CanterburyConsulting

Quarterly Asset Class Report
Private Capital

March 31, 2022

canterburyconsulting.com

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 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 target excess risk-adjusted returns through market intelligence and superior manager selection.

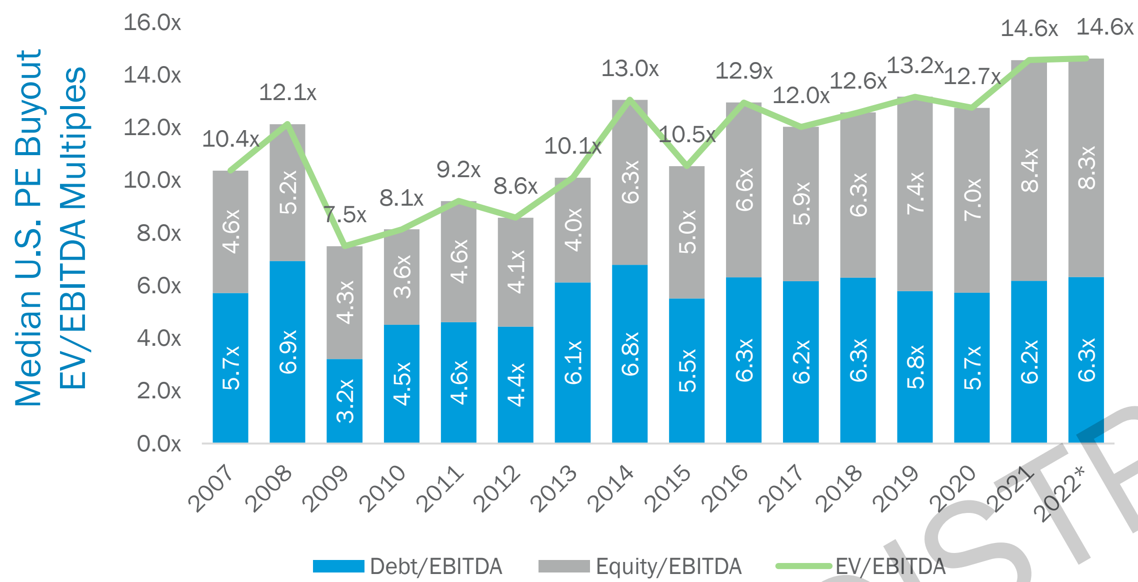
Role	Asset Categories	Risks
Growth	**Public Equity and Private Capital**	**Market Decline**
Capital Preservation	Private Credit, Fixed Income, Hedge Funds	Rising Interest Rates, Highly Correlated Markets
Inflation Protection	Real Assets: Real Estate, Commodities	Deflation

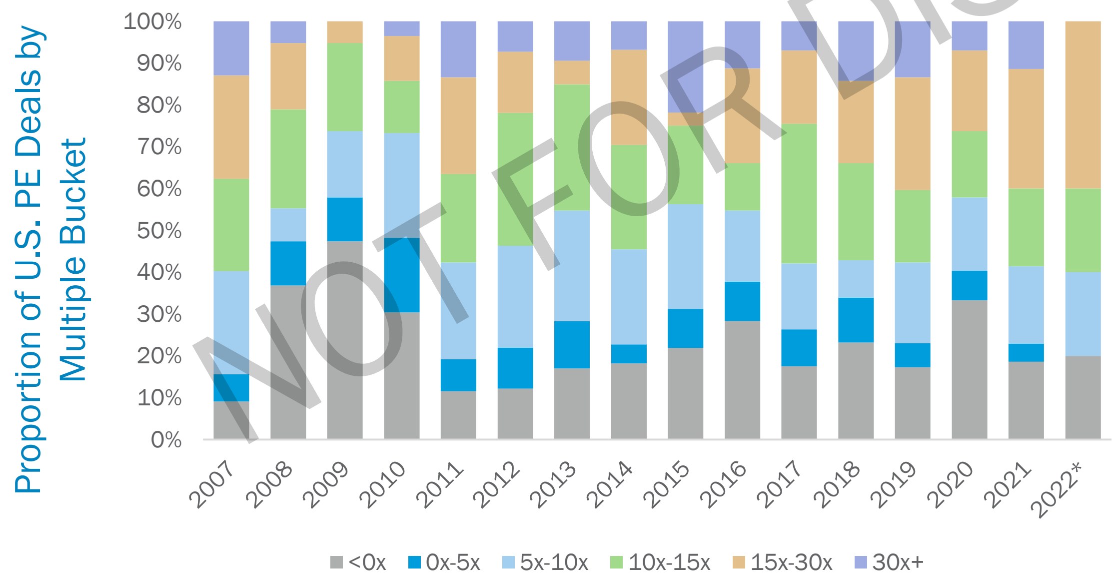
— Over a full market cycle, private capital is intentioned to generate above-market returns commensurate with risks associated with the asset class (i.e., illiquidity, time horizon, etc.).

