CanterburyConsulting

Quarterly Asset Class Report
Private Equity

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canterburyconsulting.com

December 31, 2020

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.

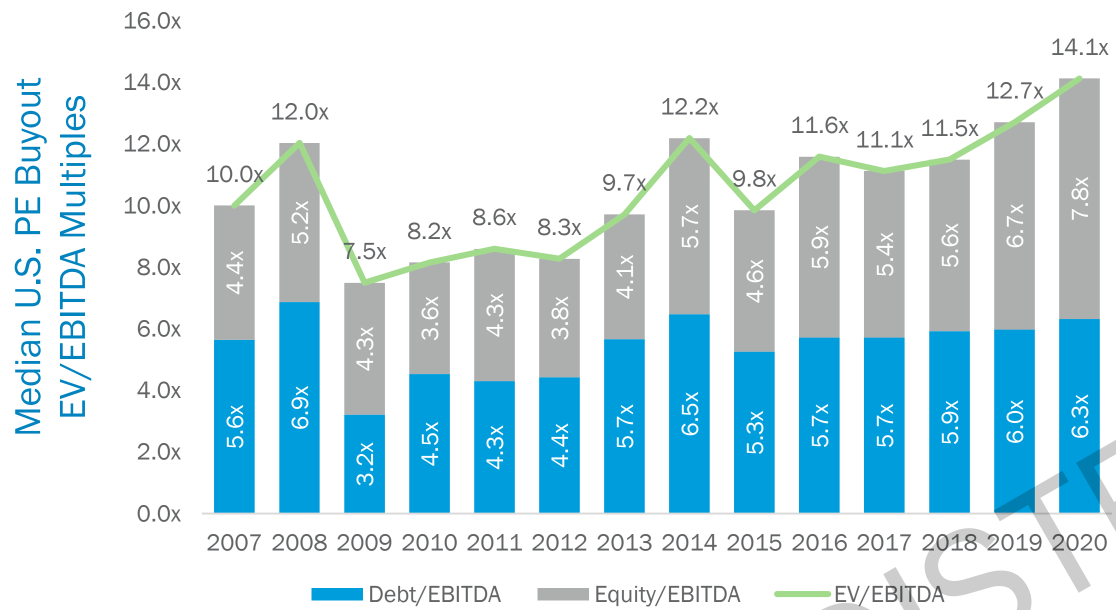
- Strategic: Using various market inputs to form a baseline, we create a recommended portfolio allocation.
- Opportunistic: We combine top-down and bottom-up analysis to achieve excess risk-adjusted returns through market intelligence and superior manager selection.

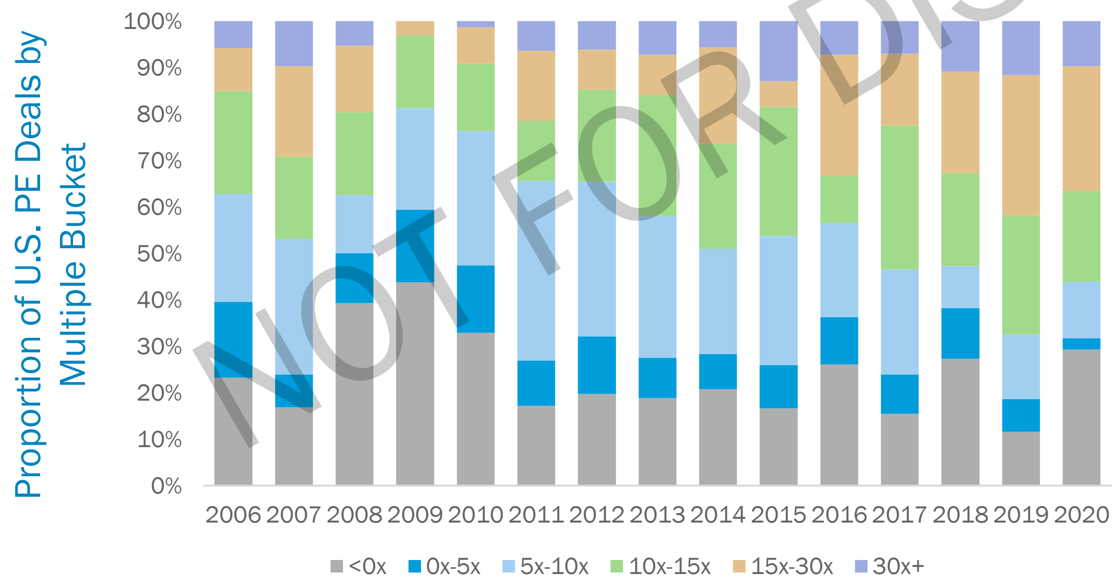
Role	Asset Categories	Risks
Growth	**Public and Private Equity**	**Market Decline**
Capital Preservation	Fixed Income, Hedge Funds	Rising Interest Rates, Highly Correlated Markets
Inflation Protection	Real Assets: Real Estate, Commodities	Deflation

