Canterbury Consulting

Quarterly Asset Class Report

Private Equity

canterburyconsulting.com

Quarter Ending June 30, 2018

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.

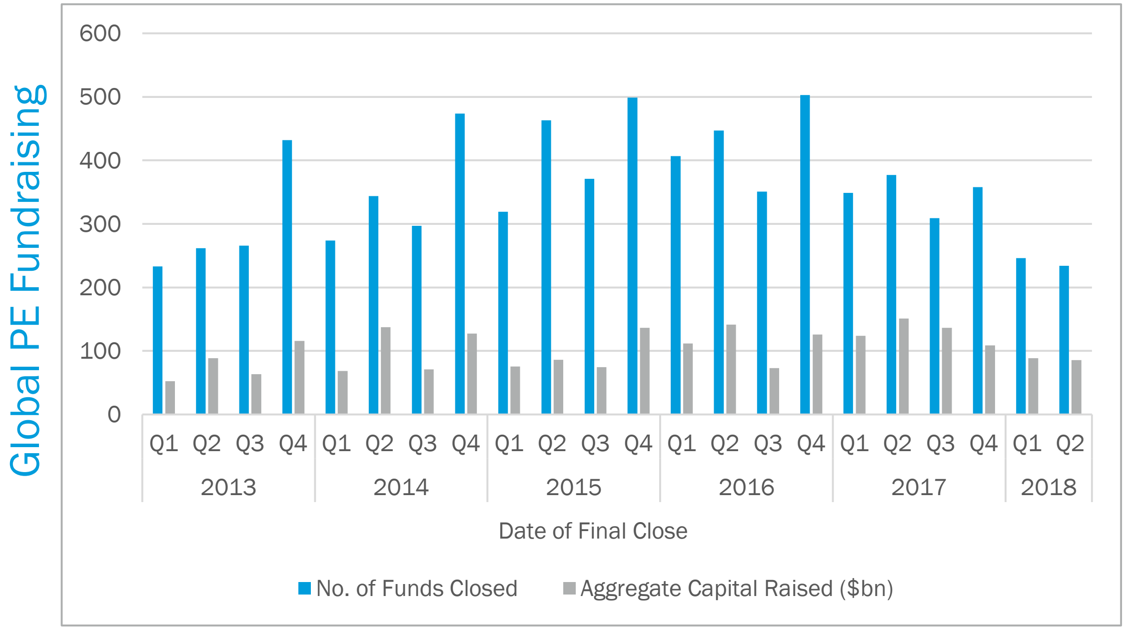
- Strategic: using various market inputs to form a baseline, we create a recommended model portfolio allocation.
- Opportunistic: we combine top-down and bottom-up analysis to achieve excess risk-adjusted returns through market intelligence and superior manager selection.

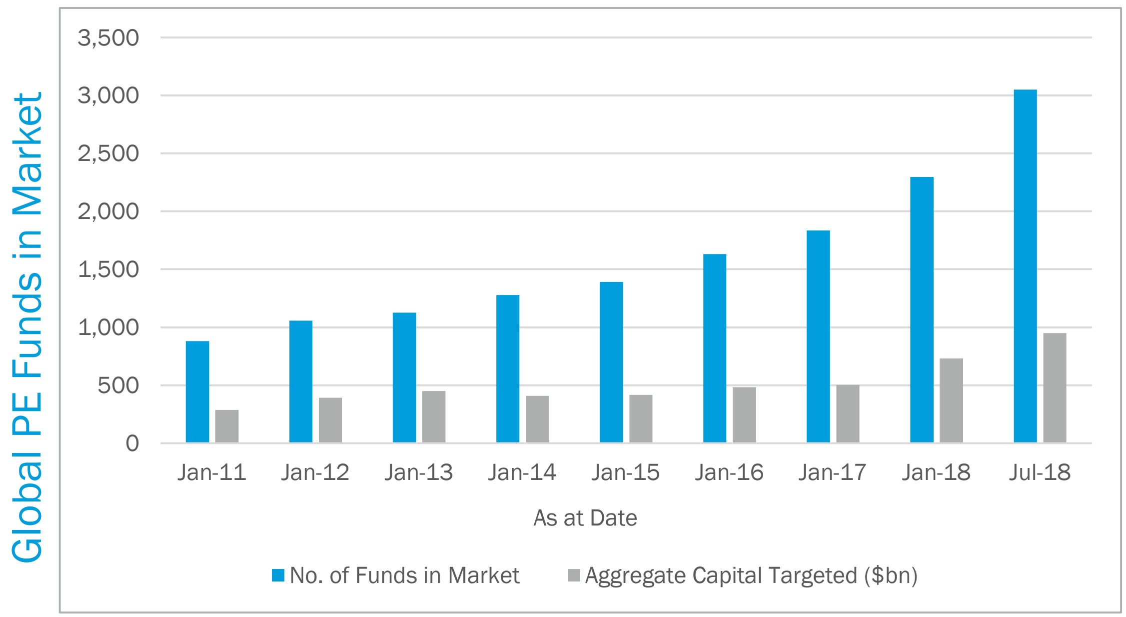
Role	Asset Categories	Risks
Growth	Public and Private Equity	Market Decline
Capital Preservation	Fixed Income, Hedge Funds	Rising Interest Rates, Highly Correlated Markets
Inflation Protection	Real Assets: Real Estate, Commodities	Deflation