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

U.S. Private Equity Valuation Overview

Private Capital

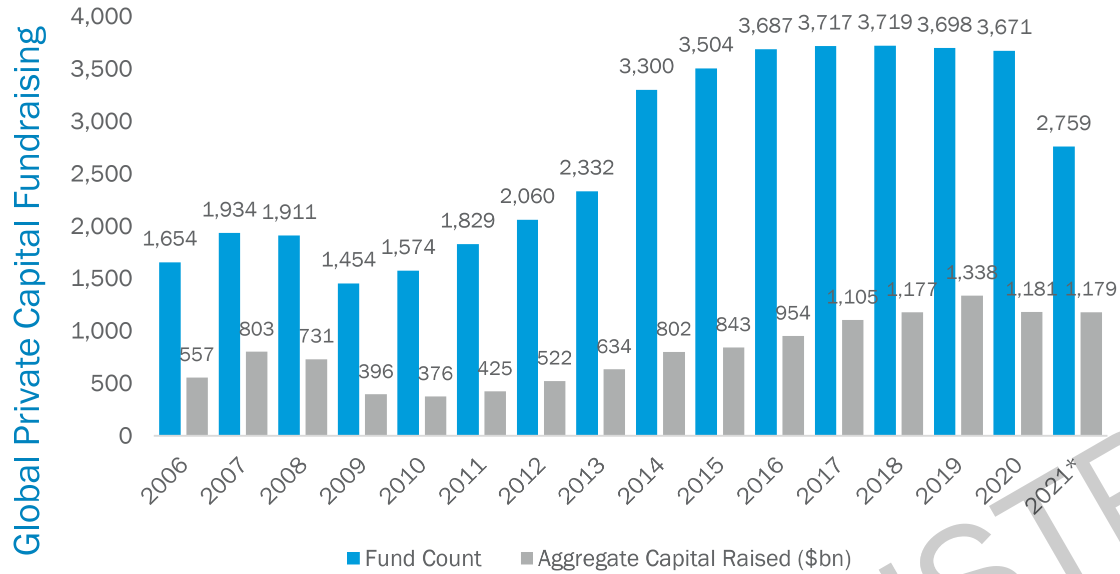


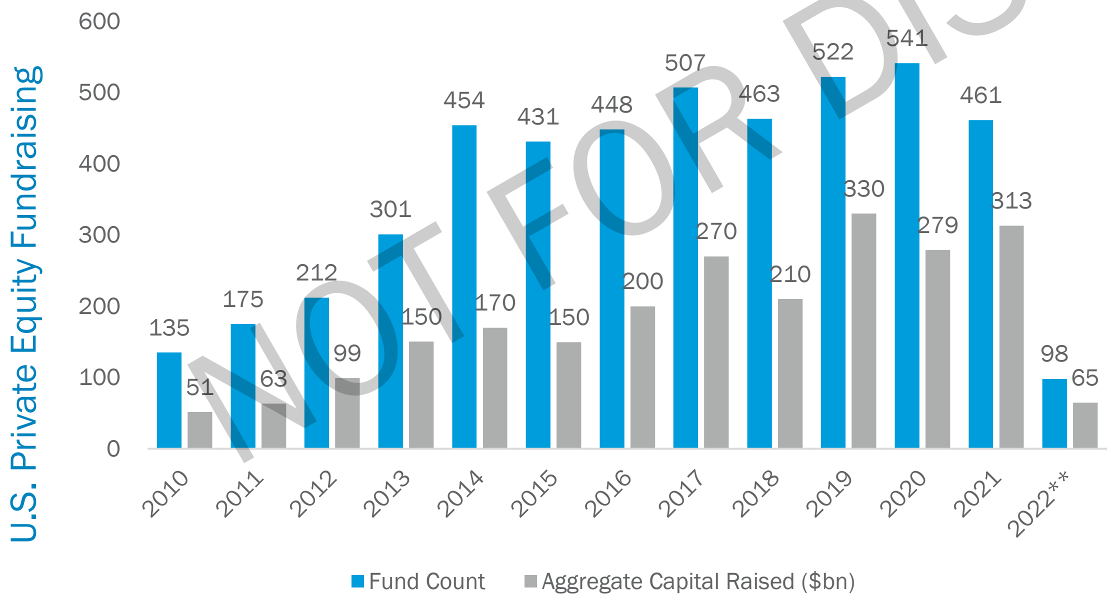


- U.S. PE buyout multiples reached an all-time high in Q4 2021 and have stayed at this level to begin 2022. This is all despite the S&P 500 being down nearly 5% and the Russell 3000 down 5.3% in the first quarter. The high PE buyout multiples have been partly attributable to the intense competition for deals driven by the large volume of dry powder built up.
- However, as the Federal Reserve seeks to contain inflationary pressures by increasing benchmark interest rates, PE entry multiples may flatten out and experience a decline later in the year.
- While the high multiple environment has been driven primarily by the continued demand for tech and tech-enabled businesses, certain pockets of the healthcare sector have also experienced rising multiples. For example, behavioral health services companies with EBITDA between $10 million and $50 million have traded in the 10x-14x range, while higher-earning companies in this space have achieved multiples well into the 20x range.[1]

Source: PitchBook 2021 U.S. PE Breakdown
**As of March 31, 2021*
(1) Source: Behaviorial Health M&A Trends, Expert Webcast, October 28, 2021

Private Equity Fundraising Activity





- Global private capital fundraising in 2021 was virtually identical to that of 2020, but with far fewer funds. The average fund size in 2021 was nearly $430 million versus $322 million in 2020.
- GPs raising their first fund closed on $60.7 billion, which was up slightly from the $59.7 billion in 2020. However, the number of first-time funds raising capital significantly from 754 funds in 2020 to 494 in 2021. This shows the preference among LPs for incumbent fund managers over emerging or first-time funds.
- From a strategy perspective, private equity funds raised a total of $455.7 billion, which was flat year-over-year. Venture capital experienced a 14.1% year-over-year increase in capital raised to $213.3 billion.
- Geographically, approximately 63% of global private capital commitments have gone to North American fund managers, compared to only 49% in 2018. While Asia experienced its peak fundraising share of 25.4% in 2018, that share has plummeted to 10.2% in 2021.
- Total PE fundraising in the U.S. surpassed 2020 totals, albeit with fewer funds in market.

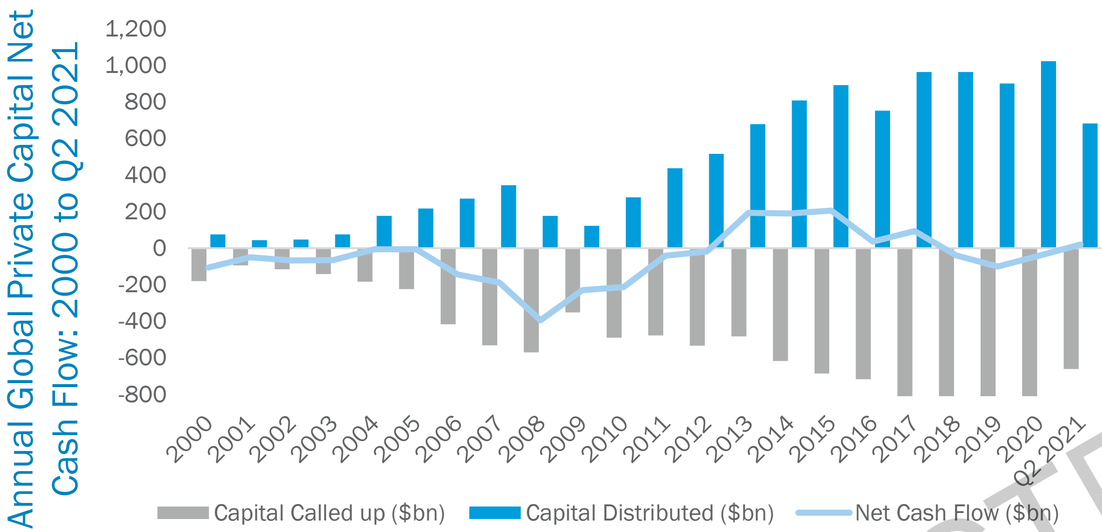
Sources: PitchBook 2021 Private Fund Strategies Report and PitchBook Q1 2022 U.S. PE Breakdown.

