CanterburyConsulting

Quarterly Asset Class Report

Private Capital

Quarter Ending December 31, 2016

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 that are diversified by sector, geography, and vintage year.

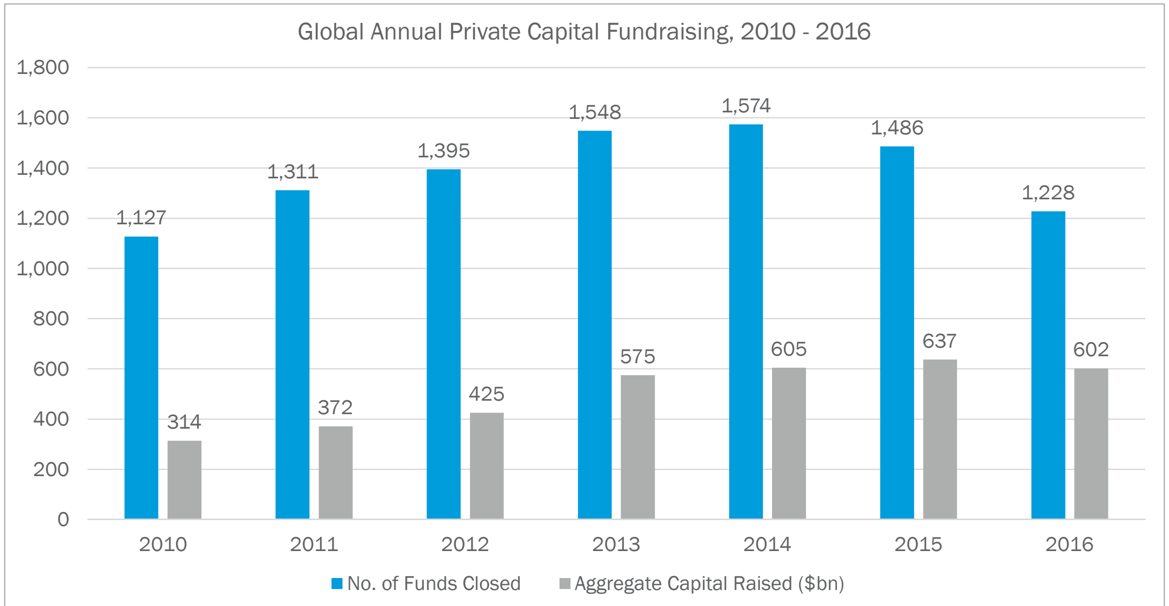
- Strategic: using various market inputs to form a baseline, we create a recommended model portfolio allocation.
- Opportunistic: we combine top-down and bottom-up analysis to achieve excess risk-adjusted returns through market intelligence and superior manager selection.

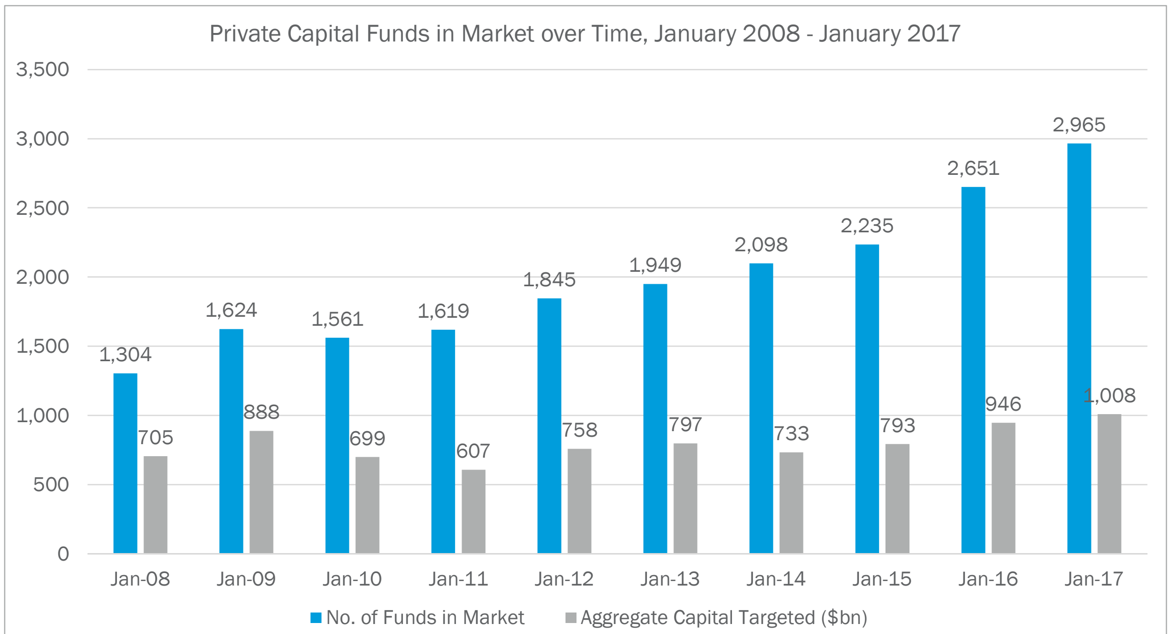
Role	Asset Categories	Risks
Growth	**Public and Private Equity**	**Market Decline**
Capital Preservation	Fixed Income, Hedge Funds	Rising Interest Rates, Highly Correlated Markets
Inflation Protection	Real Assets: Real Estate, Commodities	Deflation

