CanterburyConsulting

Quarterly Asset Class Report

Private Equity

canterburyconsulting.com

Quarter Ending March 31, 2019

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.

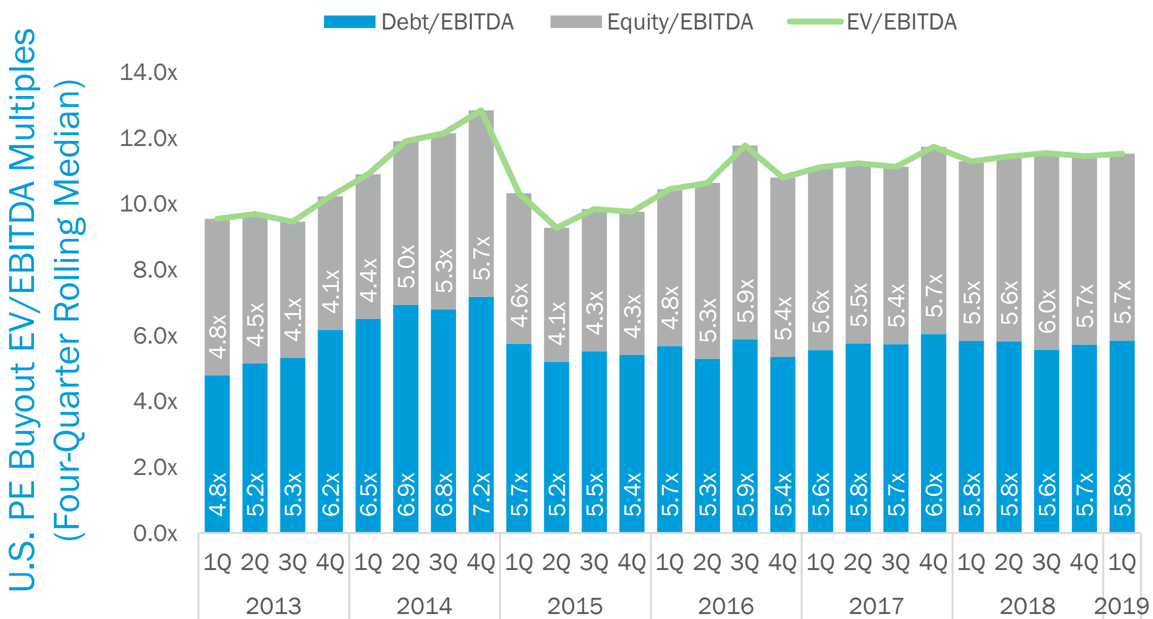
Role	Asset Categories	Risks
Growth	**Public and Private Equity**	**Market Decline**
Capital Preservation	Fixed Income, Hedge Funds	Rising Interest Rates, Highly Correlated Markets
Inflation Protection	Real Assets: Real Estate, Commodities	Deflation