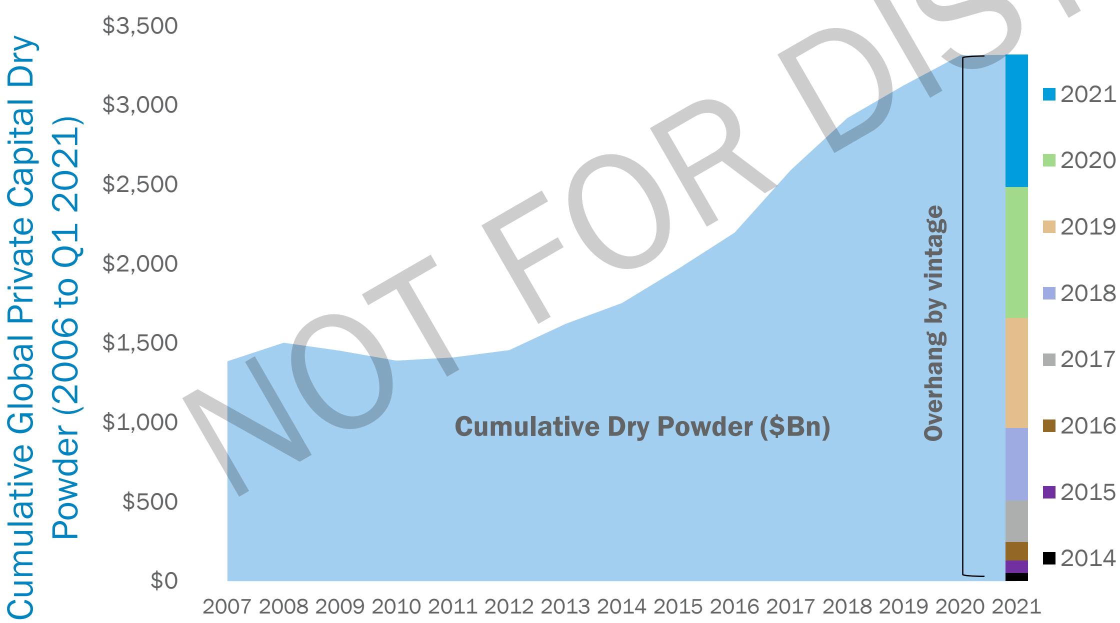
Private equity funds include: buyout, growth/expansion, diversified private equity, mezzanine, secondaries, co-investment, restructuring/turnaround, venture capital, private debt, energy, real estate, and fund of funds.

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

***U.S. Private Equity Fundraising as of March 31, 2022*

Global Private Capital: Performance and Dry Powder



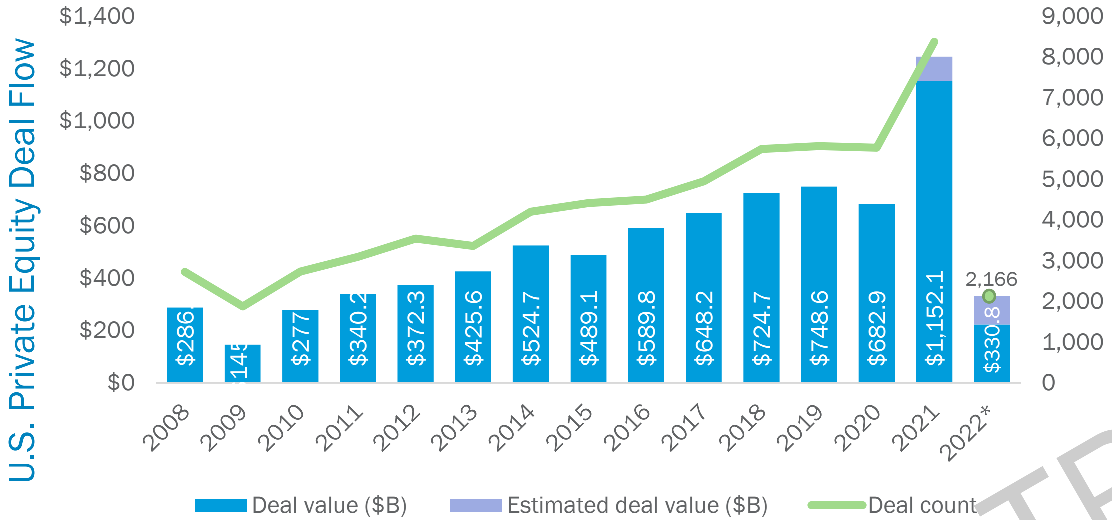


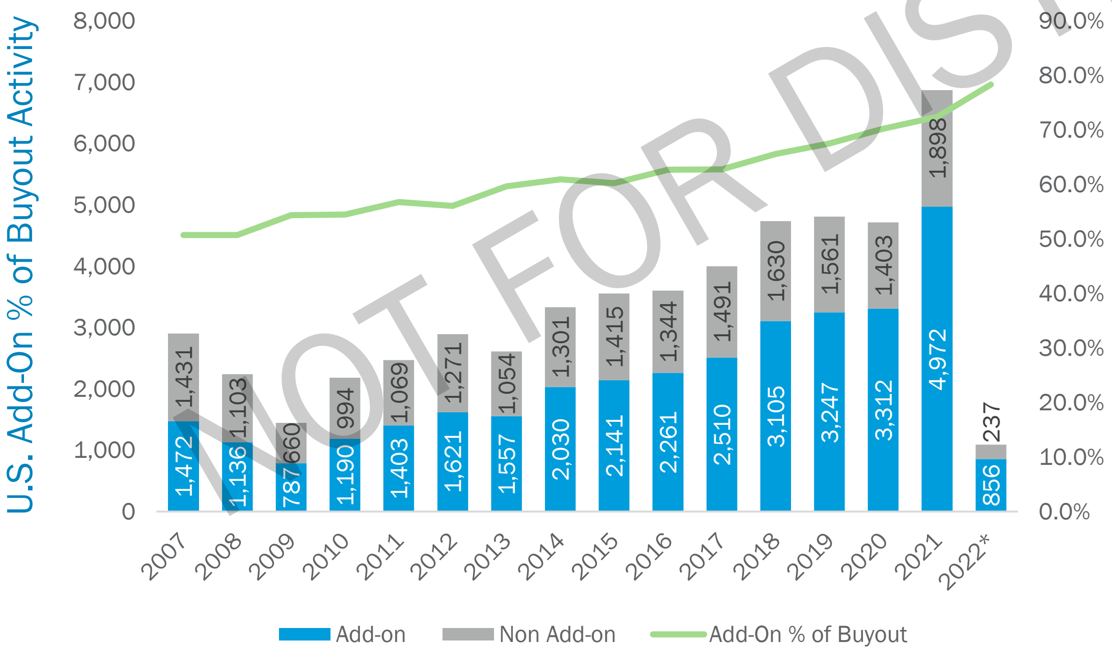
- Through the first half of 2021, global private capital net cash flows to LPs continued their trend from the prior year.
- All private capital strategies experienced positive net cash flow back to LPs during the quarter with the exception of venture capital. Through the end of Q2 2021, global venture capital commitments are at $161.4 billion, compared to $174.9 billion for all of 2020.
- Global private capital dry powder currently stands at over $3.3 trillion as of Q2 2021. Nearly $2.4 trillion in dry powder, or 71%, comes from funds raised between 2019 and 2021.

