

Canterbury Consulting

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## Quarterly Asset Class Report

### Private Equity

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Quarter Ending December 31, 2017

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.

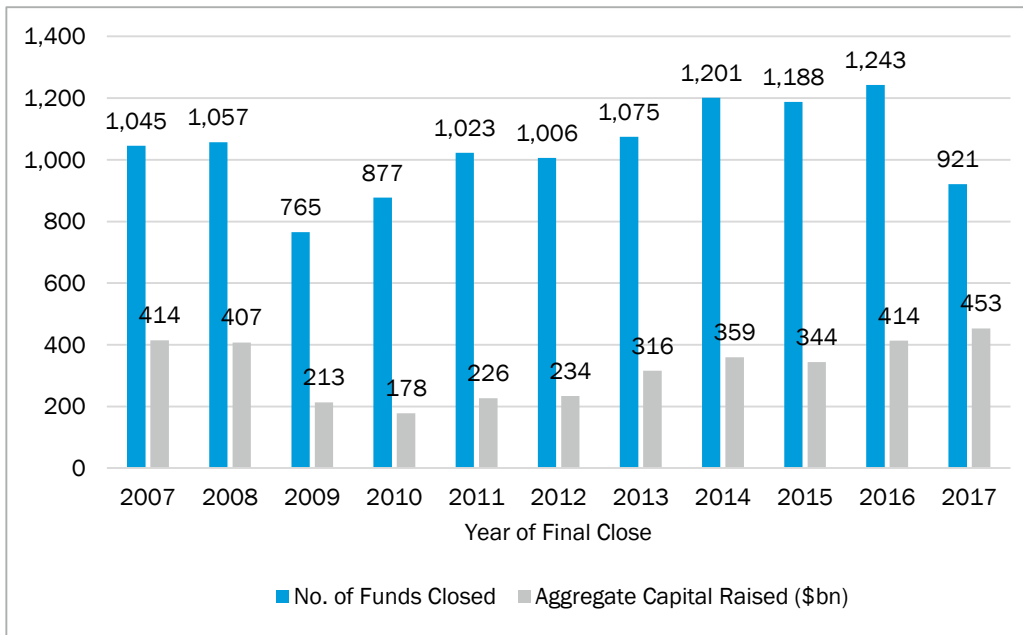
Role	Asset Categories	Risks
Growth	Public and Private Equity	Market Decline
Capital Preservation	Fixed Income, Hedge Funds	Rising Interest Rates, Highly Correlated Markets
Inflation Protection	Real Assets: Real Estate, Commodities	Deflation

- 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.