— 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 Fundraising Overview



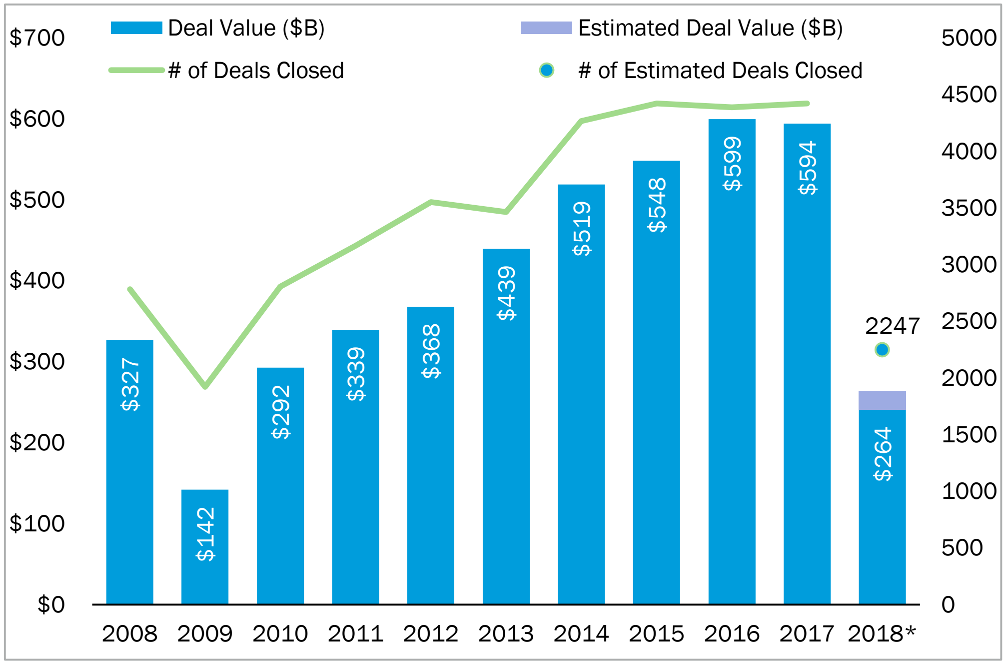


- 234 private equity funds globally closed on $86 billion during Q2 2018, well below the $150 billion raised from 377 funds in Q2 2017.
- The continued slowdown in PE fundraising should not be of concern, as overall fundraising begins to normalize. There are also indications of a pickup in the second half of 2018, as several sizeable funds in market have already raised $287 billion through interim closes.
- Buyout fundraising fell to its lowest level in two years, failing to reach $50 billion for the first time in six quarters. However, venture capital fundraising remains strong, as 138 funds raised $22 billion during Q2.
- Funds in market reached a new all-time high at the end of Q2 2018, with 3,050. The total amount of capital targeted is also at an all-time high of $948 billion.
- North America comprised 44% of PE fundraising during Q2, with Europe and Asia both contributing approximately 25% of aggregate capital raised.