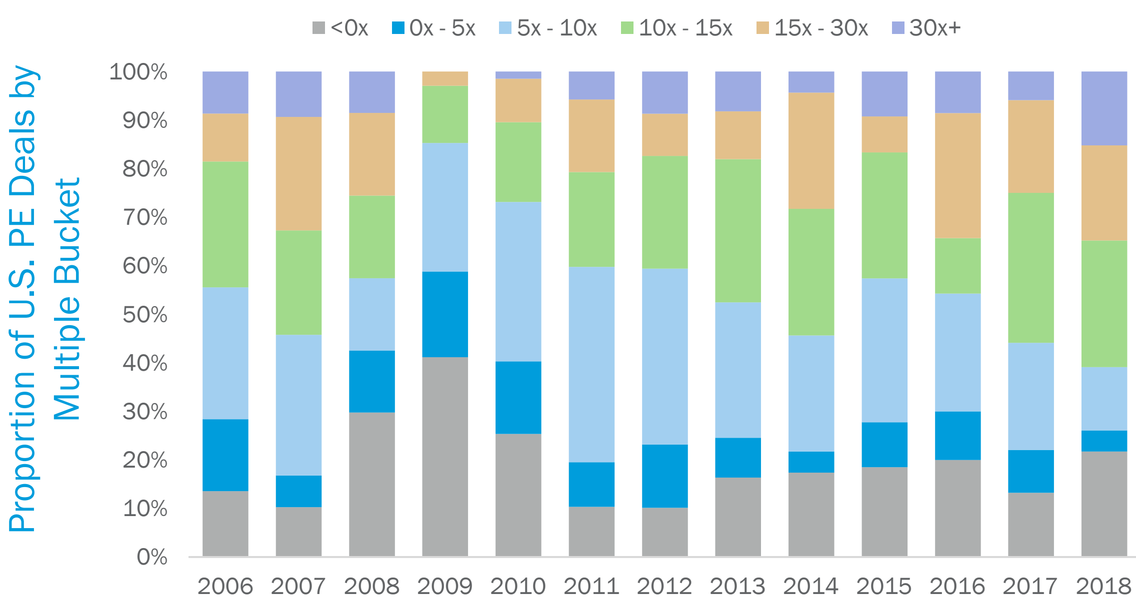
— Over a full market cycle, private equity is expected to generate above-market returns commensurate with risks associated with the asset class (i.e., illiquidity, time horizon, etc.).

— 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.

U.S. Private Equity Valuation Overview

Private Equity





- U.S. median private equity buyout multiples remain steady as of Q1. However, current buyout multiples remain well-above the 10-year average of 10.0x. Factors that have contributed to the elevated PE multiples are:

  - **High levels of low-priced debt and equity in 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.

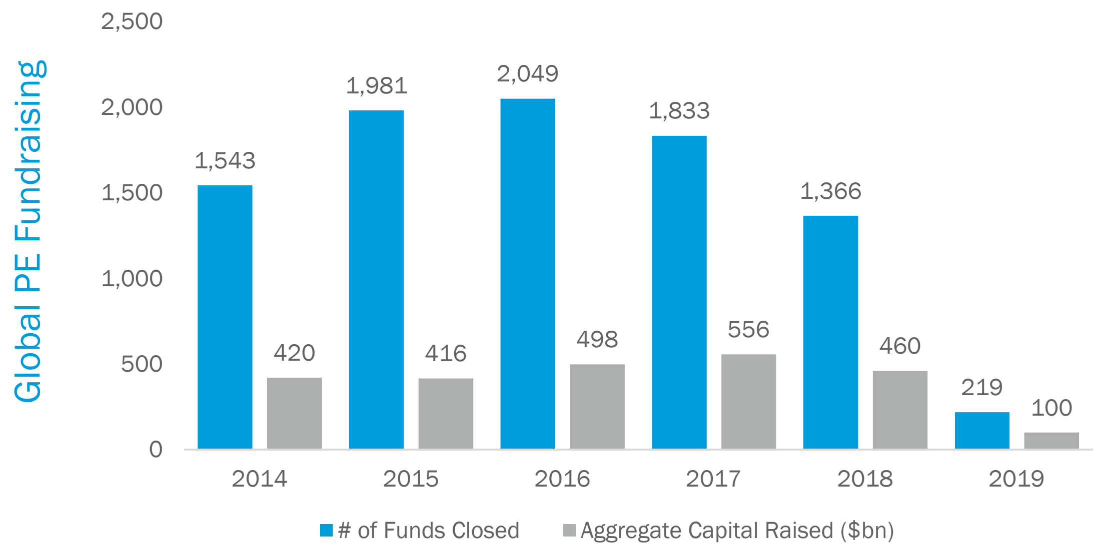
  - **Pursuit of higher growth sectors:** PE firms are turning their attention to investing in higher growth sectors like IT, further boosting PE buyout multiples.