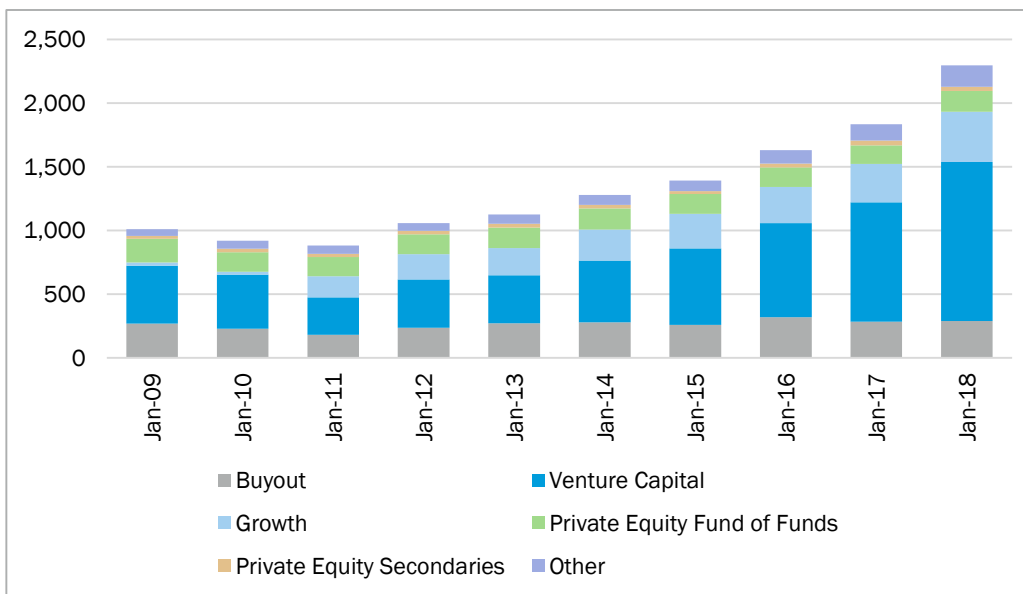
# Private Equity Fundraising Overview

## Private Equity

Global PE Fundraising



Global PE Funds in Market by type



- Consistent with current trends, annual global PE fundraising reached an all-time high of over \$450 billion in 2017, but with significantly fewer funds closing versus prior years. This is indicative of the record-level valuations in private equity.
- 28% of global PE dollars raised were secured by the 10 largest funds closed. The 20 largest PE funds accounted for 42% of all private equity capital raised.
- The main factor driving PE investment size is the expansion of platform deals globally.
- The Asia-Pacific region experienced the largest growth, with buyout value growing 74% in 2017\*.
- Venture capital funds continue to outpace all other PE fund types in terms of number of funds in market, resulting in record-high venture capital deal value of \$182 billion.

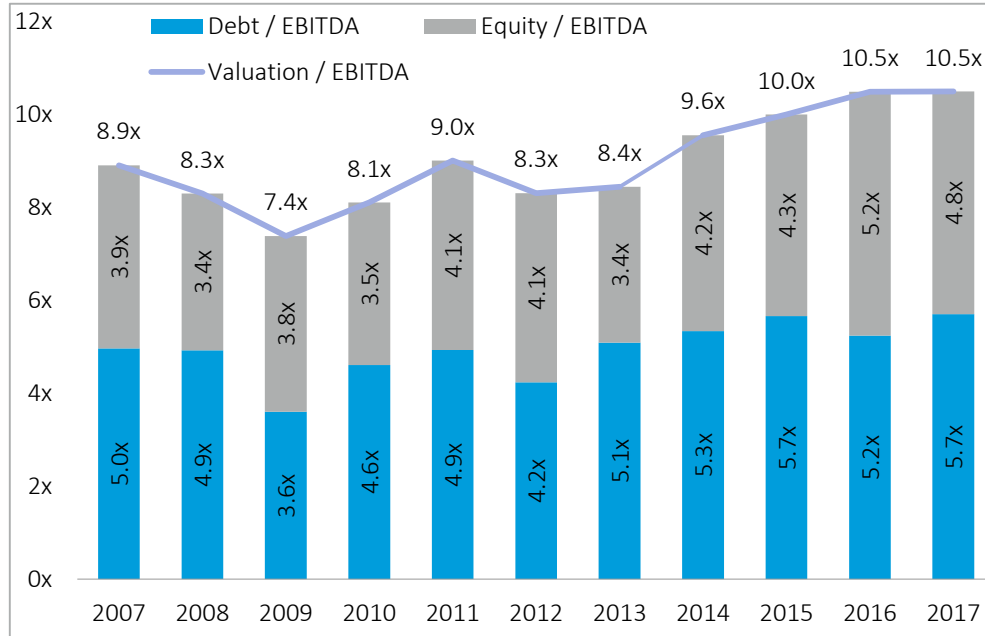
Source: Preqin, reported as of year end 2017