Sources: PitchBook 2021 Global Fund Performance Report, data as of June 30, 2021; PitchBook Q1 2022 U.S. PE Breakdown; PitchBook 2021 Private Fund Strategies Report,

Note: Dry powder data As of June 30, 2021

U.S. Private Equity Deal Activity





- During the first quarter of 2022, PE deal activity continued where it left off to close 2021. There were a total of 2,166 deals for a combined $330.8 billion (including estimated) of deal value to start the year. This deal activity represents an increase in both deal count and deal value versus a year ago. The median buyout transaction size increased to $224.2 million, compared to $183.5 million at the end of 2021.

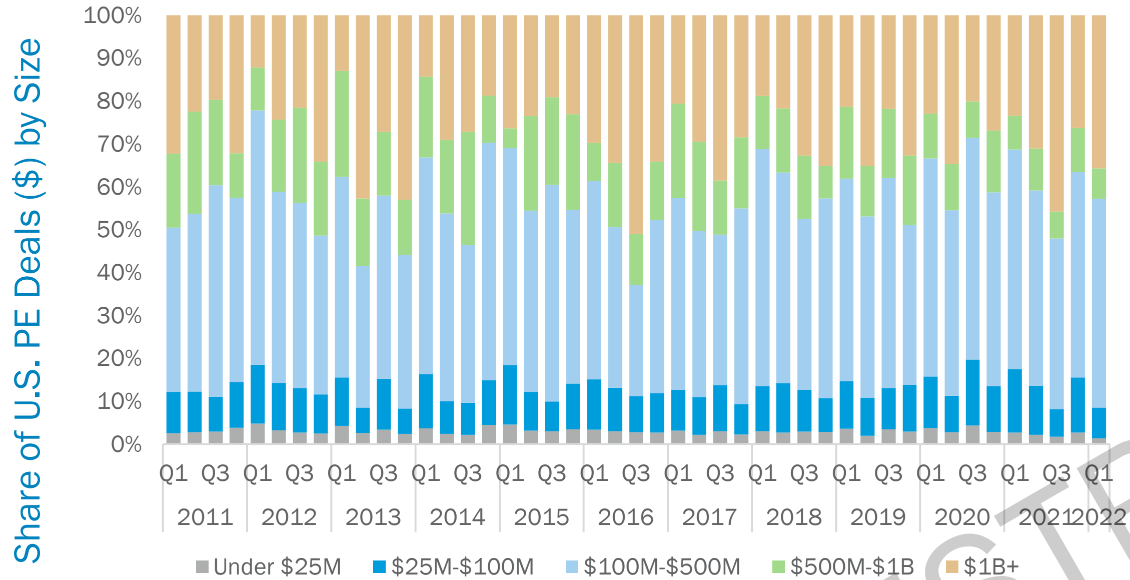
- The IT sector, which comprised over 11% of total U.S. PE deal value during the quarter, continues to be a favorable sector among PE sponsors. A recent example is Vista Equity Partners and Evergreen Coast Capital's planned acquisition of Citrix for $16.5 billion in a take-private deal.

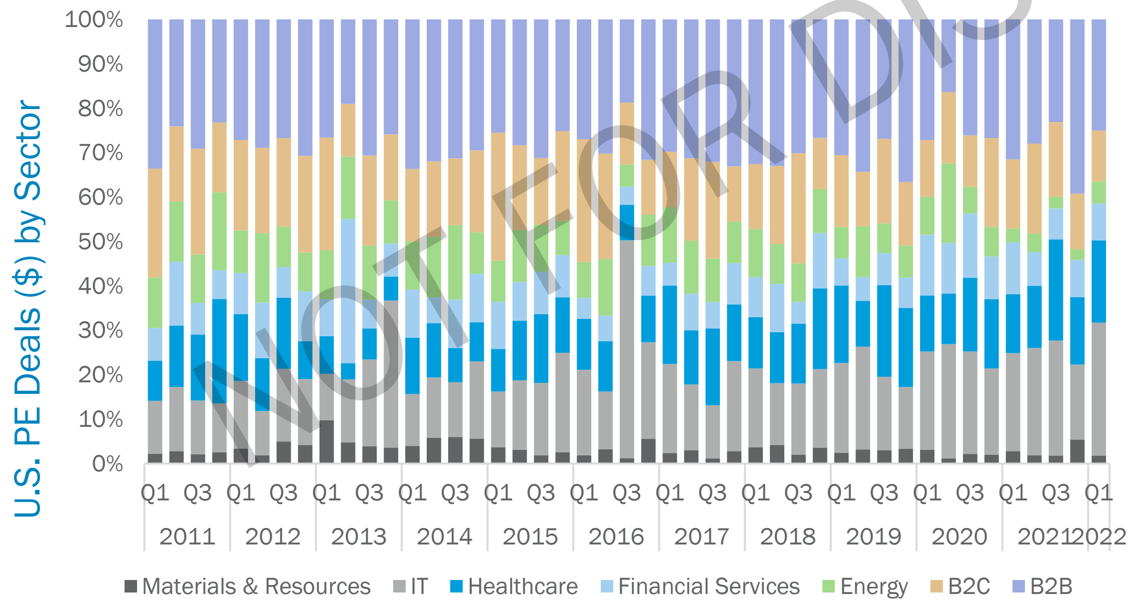
- Rising entry multiples and the plethora of opportunities have made add-on acquisitions the cornerstone of typical private equity buyout value creation strategies. Add-ons, which account for nearly 80% of U.S. buyout activity to date, allow firms to blend down the overall platform acquisition multiple and are viewed as a complementary tool to accelerate growth and value.