— 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



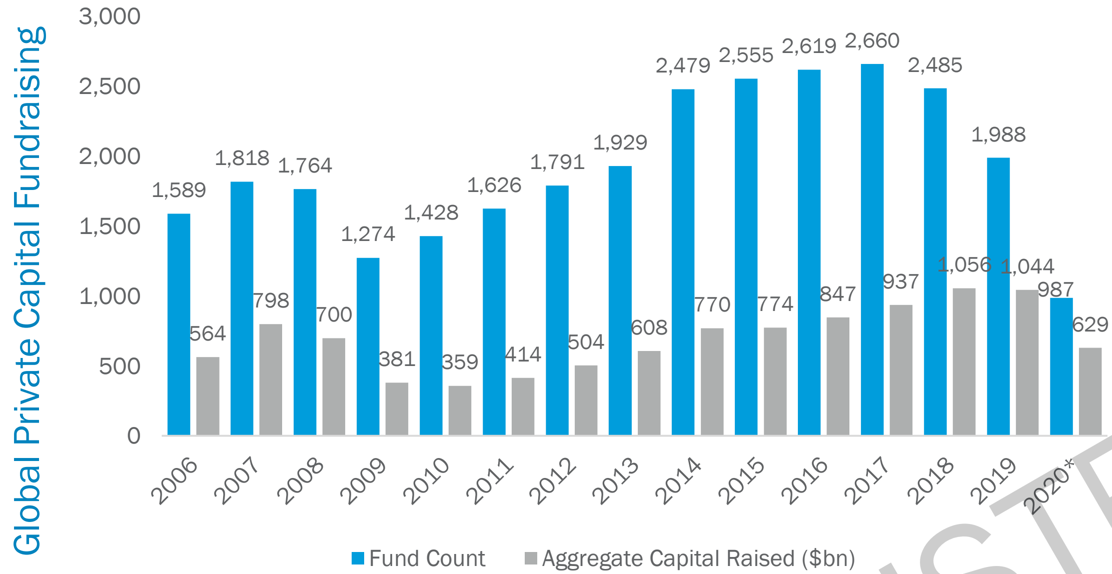


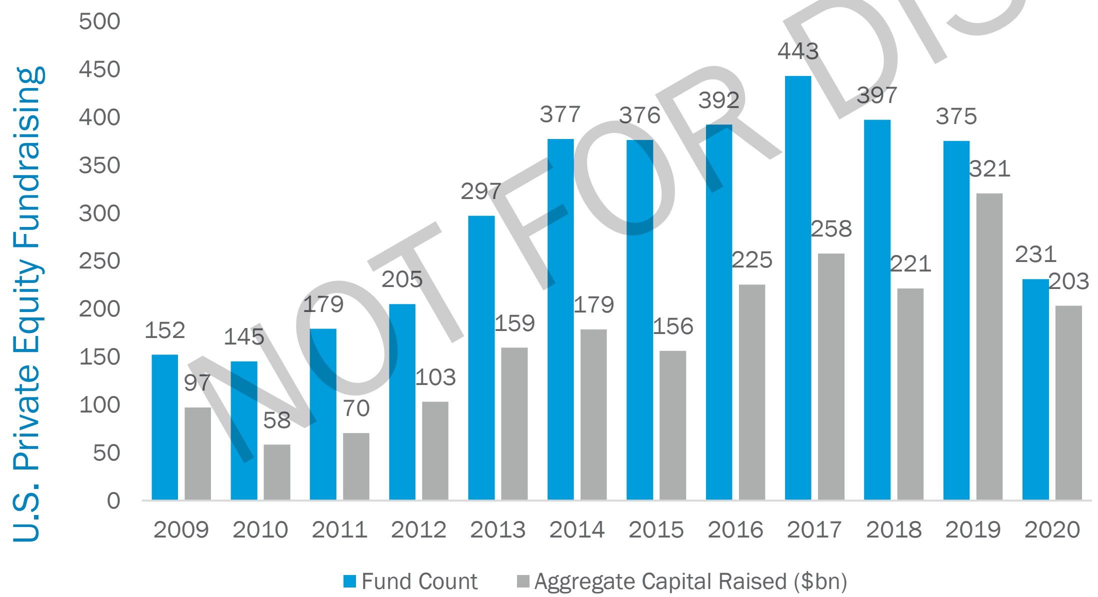
- U.S. median buyout multiples continued their upward trend and are now at an all-time high. This trend was driven by the increased share of buyout transactions among growth-stage technology companies, which have been a key target of buyout funds and tend to trade at a higher multiple of earnings.
- Leverage multiples have been steadily increasing since 2015. The assumed continuance of monetary and fiscal accommodation should provide expanded financing options for private equity firms. This may continue to apply upward pressure on leverage multiples as PE firms seek to take advantage of low-priced debt.
- In 2020, approximately 20% of leveraged buyouts in the United States had entry multiples of 20x or more.* When accounting for buyout transactions that were priced at 16x or higher, the share is around 35%.**