\*Source: Bain Capital

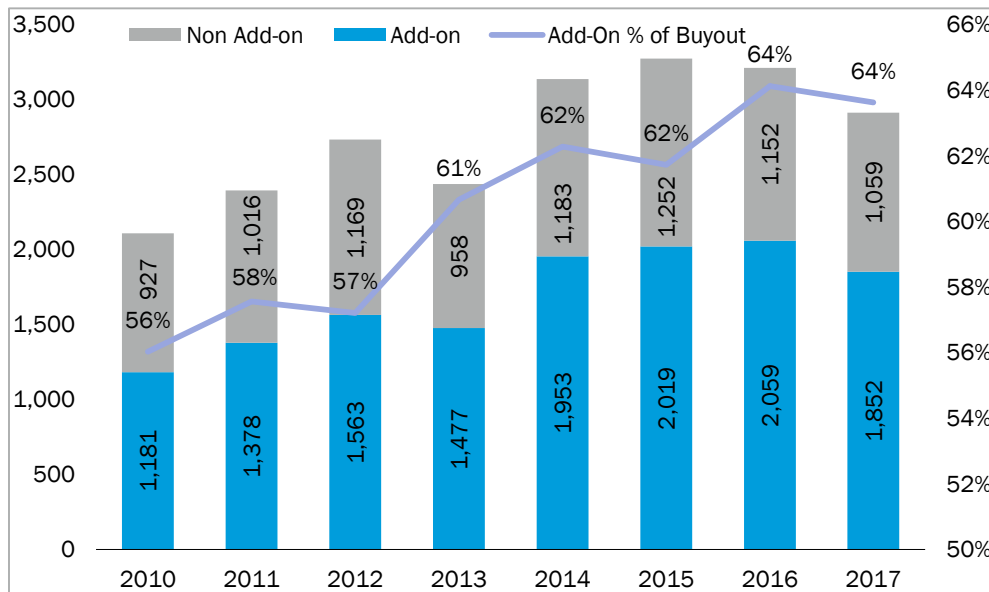
# Deal Activity

# Private Equity

## U.S. M&A Valuation & Capital Structure



## US Add-On % of Buyout Activity



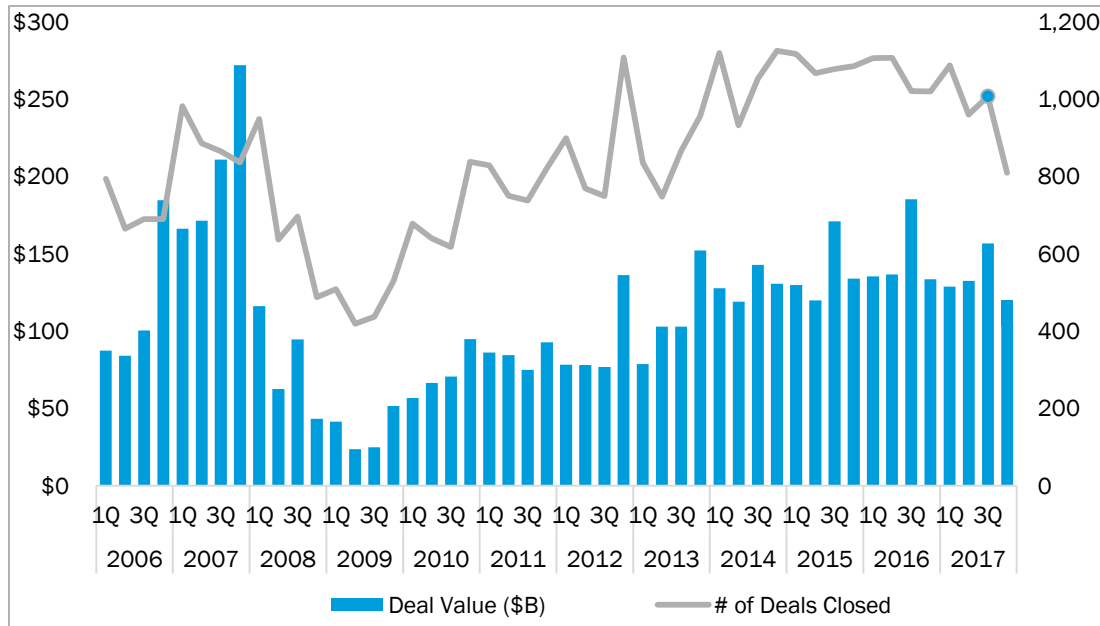
- Valuation multiples remained at record levels as of the end of 2017, significantly higher than the levels experienced at the peak of the last private equity cycle in 2007.
- 2017 saw PE firms significantly increase their contribution of debt financing to M&A transactions, versus 2016. This is no surprise as relatively cheap debt financing and the growing level of covenant-lite loans have spurred increased debt multiples.
- What is also driving M&A activity is the record amount of cash that S&P 500 companies are carrying. The limited organic growth prospects for these companies and ample cash reserves have led to a strong strategic acquisition market, helping support historically high valuations.
- Add-ons continue to make up a larger share of acquisitions as PE firms look to acquire smaller companies at lesser multiples thereby increasing the platform company's overall size and enterprise valuation.