Source: PitchBook Q1 2022 U.S. PE Breakdown
**As of March 31, 2022*

U.S. Private Equity Deal Activity

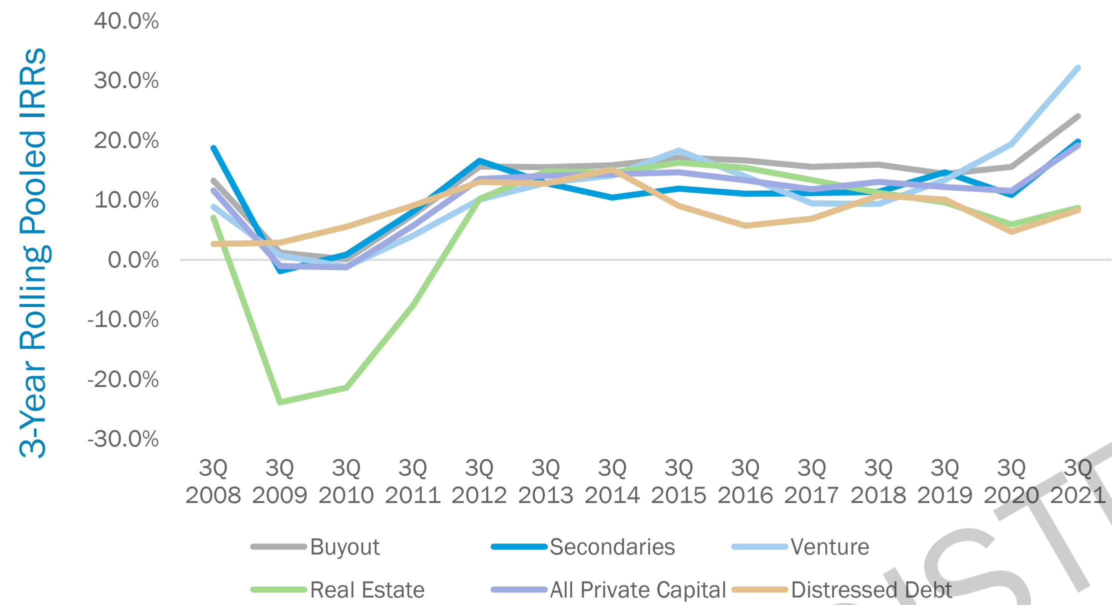
Private Capital

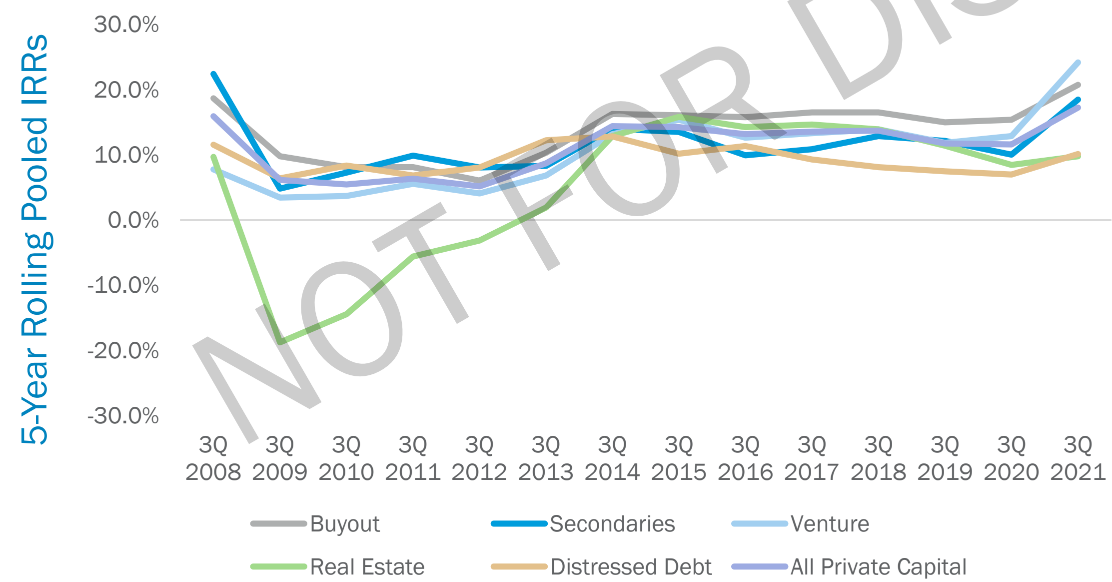




- The share of deals valued at $1 billion+ stood at 36%, compared to 26% in Q4 2021. While the number of $1 billion+ deals were lower this quarter compared to last quarter's total, the average deal value in Q1 was nearly $2.3 billion larger than in Q4 2021.
- Deals valued at $100 million to $500 million comprised nearly half of PE deals during the quarter, and this has remained consistent over the last two years.
- 36% of deals in the U.S. have been within the business services sector. The IT sector comprised nearly 30% of deal value, which is the highest share since Q3 2016. The global shift to remote work and the need for a more efficient workplace have driven competition for deals in the IT and software sectors.
- Investments in the healthcare sector have been driven by the continued allocation towards healthcare IT and value-based care companies. Examples of deals that closed during the quarter were the $17 billion club buyout of Atheahealth and Clearlake's rollover of symplr, a healthcare governance, risk, compliance, and practice management and credentialing software provider.