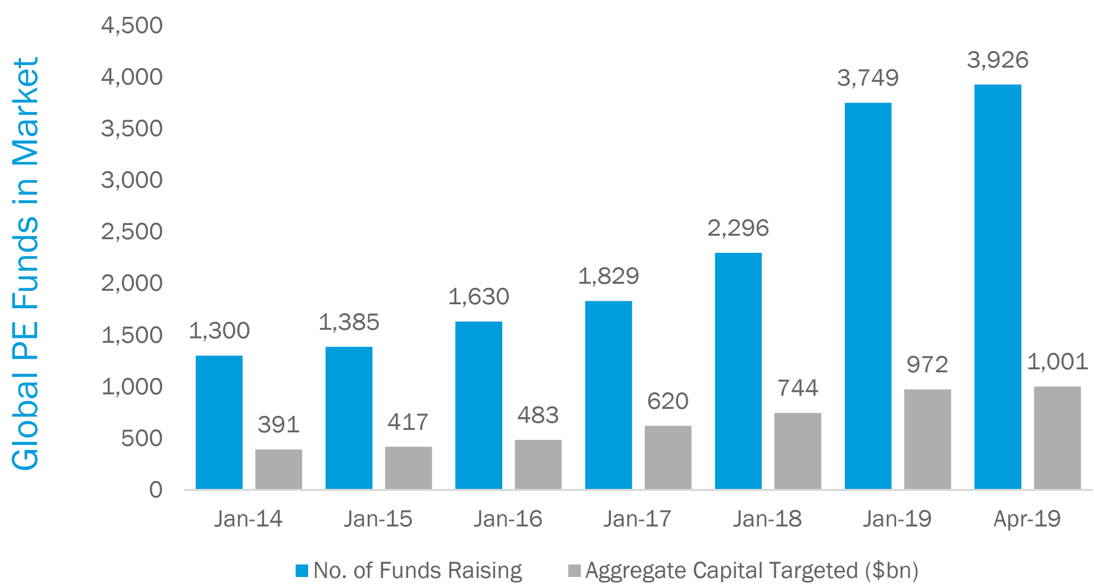
- The proportion of deals priced above 10x remains near its record high. This is indicative of the intense competition in the PE buyout space and growing pressure for PE firms to deploy its dry powder.

