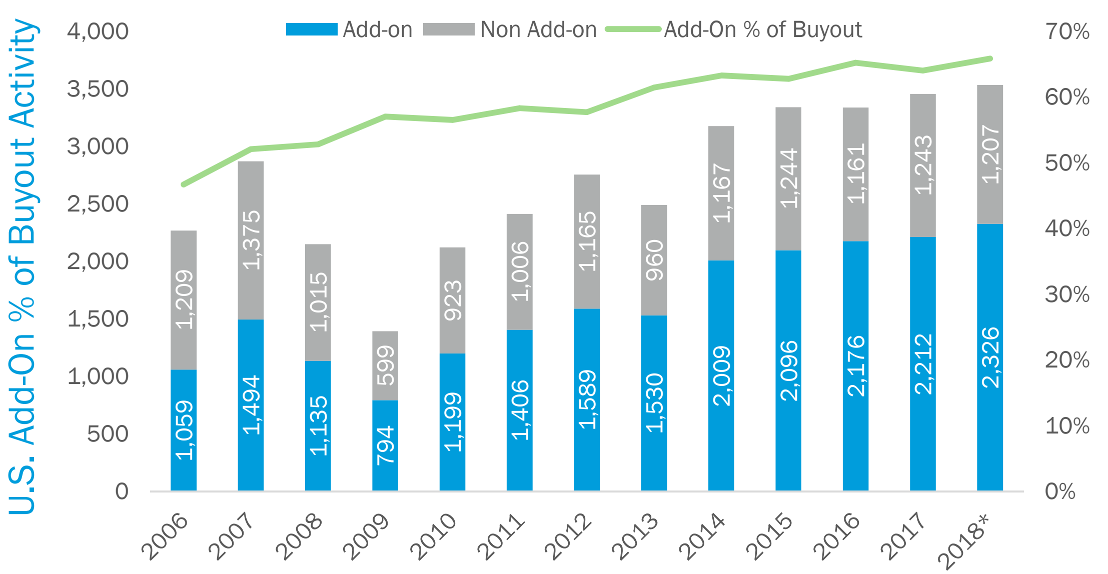
- Please note the following:

  - **Private Capital** is defined as all private closed-end funds, including private equity, private debt, private real estate, infrastructure, and natural resources.

  - **Private Equity** is defined as balanced, buyout, direct secondaries, growth, PE fund of funds, PE secondaries, turnaround, and venture capital.

Source: Preqin





- U.S. private equity deal activity had a robust 2018 with nearly 4,800 deals closing, an increase of 4.7% from 2017. Deal value increased 22% over 2017.

- Deal activity continues to be driven by easy access to credit.

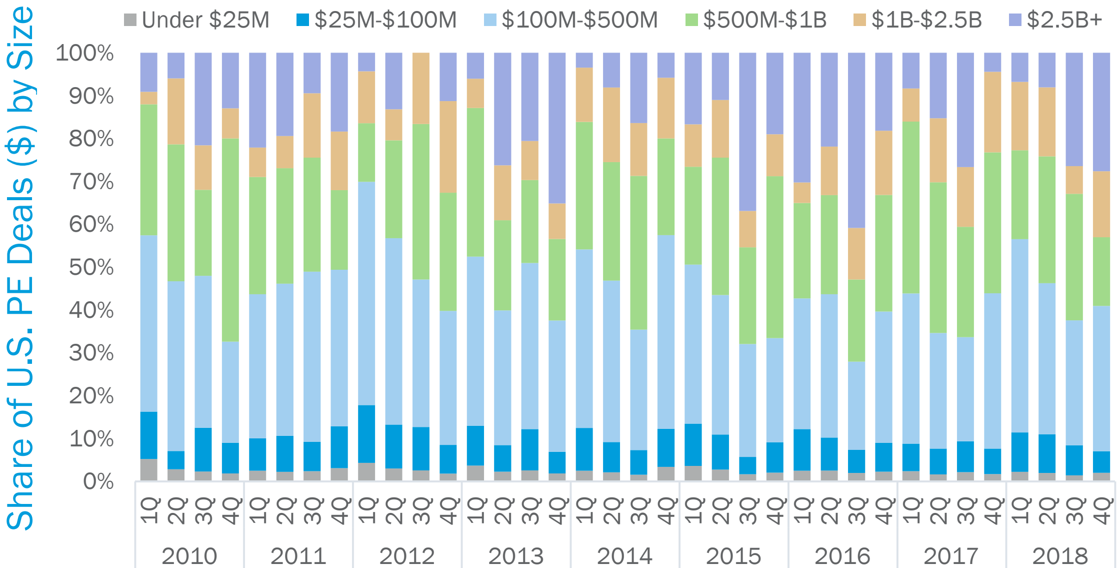
- Add-ons continued to account for two-thirds of all buyout activity in 2018, with PE firms continuing to focus on the lower middle market as a source for add-on opportunities. Add-on acquisitions typically have more attractive entry prices and can usually be acquired quickly to drive operational improvements.