Source: PitchBook Q1 2022 U.S. PE Breakdown

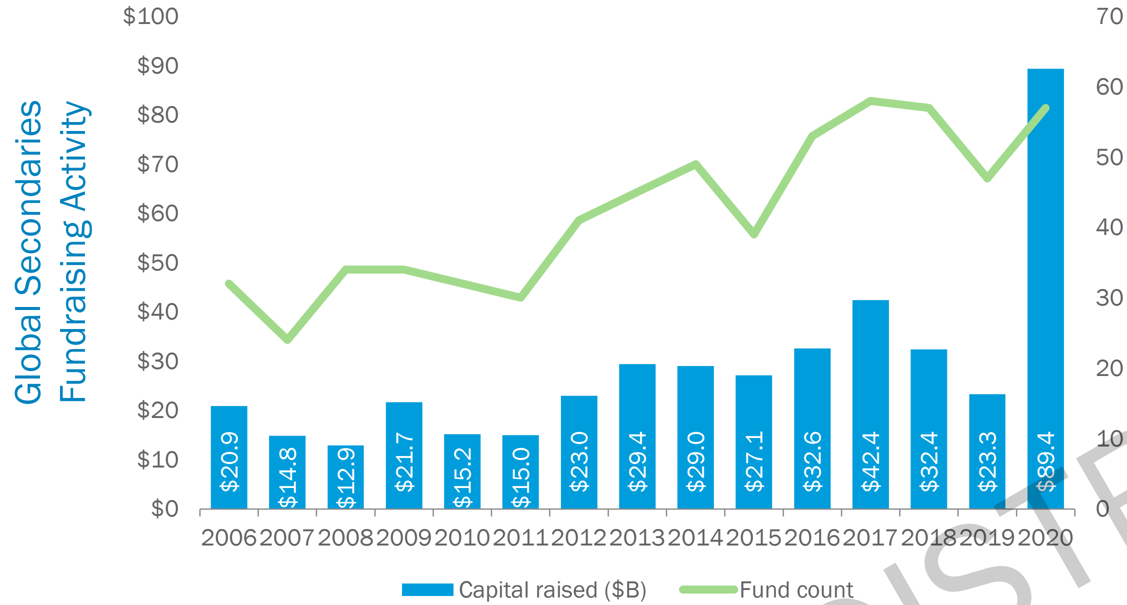


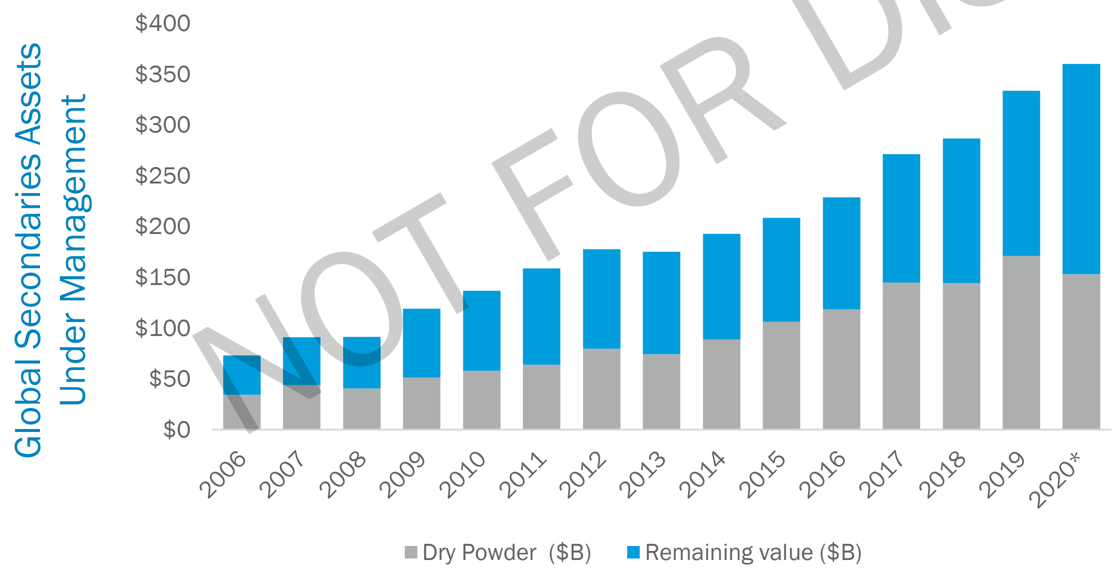


- Through Q3 2021, all private capital strategies experienced upticks in performance, led by venture capital and buyout.
- Over a five-year rolling basis, venture performance has slightly surpassed buyout, and both continue to be the top-performing private capital strategies.
- Canterbury notes that venture capital exhibits a riskier return profile versus all other strategies, given the larger disparity between top quartile performance and bottom quartile performance.