Source: Pitchbook Q1 2019 U.S. PE Breakdown

Global Private Equity: Fundraising Overview

Private Equity

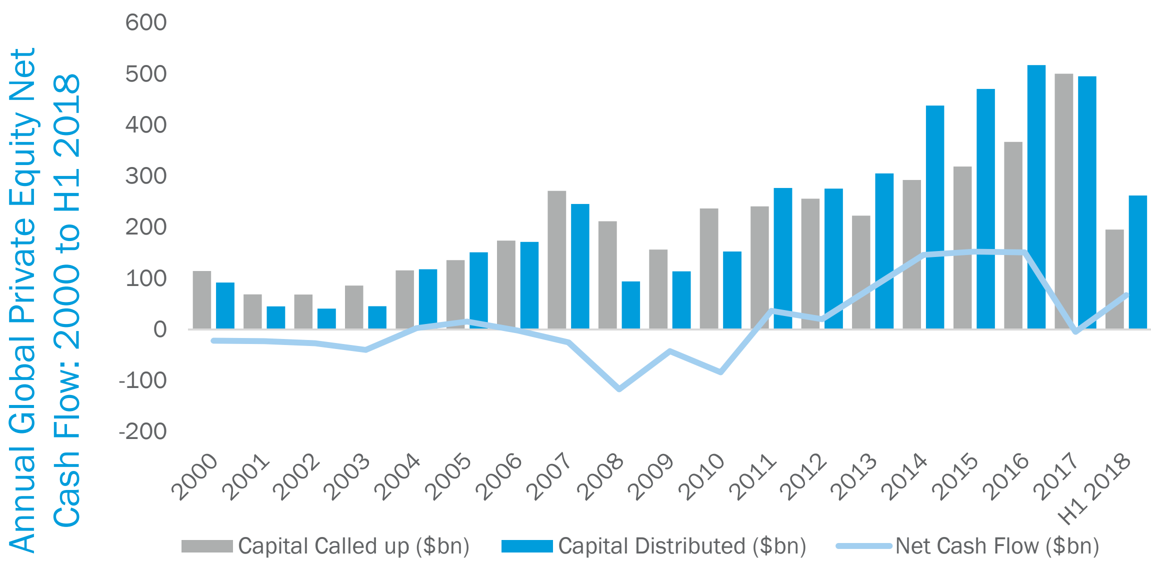


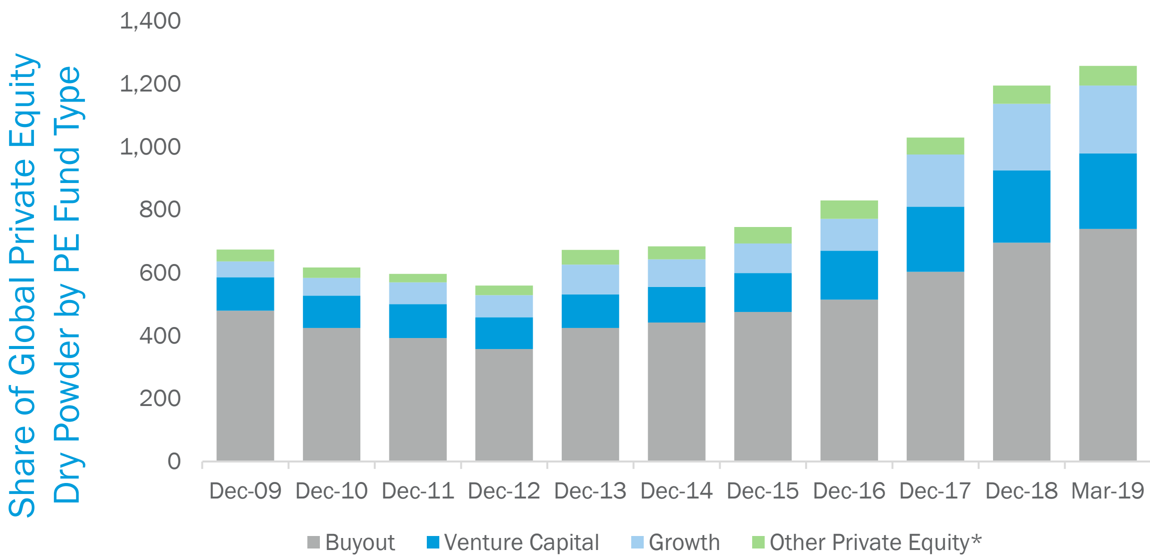


- The $100 billion in capital raised in Q1 was consistent with the $95 billion raised in Q1 2018. There was a substantial decline in the number of funds closed, with 219 funds closing in Q1 versus 340 in Q1 2018. This is indicative of capital becoming more concentrated among a small number of large funds.
- During Q1, the venture capital space saw the most funds close at 115. The buyout space saw the most aggregate capital raised at $62 billion.
- Geographically, fundraising remains focused in North America, which constituted over 63% of aggregate capital raised in Q1, followed by funds focused in Europe (22%) and Asia (14%).
- Global PE funds in market reached a new all-time high as of April 2019, with nearly 4,000. The total amount of capital targeted is also at an all-time high of over $1 trillion.
- The five largest funds currently in market are seeking a combined $216 billion, led by SoftBank's Vision Fund at $100 billion.