— Over a full market cycle, private capital 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 capital must commit consistently across cycles and avoid "market timing" in order to generate returns.

Private Capital Fundraising Overview





- Private capital markets normalized to some degree in 2016, following record breaking years for fundraising and deal making in 2014 and 2015.

- 252 private capital funds closed on $180.2 billion in commitments during 2016. Compared to 2015 figures, funds closed fell by 11% while dollars closed fell by 10%.

- Despite declines, the general fundraising environment was still favorable for GPs. 89% of closed funds hit their stated targets in 2016, the highest percentage in recent memory. By comparison, the figure was 70% at the peak of the last private capital cycle in 2007.

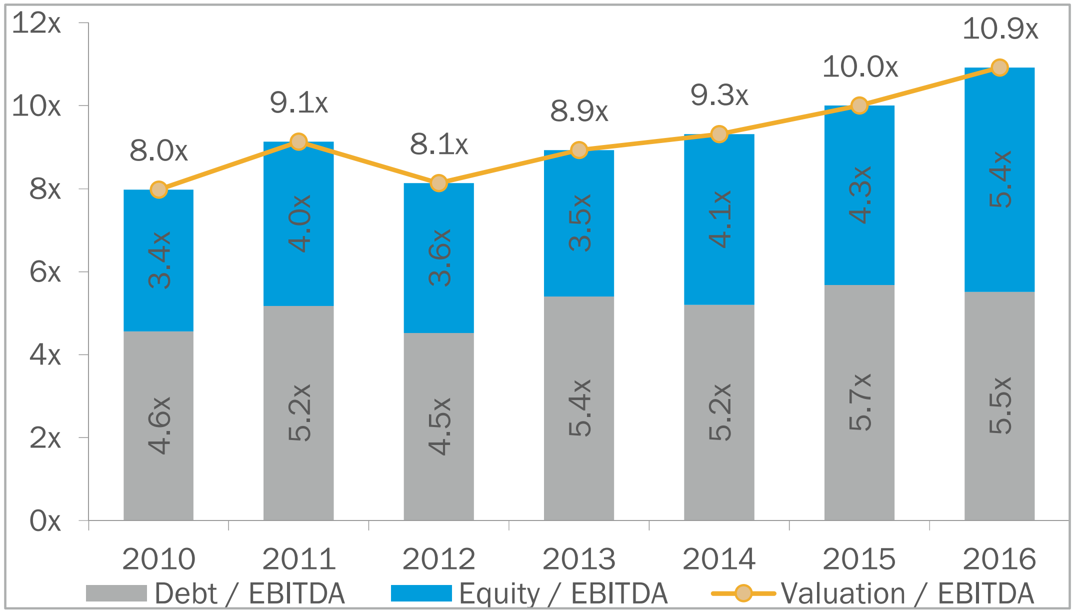
- Larger funds made up a greater proportion of total private capital raised in 2016 than in prior years. The average buyout fund closed in 2016 raised $250 million, compared to $202 million for the previous year. This may be the result of LPs perceiving larger, more established managers as more equipped to handle a potential economic downturn.