Source: PitchBook, as of September 30, 2021

Quarterly Spotlight: Global Secondaries Market

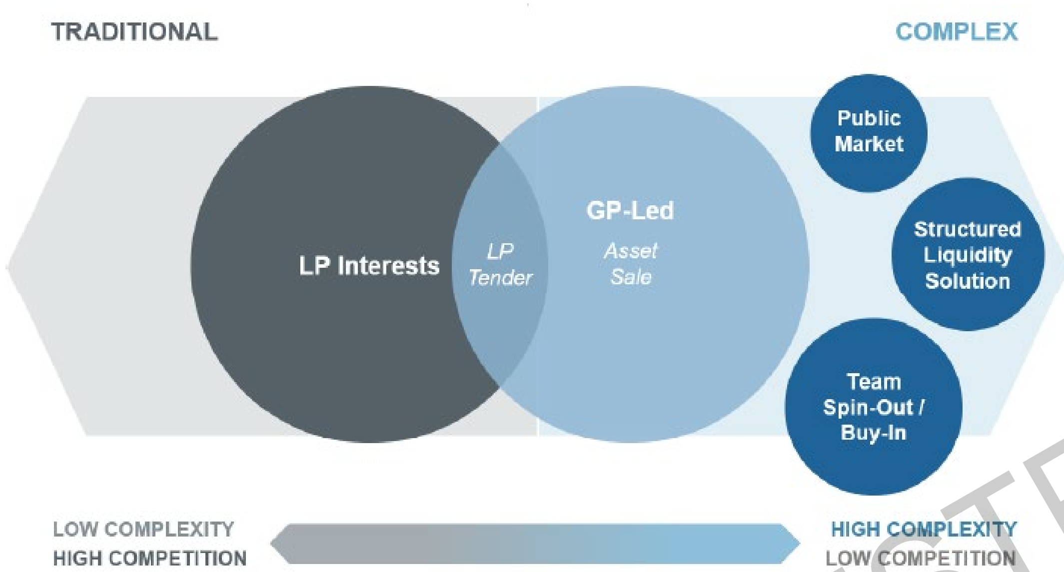


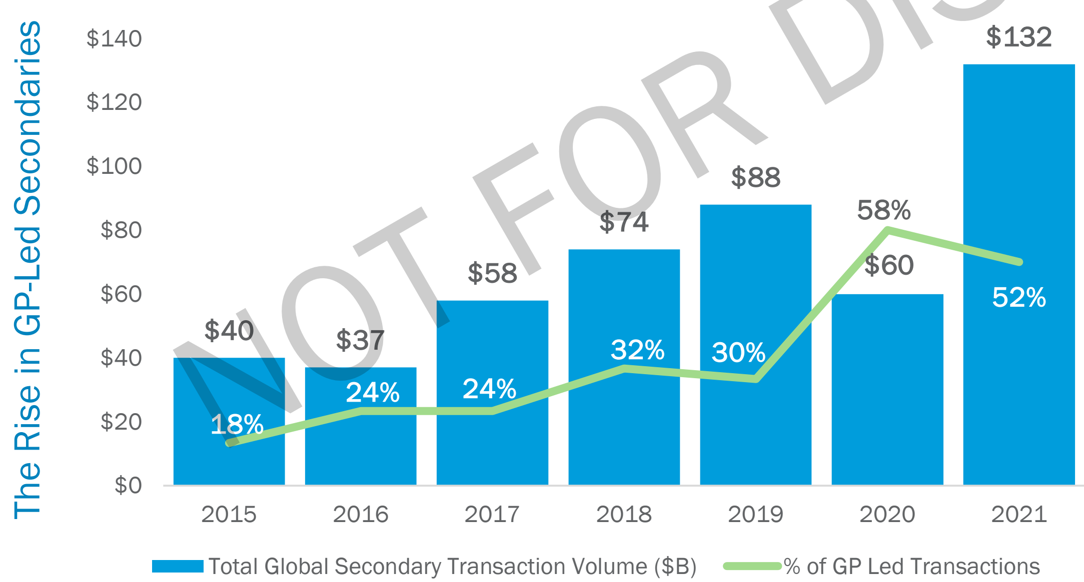


- Global secondaries fund commitments nearly tripled in size in 2020 versus 2019 as secondary managers seek to capture the growing opportunity set within the private equity secondaries market.
- 15 to 20 years ago, the private equity secondaries market comprised a small share of the total private equity AUM, with only a few relevant players in existence that would regularly execute on PE secondaries transactions. Today, as the primary market has grown, the private equity secondaries market is viewed as a valuable tool to deliver liquidity to investors while also providing the opportunity for GPs to maintain ownership in their high-conviction assets.
- Key growth drivers within private equity secondaries include the following:
  - Rise of GP-led transactions
  - Increasing levels of proactive portfolio management
  - Growing primary market

Source: PitchBook 2021 Annual Private Fund Strategies Report
**As of December 31, 2020*

Quarterly Spotlight: Global Secondaries Market



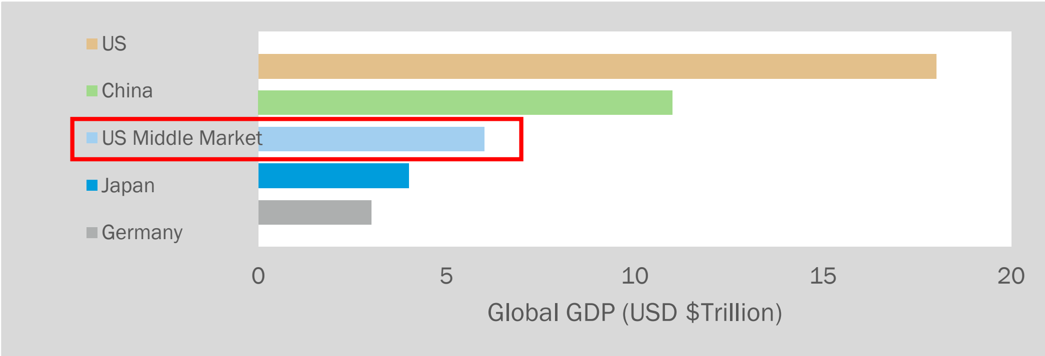


- The private equity secondaries market of the 1980s and 1990s comprised almost entirely of traditional transactions (i.e., the sale of one or more limited partnership interests by a single seller). While traditional transactions account for nearly half of secondaries market activity (as of 2021), the market has evolved substantially to include a broad range of complex transactions that provide holders of private market assets with liquidity options through increasingly sophisticated, non-traditional deal types.
- As the secondaries market has grown and matured, a diverse range of transaction types has developed. In recent years, one of the key growth drivers of the complex secondaries market has been GP-led transactions, which surpassed 50% of the entire global PE secondaries market for first time in 2020. In these transactions, general partners play a key role in crafting a potential secondary transaction involving one or more of their legacy funds, typically in close conjunction with one or more secondary buyers.

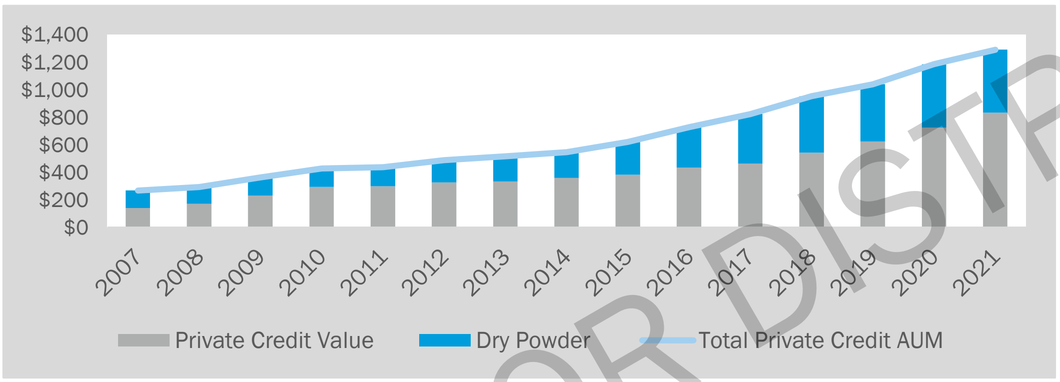
Source: HarbourVest (Top Chart); Jefferies (Bottom Chart)