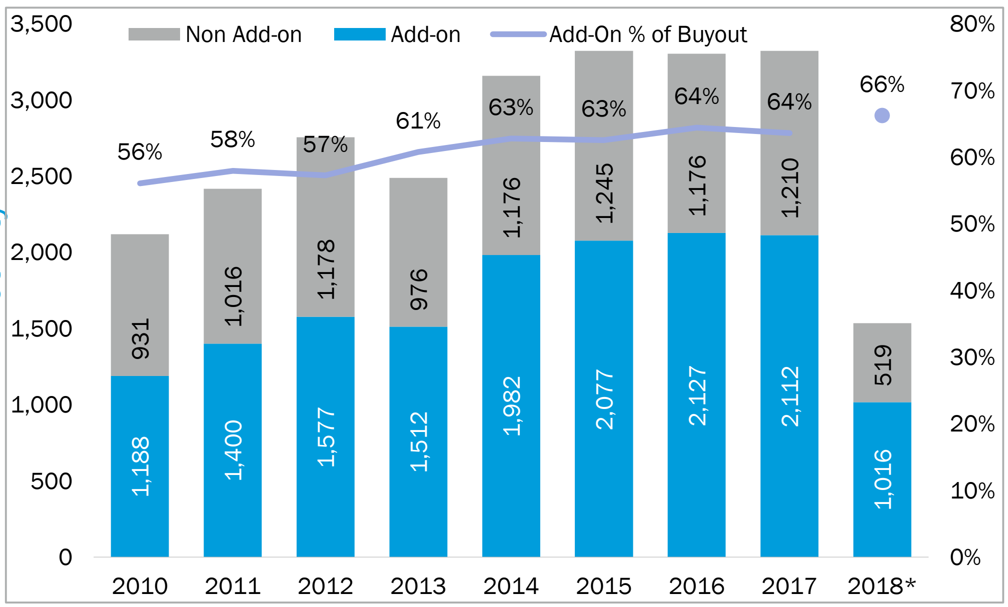
Source: Preqin, reported as of July 2018