Source: PitchBook 2020 U.S. PE Breakdown

**Source: PitchBook 2021 US Private Equity Outlook*

Private Equity Fundraising Activity





- The ensuing volatility and uncertainty in the public markets due to COVID-19 challenged private capital fundraising activity. The 12 months ending September 30, 2020 saw a drop of 7% in capital raised relative to the same period the prior year. However, some strategies, such as secondaries, experienced growth in their fundraising efforts. Commitments to private real estate and private debt experienced declines of more than 20%.

- Throughout 2020, there was a notable shift of allocations in favor of larger, more established private capital firms, constraining smaller first-time fund managers. In 2020, only 150 first-time funds closed for an annual pace estimated at 200. This is significantly lower than the 277 first-time funds closed in 2019 and the 300 first-time funds closed in 2017.

- U.S. PE fundraising dropped substantially with a 38.4% decrease in funds closing in 2020 versus 2019. Total capital raised was down 36.8% compared to the year prior.

- U.S. PE fundraising in 2020 was concentrated towards tech-focused funds, notably Thoma Bravo who raised $22.8 billion across three funds. In 2020, U.S. technology fundraising surpassed every other year on record, totaling $63.1 billion across 45 funds.

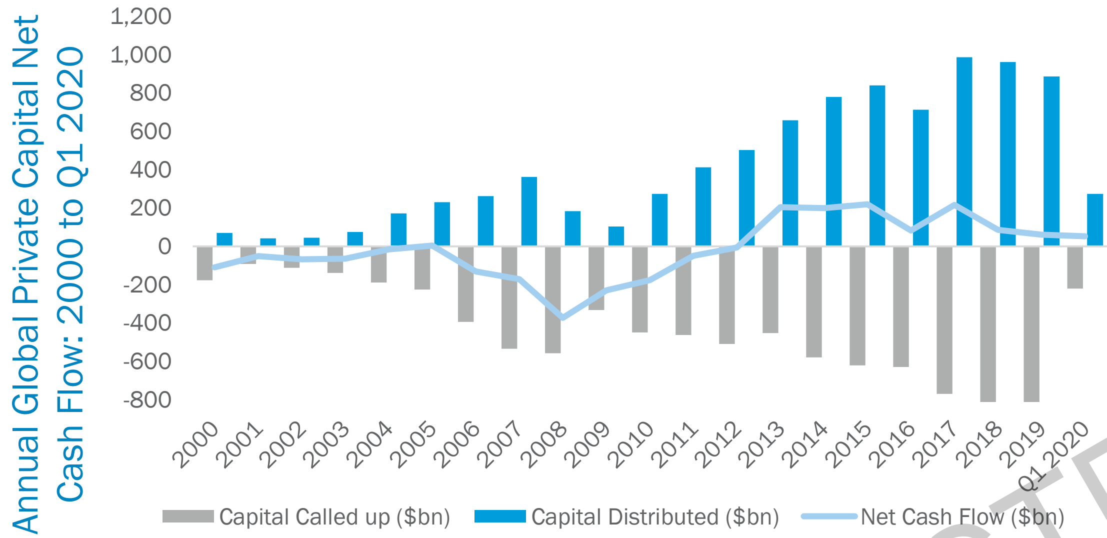
Sources: PitchBook Q3 2020 Private Fund Strategies Report and PitchBook 2020 U.S. PE Breakdown.