The Private Credit Opportunity

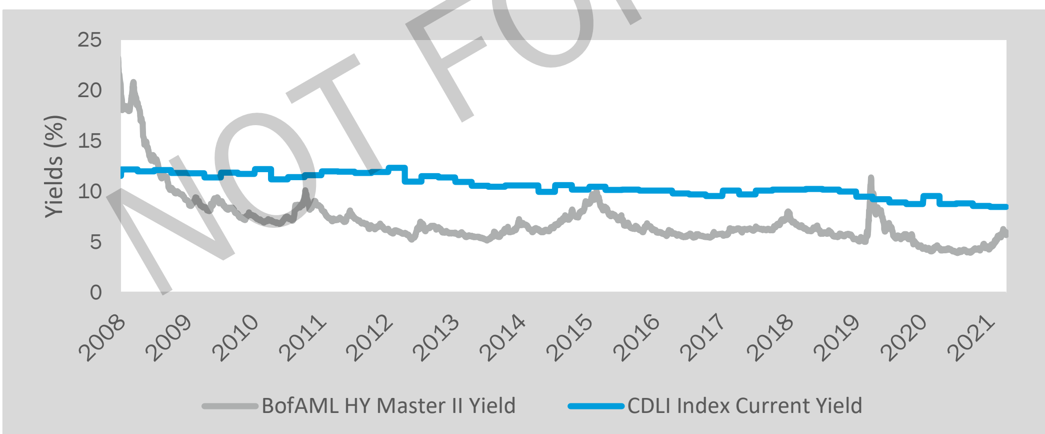
Size of Global Economies (GDP)



Size of Market ($B)



Yields (High Yield vs. Middle Market Debt)

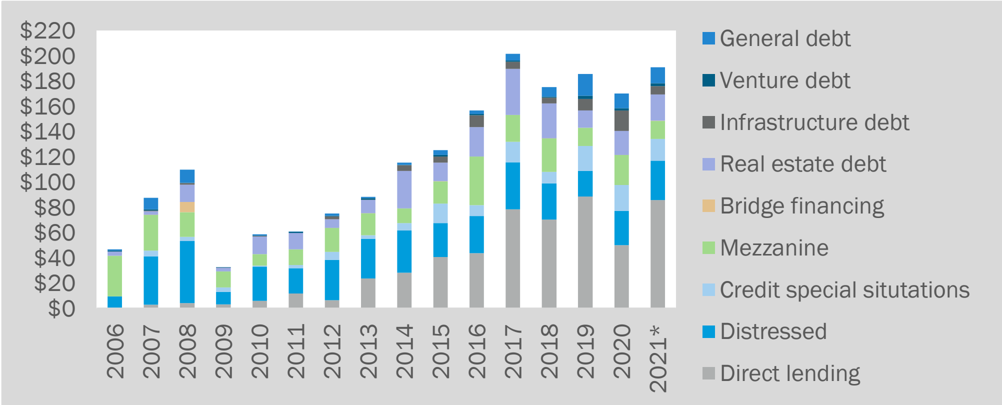


- From a GDP perspective, the U.S. middle market segment is the third-largest economy in the world.
- 200,000 businesses categorized in the middle market equate to a combined 1/3rd of private sector GDP.
- The private credit asset class has grown immensely since the Great Financial Crisis. Over the last several years, dry powder has ranged between $400-$500 billion as debt appetite from private equity and other market participants has grown.
- Middle market loans have generally produced a yield premium above public high yield with lower volatility.
- The Cliffwater Direct Lending Index (CDLI) is comprised of public and private Business Development Companies (BDCs), which invest in middle market loans.
- The Cliffwater Direct Lending Index yielded 8.47%, while the BofAML HY Index yielded 5.79% at the end of the fourth quarter.

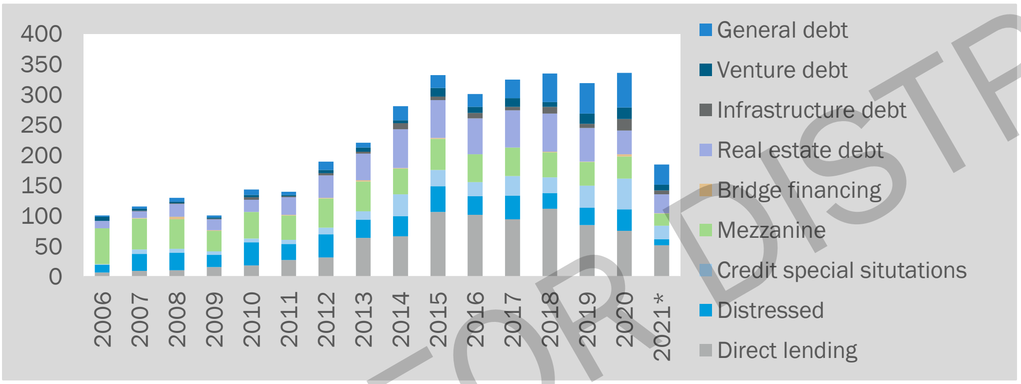
Source: Churchill, National Center for the Middle Market, Pitchbook, The Lead Left, Cliffwater Direct Lending Index, Data as of March 31, 2022.

Private Credit Activity

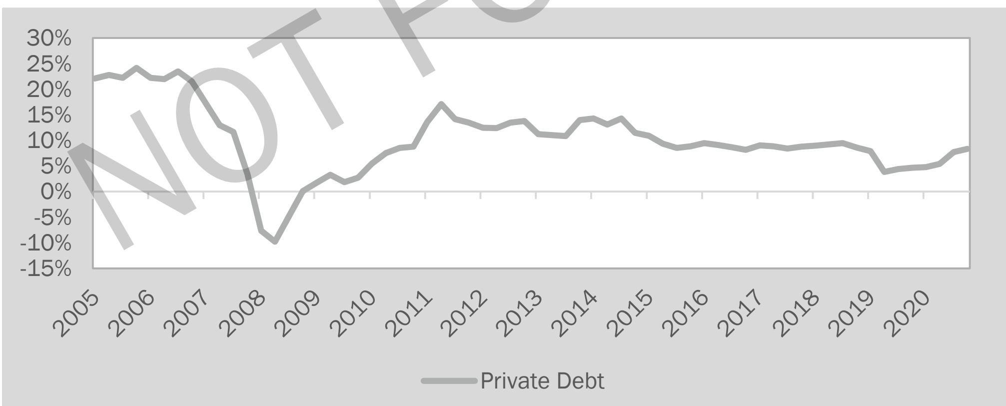
Fundraising by Strategy ($B)



# of Funds Launched by Strategy



Rolling 3-Year Pooled IRR (%)



- Despite lower fundraising levels, direct lending remains the largest and prominent strategy across the private debt landscape.
- The number of distressed debt funds launched decreased in 2021 as easy lending conditions helped companies avoid defaults and bankruptcies throughout the COVID-19 pandemic.
- Rolling 3-year private debt IRRs moderated between 5-10% over the last several years as the asset class matured.

Source: Pitchbook
AUM and fund count data as of 12/31/2021. Rolling 3-Year IRR data as of 9/30/2021