Source: Preqin
Figures are through 03/31/2019, unless otherwise noted

Global Private Equity: Performance and Dry Powder



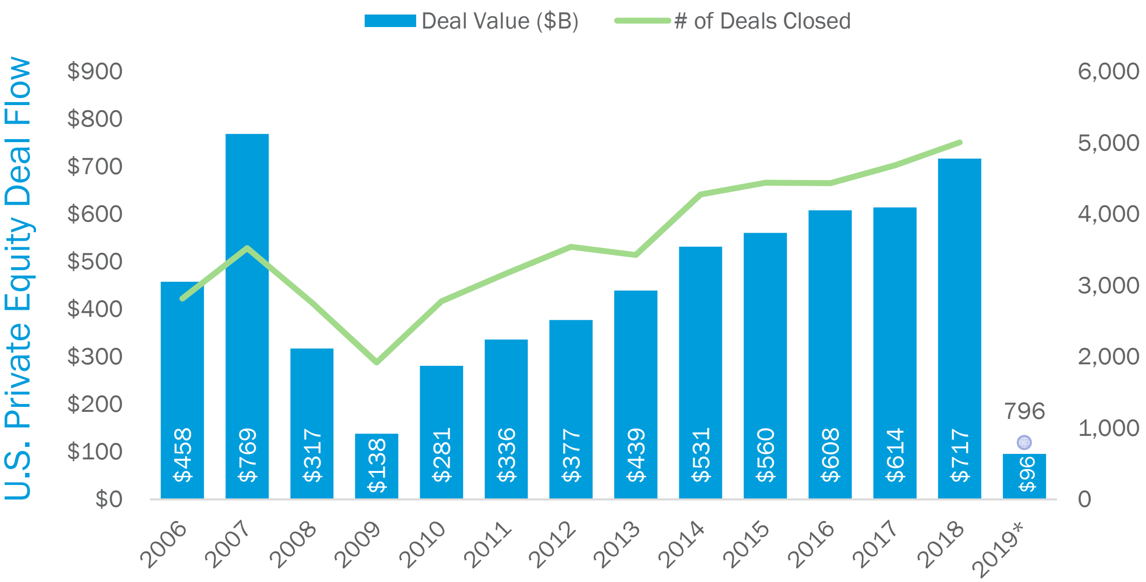


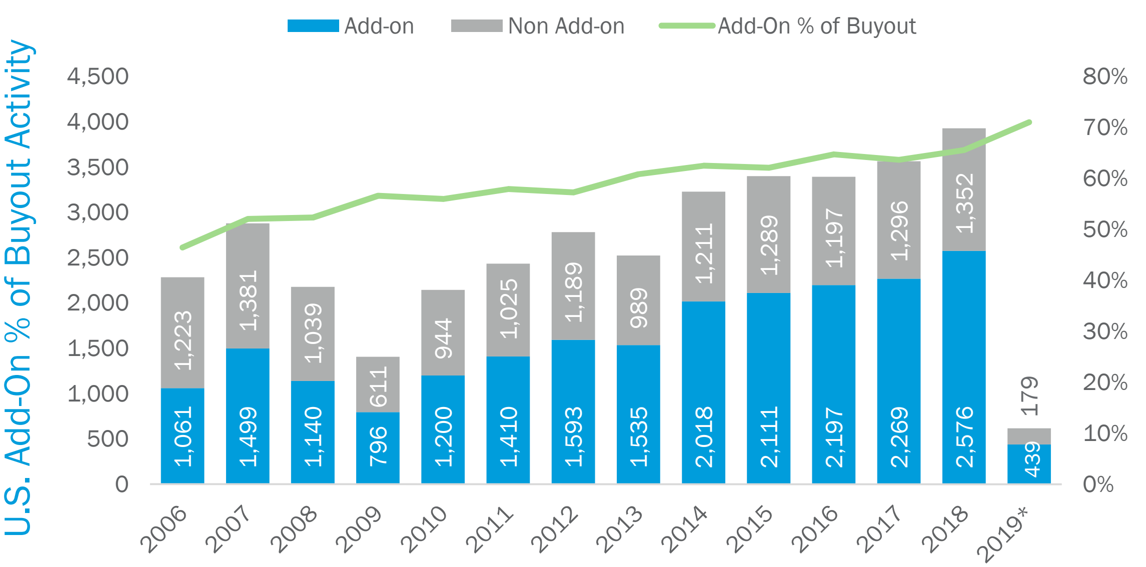
- Following a period of negative net cash flow in 2017, cash flow returned to positive territory after a notable $262 billion in distributions in the first half of 2018 versus $195 billion in called capital.
- This is reflective of earlier vintage funds exiting out of their investments during this high valuation period and the increased utilization of subscription lines of credit to reduce the need to call capital immediately.
- The increased levels of fundraising has pushed private equity dry powder towards the $1.3 trillion mark
- 59% of total dry powder is currently allocated to buyout funds, followed by venture (19%) and growth (17%) funds.
- Please note the following:
  - **Other Private Equity** includes balanced, co-investment, co-invest multi-manager, direct secondaries, and turnaround funds.