Source: PitchBook, reported as of January 2017

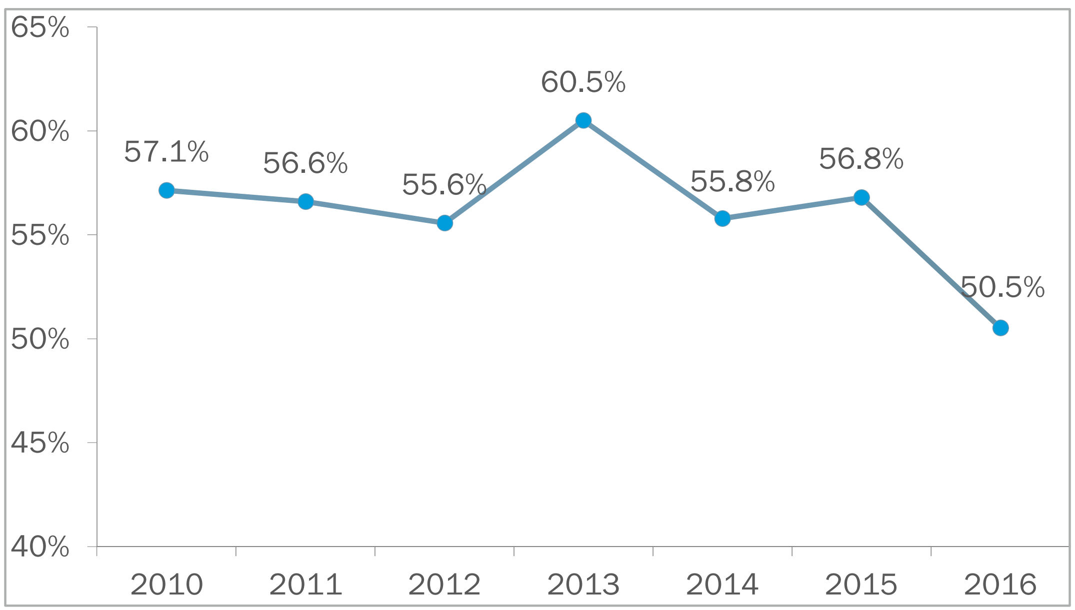
Deal Activity

Private Capital

U.S. M&A Valuation & Capital Structure



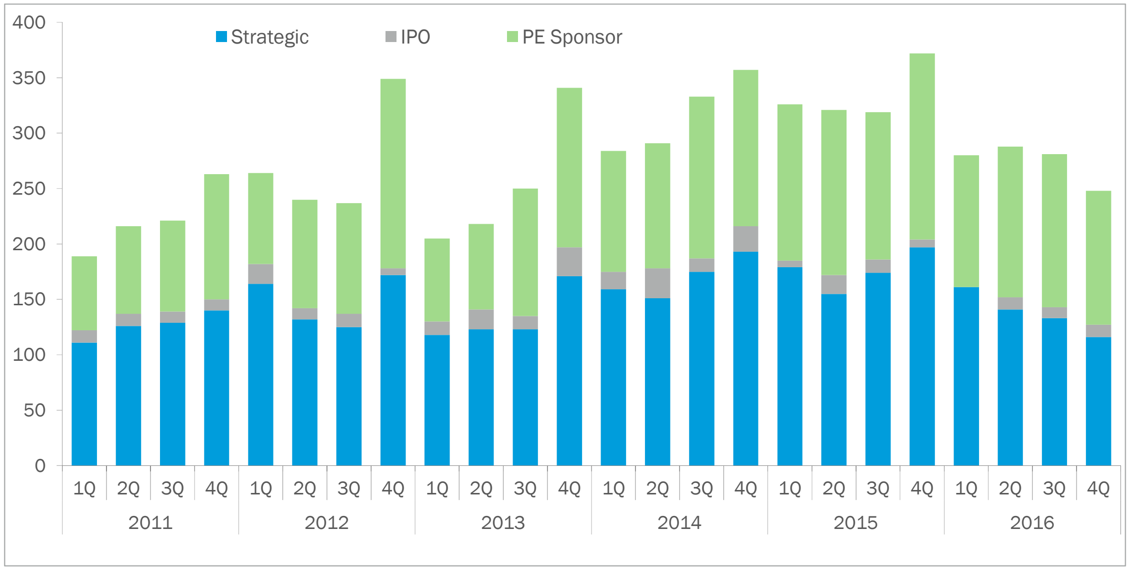
U.S. M&A Median Debt % of Total Value



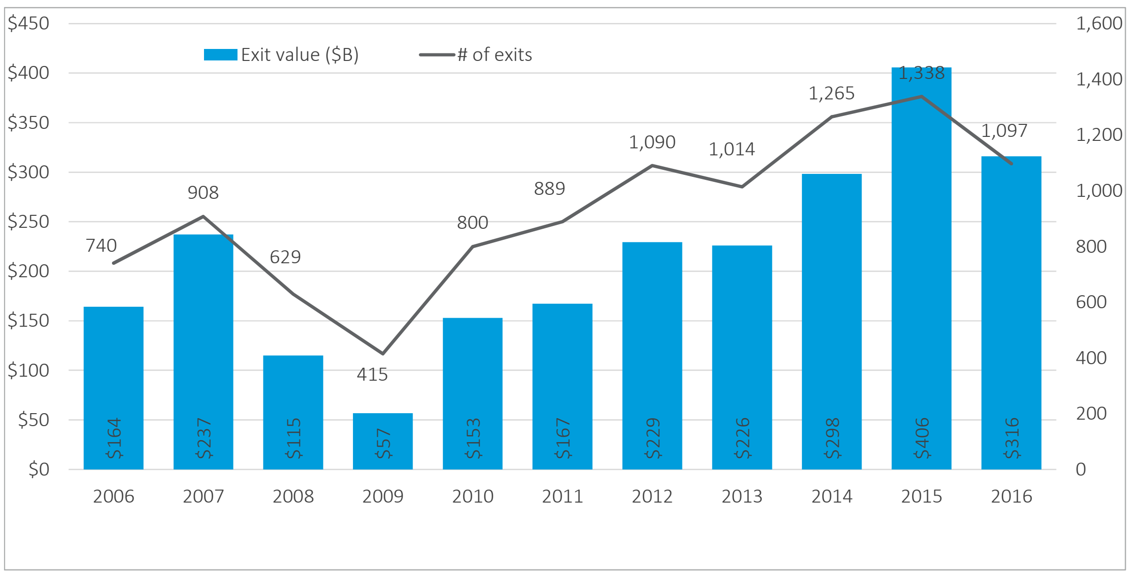
- In 2016, private company valuations continued to climb to new highs, exceeding the levels experienced at the peak of the last private capital cycle in 2007.
- U.S. corporations, with record cash and limited organic growth prospects, are increasingly competing with financial sponsors for deals, driving valuations up in the process.
- S&P 500 companies held approximately $1.5 trillion in cash at the end of July 2016, the highest level in more than a decade. Many companies, particularly in the tech sector, are opting to purchase innovative companies rather than spend on research and development.
- On guidance from the Fed, banks generally aren't lending more than 6x EBITDA to private companies being acquired. This dynamic is resulting in PE sponsors writing bigger equity checks for acquisitions as they chase increasingly expensive companies.

Source: PitchBook 2016 Annual PE Breakdown

PE-Backed Buyout Deals



Exit Deal by Buyer Type



- 1,097 exits accounting for approximately $316 billion took place in 2016. These figures represent declines from 2015 of 18% and 22%, respectively. Some GPs are waiting out the high-value environment while some strategic buyers may have slowed their buying on concerns regarding trade, rising populism, and central bank policy uncertainty.

- 2016 saw fewer PE-backed IPOs than any year since the financial crisis. In total, 32 sponsor-backed companies were taken public during the year. Coming out of 2015, GPs were reluctant to take companies public because of weak U.S. public market performance and fears of a potential economic downturn. Fears settled after a strong first half of the year, and the latter half of 2016 saw 21 PE-backed IPOs.