Deal Activity

U.S. Private Equity Deal Flow

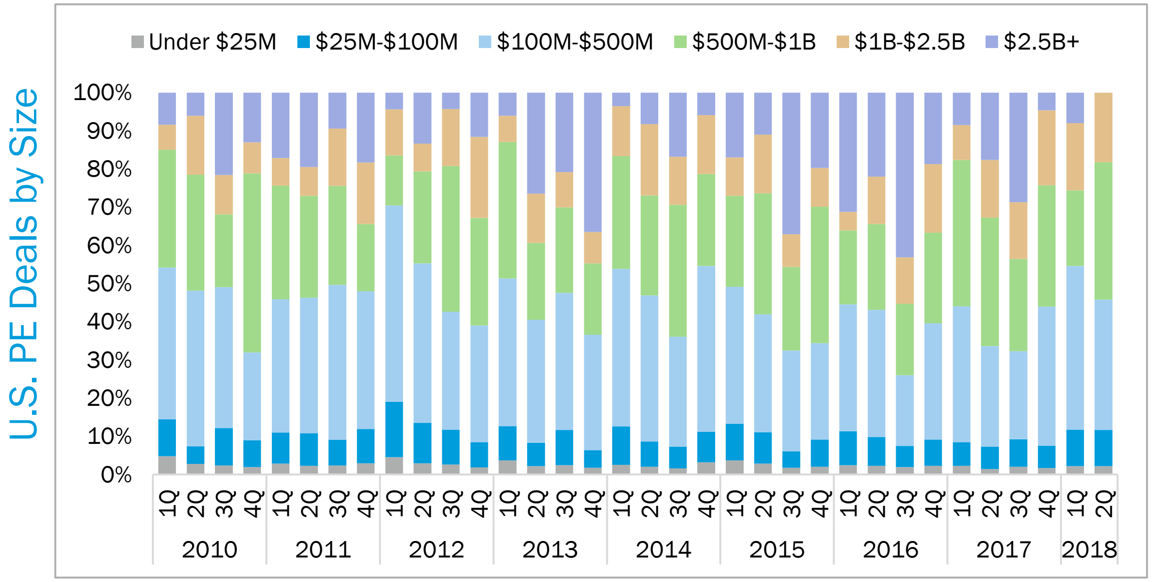


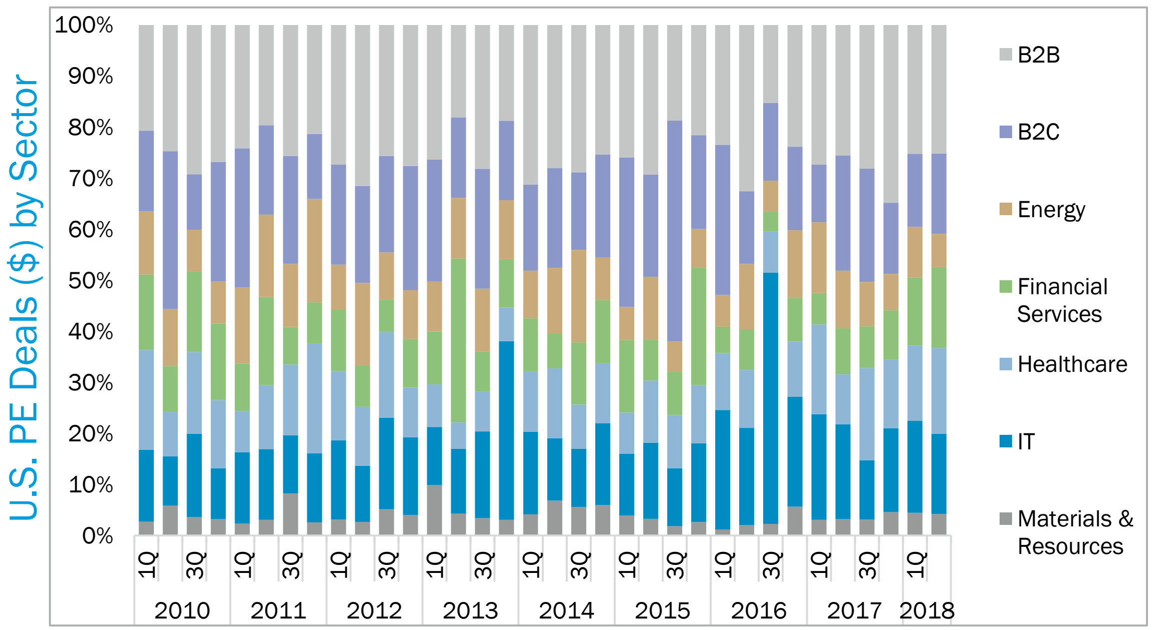
US Add-On % of Buyout Activity



- U.S. private equity activity remained robust through the first half of 2018, with nearly 2,250 deals closing by the end of Q2. However, deal value has continued to trail 2017 levels despite higher purchase multiples.
- Deal activity continues to be driven by easy access to credit, spurring record fundraising that resulted in record levels of dry powder totaling nearly $1.1 trillion as of Q2 2018.
- Add-ons accounted for 66% of all buyout activity during Q2, as PE firms continue 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.
- Add-ons continue to make up a larger share of acquisitions as PE firms look to bring down their blended acquisition purchase multiples by bolting on smaller companies trading at lower valuations.

Source: PitchBook PE Breakdown 2Q 2018
**2018 figures are through 6/30/2018*





- Q2 saw the emergence of upper middle market ($500M-$1B) deal flow, in dollar terms. The upper middle market comprised 36% of overall deal activity. The lower middle market ($100M-$500M) continues to be a significant source of deal activity as this market comprised 34% of overall deal activity during Q2.

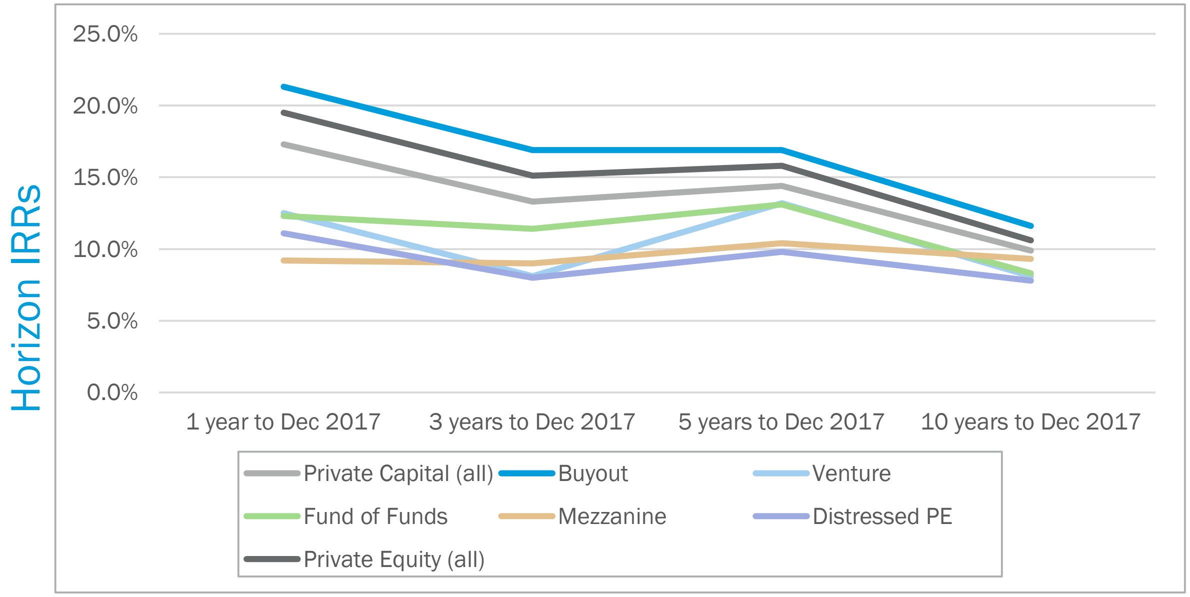
- As valuation multiples in the U.S. continue to climb toward the 11x range, it is no surprise that a larger share of PE deals are coming from the upper middle market. PE firms are, however, continuing to tap into the lower middle market in hopes of finding relief from the high valuation environment and to take advantage of greater investment opportunities.