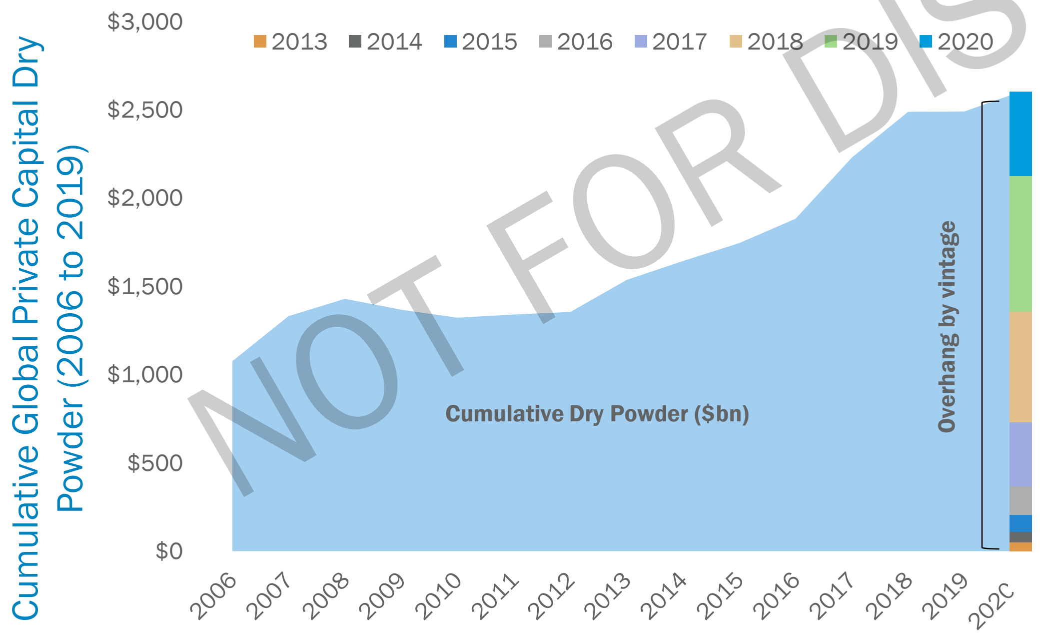
Private equity funds include: buyout, growth/expansion, diversified private equity, mezzanine, secondaries, co-investment, restructuring/turnaround, venture capital, private debt, energy, real estate, and fund of funds.