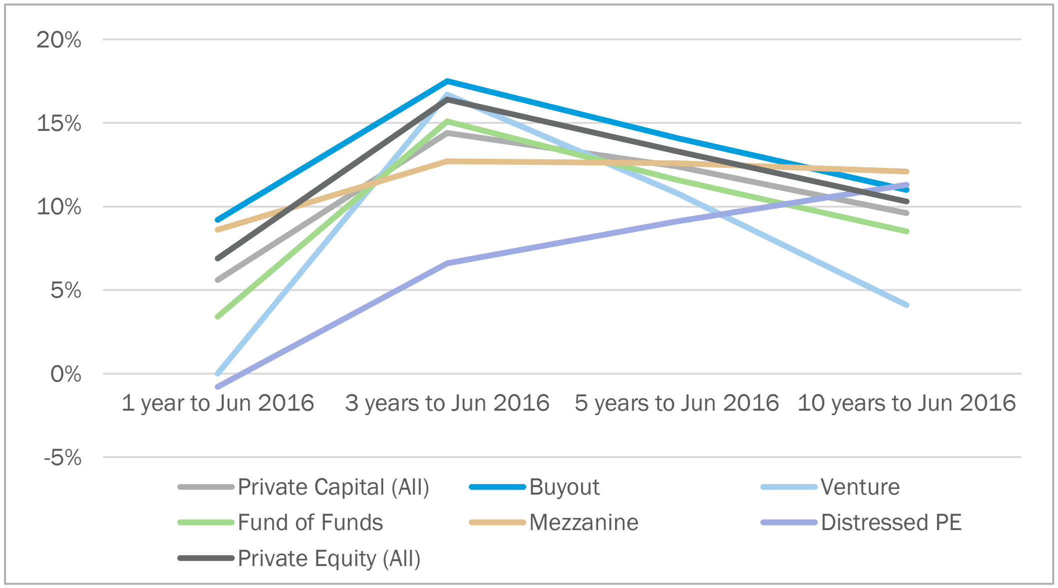
- Sponsor to sponsor transactions have become more common in recent years, but strategic buyers continue to dominate the market, accounting for 73% of exit dollar value in 2016.

Source: PitchBook 2016 Annual PE Breakdown

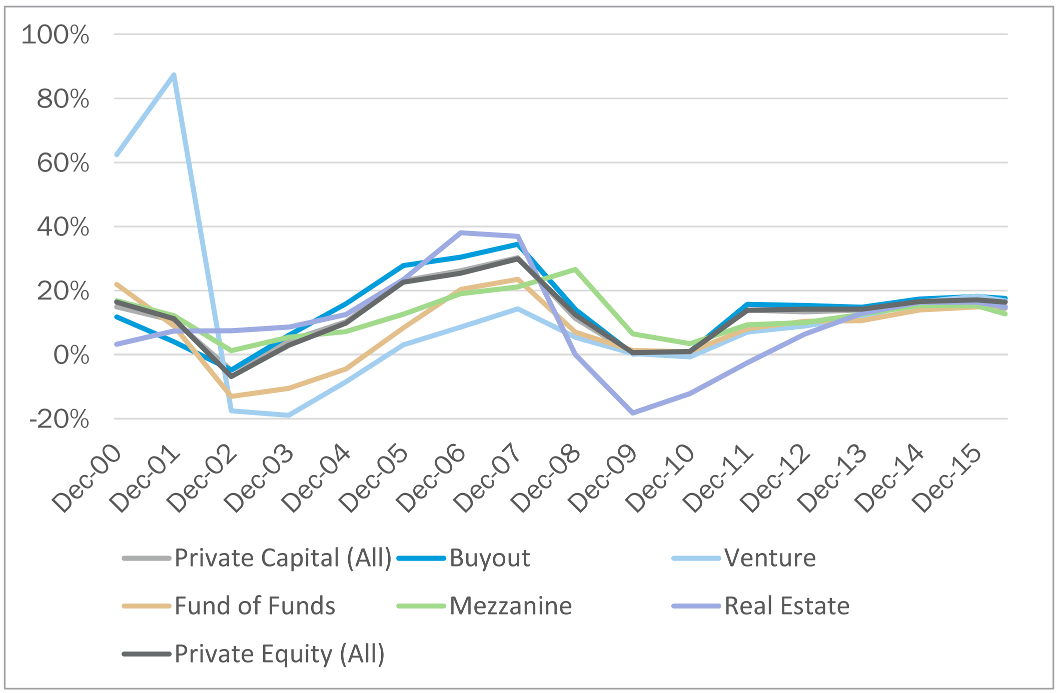
Horizon Performance

Private Capital

Horizon IRRs



Three-Year Rolling Returns
Ending 6/30/2016



- Rising valuations and a prolonged economic expansion have resulted in upward-trending rolling returns across most private capital strategies over the past few years. Buyouts and venture capital have particularly benefited recently from rising valuations in recent years.
- The performance of distressed strategies has lagged that of other private capital strategies recently. The generally favorable economic environment has lifted performance for strategies with beta exposure while providing limited distressed opportunities.

Source: Preqin, January 2017