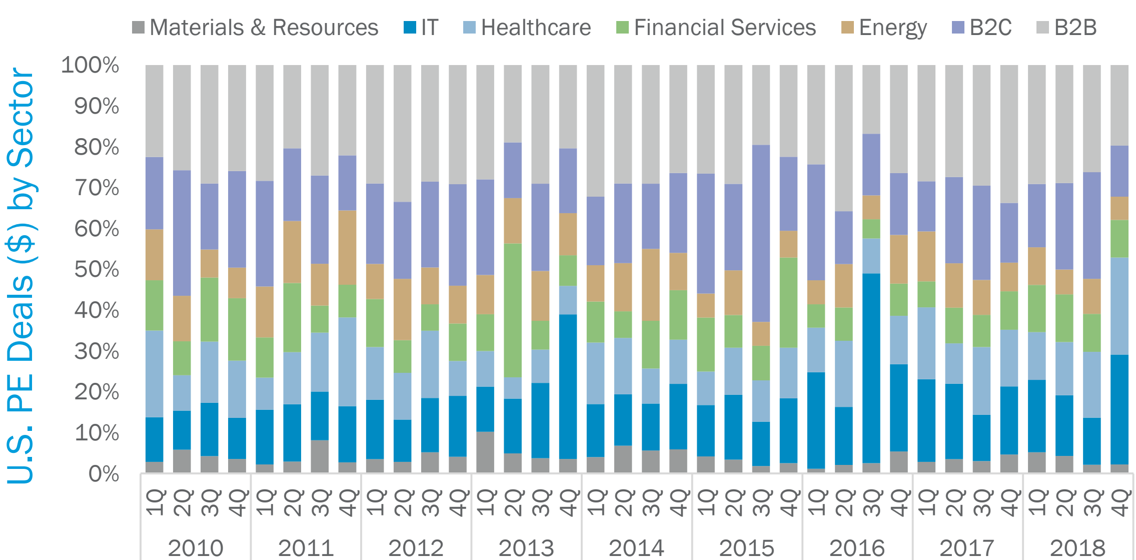
- As entry multiples continue to be elevated, PE firms are looking at add-on acquisitions as a means to blend down their acquisition purchase multiples by bolting on smaller companies trading at lower valuations.

Source: PitchBook 2018 U.S. Annual PE Breakdown
**2018 figures are through 12/31/2018*

Deal Activity

Private Equity





- 2018 saw a pick up in mega fund deal value. During the year, deals valued at $1 billion and above accounted for 31% of deal value, versus 16% in 2017. The easy access to credit and mega funds needing to spend down dry powder are driving these larger transaction sizes.