** Global Private Capital Fundraising as of September 30, 2020*

Global Private Capital: Performance and Dry Powder

Private Equity

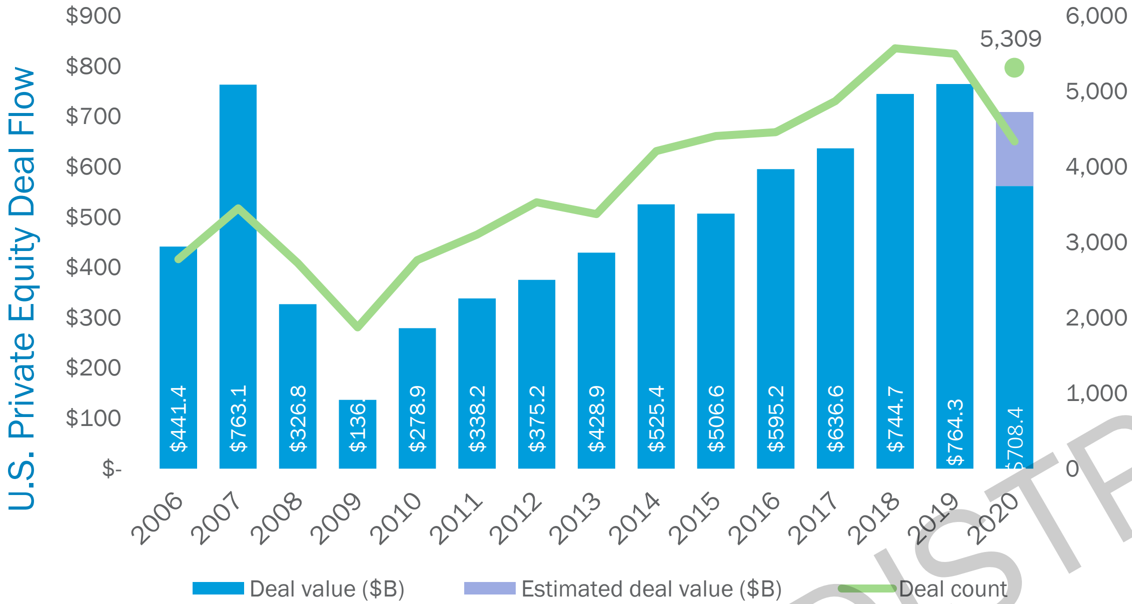


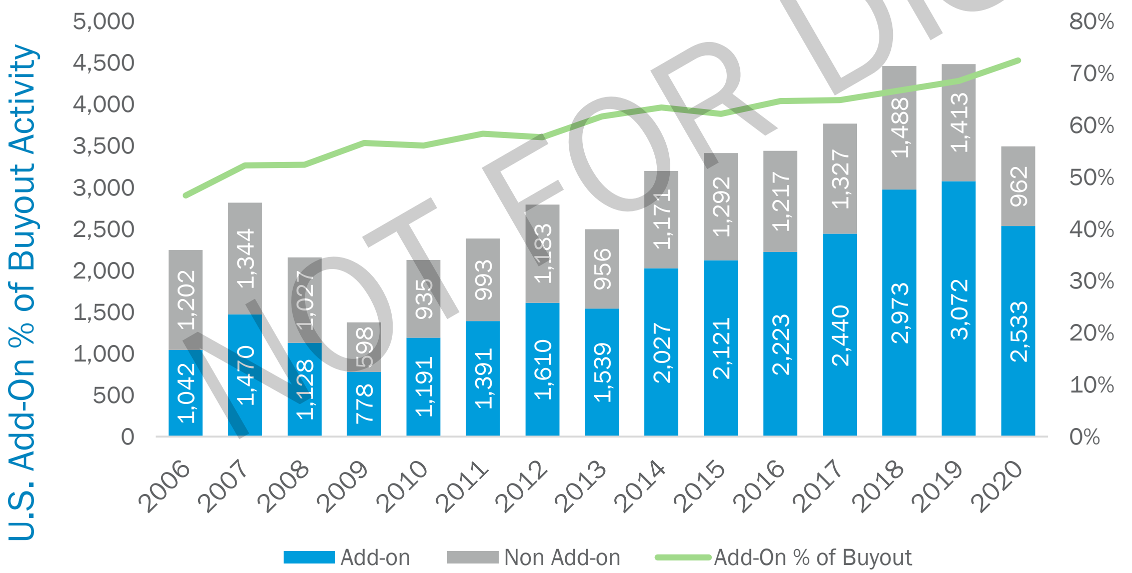


- Through Q1 2020 (the most recent data available), global LPs had received approximately $273 billion in distributions, compared to over $221 billion in contributions. However, we believe that expected contributions exceeded distributions for the remainder of 2020, as GPs called more capital to help portfolio companies manage cash flow in light of COVID-19 and the subsequent pause to business operations.
- In 2020, the number of U.S. private equity exits fell by 14% compared to 2019; however, total exit value increased by 6% during the same time period. This was driven in large part by the high volume of public listings (IPOs and Special Purpose Acquisition Companies) and a run-up in the public markets in the second half of 2020. SPAC-related transactions were particularly prevalent, with SPACs raising more capital in 2020 than in the previous decade combined.
- Global private capital dry powder continues to increase and stood at approximately $2.6 trillion as of Q1 2020. $1.4 trillion, or 53.7%, of dry powder are from funds raised in 2018 and 2019.

Sources: PitchBook 2020 Global Fund Performance Report as of March 31, 2019; PitchBook 2020 U.S. PE Breakdown; PitchBook Q3 2020 Private Fund Strategies Report, data as of March 31, 2020