Source: Preqin

U.S. Private Equity Deal Activity

Private Equity



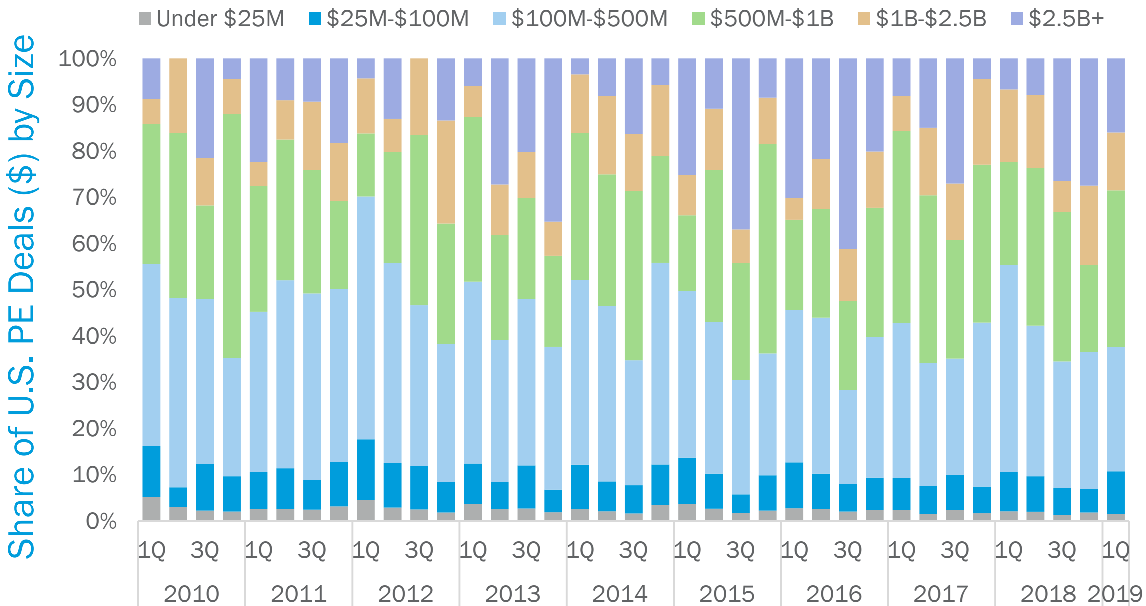


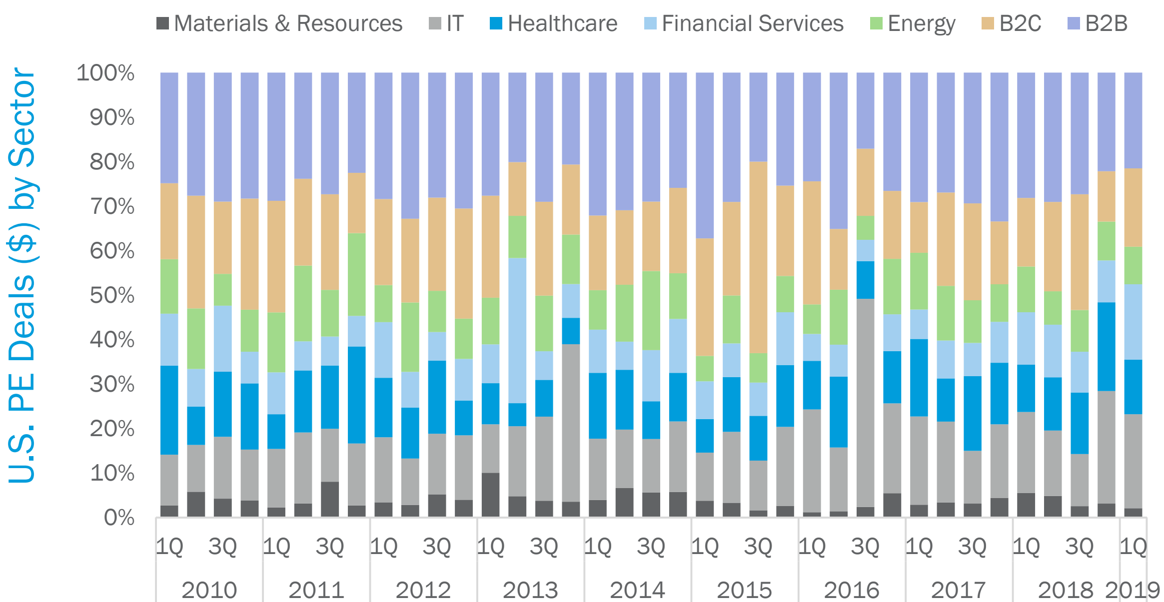
- Deal activity in Q1 is off to a slower start compared to any quarter in the last six years.
- The slow deal activity in the quarter was due to the uncertain conditions that occurred in Q4 2018 as PE managers awaited for more stable market conditions to exit their underlying investments.
- Add-ons now account for 70% of all buyout activity as of Q1, 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 are often 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 overall acquisition purchase multiples by bolting on smaller companies trading at lower valuations.