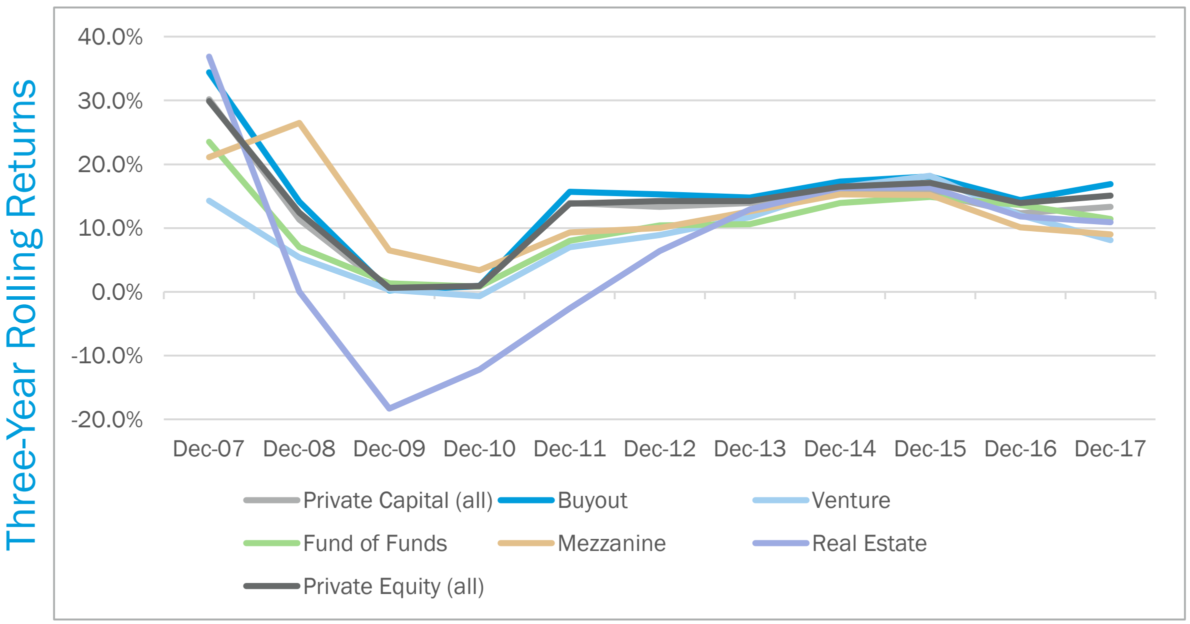
- As businesses continue to expand, demand for business services remains robust, which has resulted in 25% of U.S. PE deal flow originating from the B2B sector during the quarter.

- The healthcare, IT, and financial services sectors also remain significant areas for PE deal flow in the U.S.

Source: PitchBook PE Breakdown 2Q 2018
**2018 figures are through 6/30/2018*

Horizon Performance





- Rising valuations and a prolonged economic expansion have resulted in upward-trending rolling returns across most private equity strategies over the past few years.
- The performance of distressed and mezzanine strategies continues to lag that of other private equity strategies. The generally favorable economic environment has favored buyout strategies for more attractive risk/return profiles compared to other PE strategies.
- Please note the following:
  - **Private Capital (All):** Defined as all private closed-end funds, including private equity, private debt, private real estate, infrastructure, and natural resources
  - **Private Equity (All):** Defined as balanced, buyout, direct secondaries, growth, PE fund of funds, PE secondaries, turnaround, and venture capital

Source: Preqin, June 2018