U.S. Private Equity Deal Activity



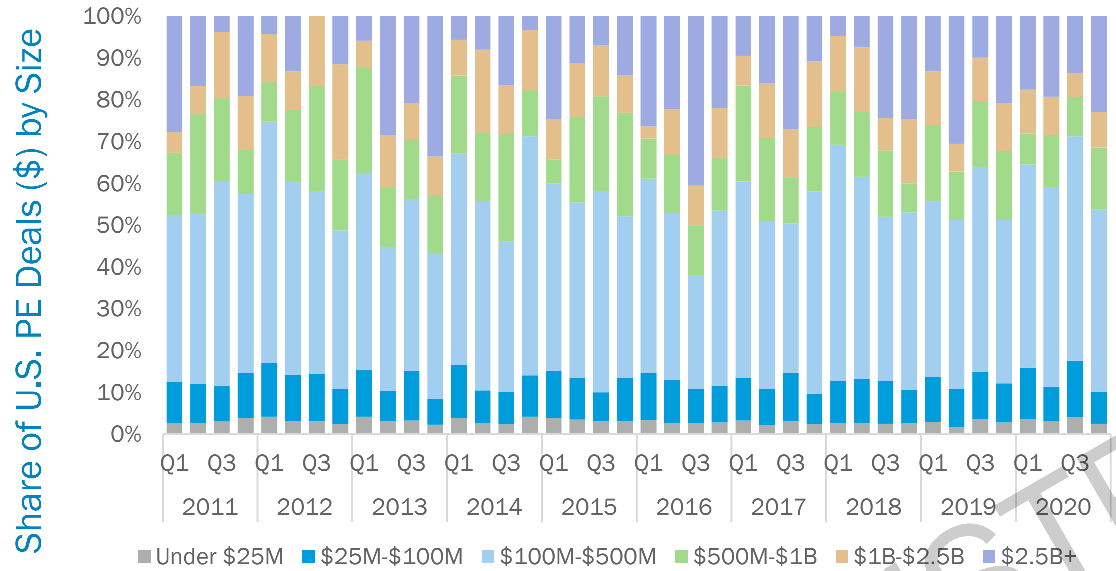


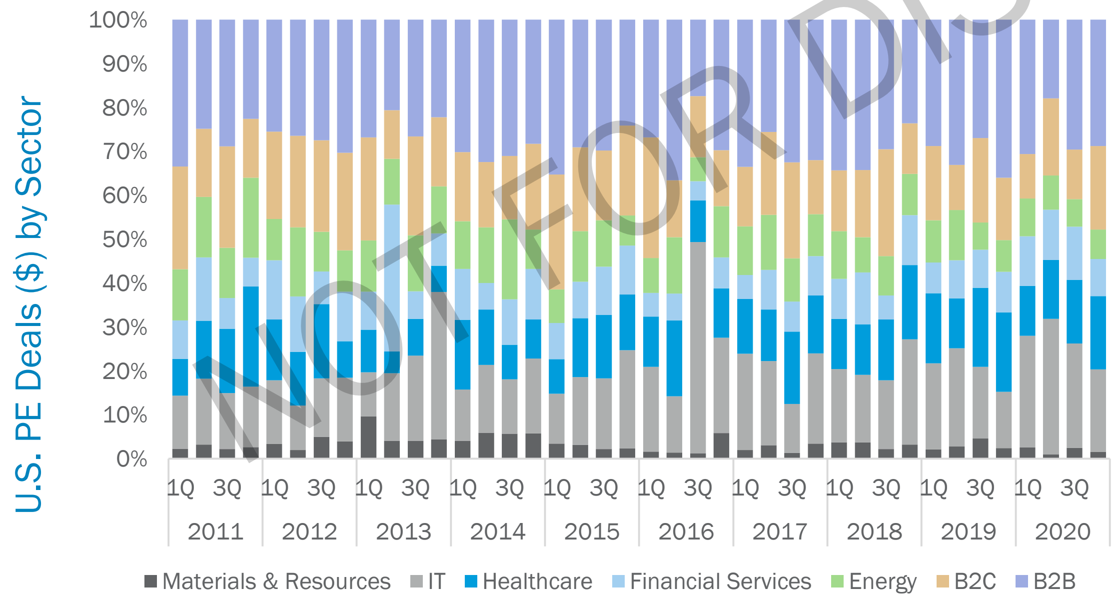
- U.S. PE deal activity started out strong in the first quarter of 2020 before declining significantly in Q2 due to the COVID-19 pandemic. As public markets stabilized in the second half of the year, PE deal activity experienced a slight comeback. Year-over-year, U.S. PE deal volume and value dropped 3.4% and 7.3%, respectively.
- Corporate carve-outs and divestitures have steadily comprised 8% to 10% of U.S. PE deal activity over the last decade. A possible tailwind that should favor more PE-backed carve-outs are the updated DOJ merger remedies guidelines in September 2020.* The changes describe PE firms as viable — and in some cases, preferred — buyers of divested assets in mega mergers.
- Buyout sponsors have steadily increased add-on activity to bolster their portfolio companies. This can be seen through the increased share of add-on deals as a percentage of overall U.S. buyout activity, at 72%. Add-on acquisitions can drive efficiencies and blend down the purchase multiple of platform investments.
- To date, 86% of add-on activity has been in tech, healthcare, and business services (B2B and B2C). This trend has remained consistent over the last decade.