Source: PitchBook 2017 Annual PE Breakdown

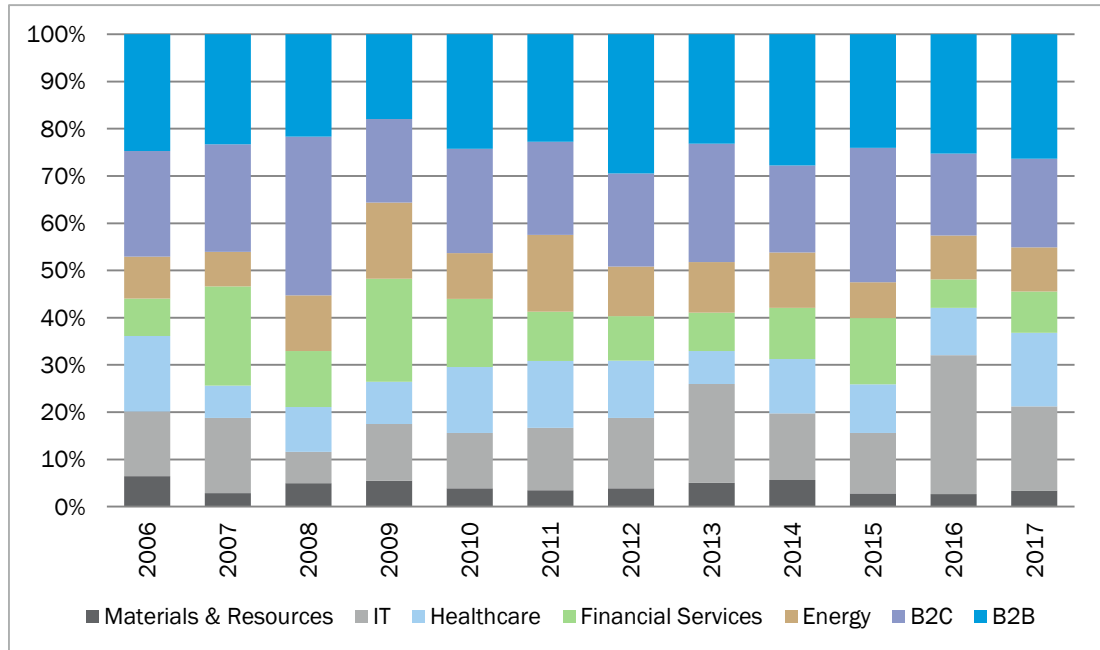
# Deal Activity

# Private Equity

U.S. PE Activity



Deals by Sector



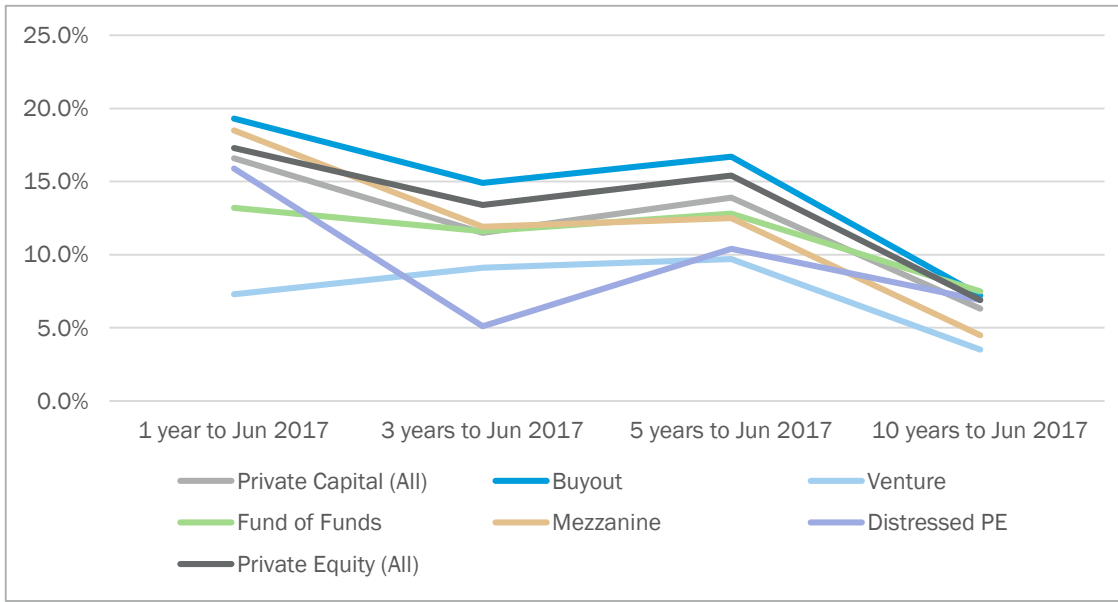
- The number of PE deals in the U.S. fell by 20% during Q4 2017. Aggregate deal value also declined significantly during the quarter. This is indicative of the high-priced environment and the lack of quality PE targets.
- PE buyout funds continue to remain robust, with 229 funds closing in 2017 and raising \$290 billion, representing an increase of 33% from 2016.
- The Healthcare sector represented 16% of total U.S. PE deal value in 2017, versus only 10% in 2016. Conversely, the