Source: PitchBook Q1 2019 U.S. PE Breakdown
**2019 figures are through 3/31/2019*

U.S. Private Equity Deal Activity

Private Equity





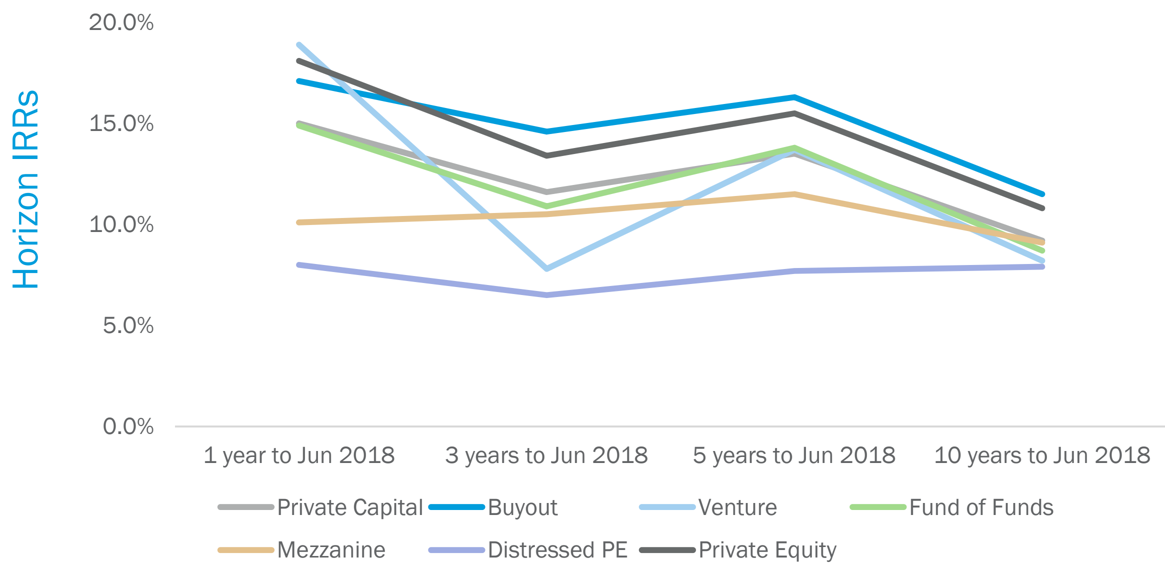
- In Q1, the composition of PE deals remained concentrated in the $100 million to $1 billion transaction range, constituting 61% of deals. While this is down from 67% over the past 12 months, the transaction sizes have continued to shift up market. Currently, transactions valued at $1 billion and above constitute 29% of private equity deals, versus 23% in Q1 2018.