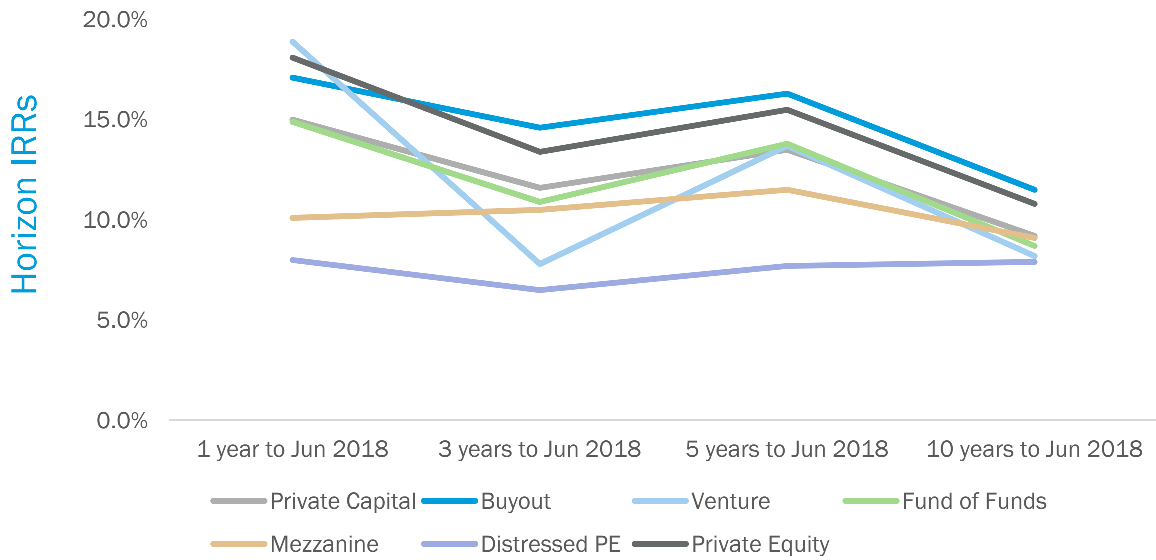
- Deals valued between $100 million and $1 billion continue to be the source for the majority of deal value. This segment of the private equity market accounted for 60% of overall deal value in 2018.

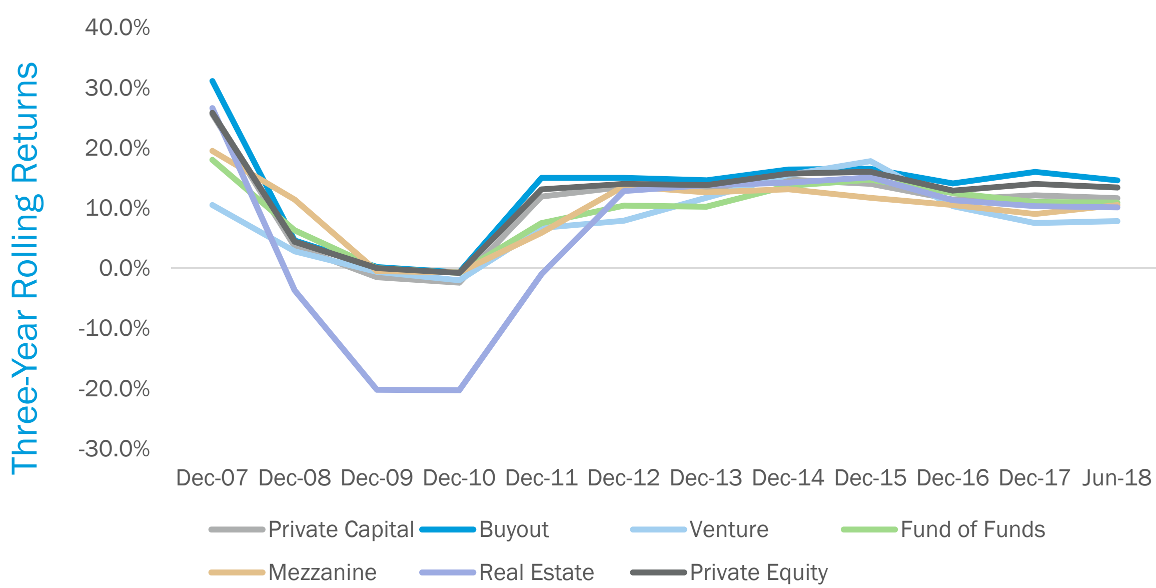
- The B2B and B2C sectors continue to be attractive sectors to invest in among PE firms, accounting for 45% of total deal value (in dollar terms).

Source: PitchBook 2018 U.S. Annual PE Breakdown
**2018 figures are through 12/31/2018*

Horizon Performance

Private Equity





- Three-year rolling returns have remained fairly flat in recent years.
- The performance of distressed strategies continue to lag that of other private equity strategies due to less prevalence of distressed situations. The generally favorable economic environment has favored buyout strategies.
- Please note the following:
  - **Private Capital** (All) is defined as all private closed-end funds, including private equity, private debt, private real estate, infrastructure, and natural resources.
  - **Private Equity** (All) is defined as balanced, buyout, direct secondaries, growth, PE fund of funds, PE secondaries, turnaround, and venture capital.

Source: Preqin, September 2018