IT sector saw a significant decline in its share of total deal value, representing 18% of total deal value, compared to 29% in 2016.

Source: Preqin, reported as of year end 2017

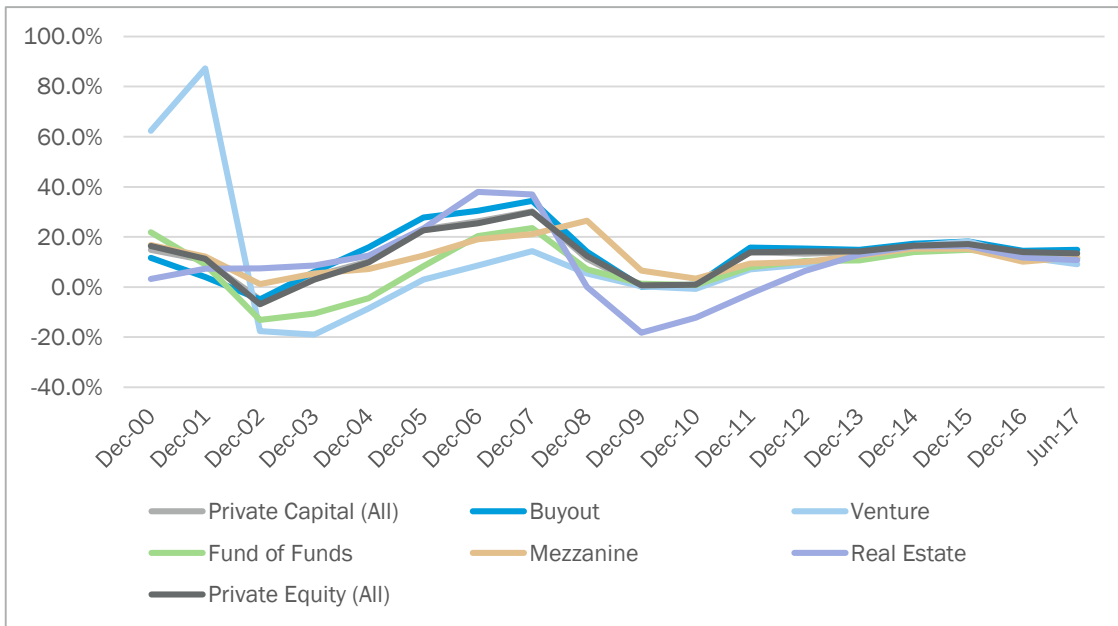
# Horizon Performance

## Private Equity

Horizon IRRs



Three-Year Rolling Returns



- 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 strategies has lagged that of other private equity strategies recently. The generally favorable economic environment has lifted performance for strategies with beta exposure while providing limited distressed opportunities.
- 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, reported as of year end 2017