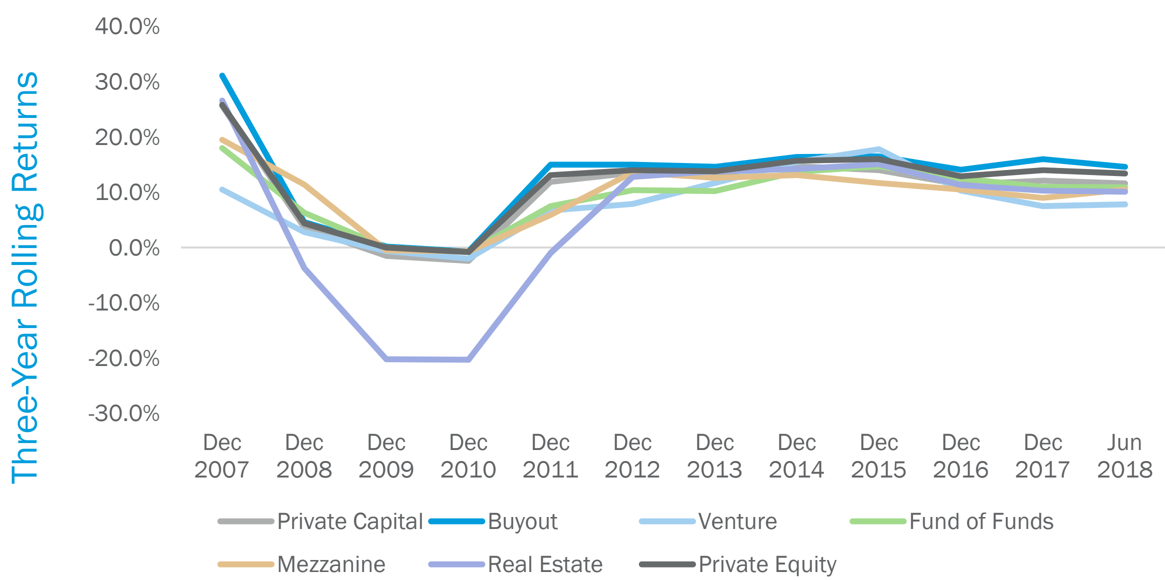
- The easy access to credit and high levels of dry powder from larger funds are driving these larger transaction sizes.

- The B2B and B2C sectors continue to be attractive sectors to invest in among PE firms, accounting for 40% of total deal value (in dollar terms). The IT and financial services sectors are also among the most actively pursued investments, constituting 21% and 17% of transaction volume, respectively.

Source: PitchBook Q1 2019 U.S. PE Breakdown
**2019 figures are through 3/31/2019*

Horizon Performance





- 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 dislocation in the market. 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, June 2018