Source: PitchBook 2020 U.S. PE Breakdown

**Source: Department of Justice Antitrust Division, Merger Remedies Manual, September 2020*

U.S. Private Equity Deal Activity



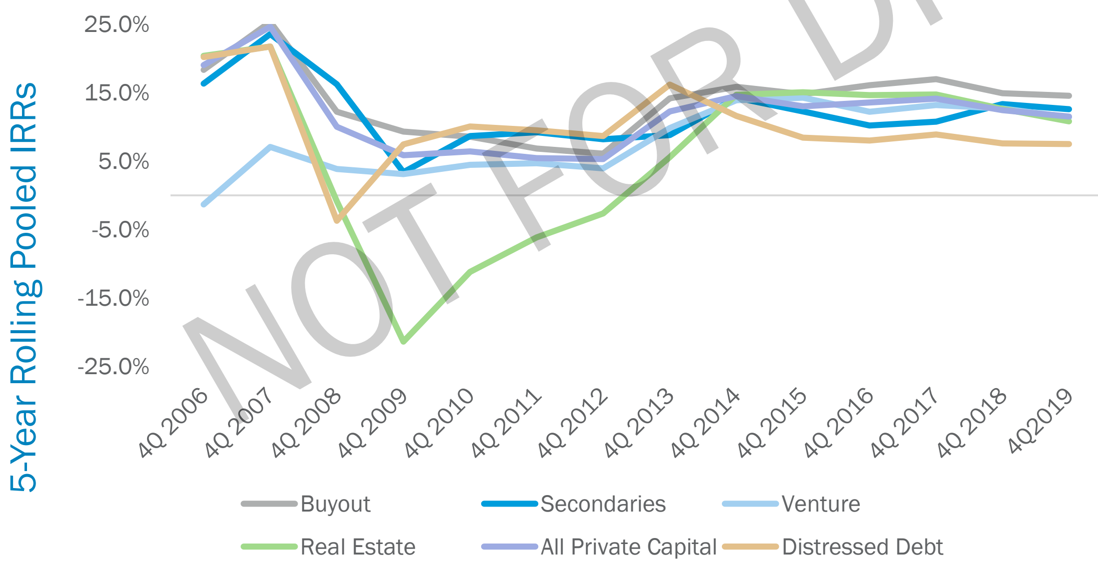


- 48% of total PE deals in the U.S. comprised deals valued between $100 million and $500 million in 2020, versus 42% in 2019. This is above the ten-year average of 43%.
- Historically, deals that were valued at $2.5 billion or more made up a greater share of deal value than deals ranging from $1 billion to $2.5 billion. This has been driven by the increased number of mega funds and their corresponding transaction sizes.
- From 2017 to 2019, the share of PE deals in the IT sector has averaged to 18%. In 2020, the proportion of deals tied to the tech sector was 24%, the highest it has been since 2016. This sector, particularly SaaS, offered PE investors the opportunity to invest in companies whose products and services experienced significant demand as stay-at-home orders accelerated the adoption of digital/remote technologies. This dramatically increased the valuation multiples for these companies.

Source: PitchBook 2020 U.S. PE Breakdown

Horizon Performance

Private Equity



- Through Q4 2019, private equity markets remained stable over the prior several years. Traditional buyout and secondary funds outperformed the rest of the private equity universe, both over a three- and five-year time horizon.
- Historically, buyout funds launched during an economic downturn have outperformed buyout funds launched two to three years prior. This is due to the opportunity for managers to purchase assets at a discount and experience appreciation as the economy recovers.
- While distressed debt has lagged, the current market environment could potentially favor this strategy, as companies across a wide array of industries are facing lower levels of revenue and possible bankruptcy. Distressed debt managers should be able to capitalize on this opportunity set.

Source: PitchBook, as of December 31, 2019