CanterburyConsulting

Quarterly Asset Class Report
Private Equity

canterburyconsulting.com

September 30, 2020

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 portfolio allocation.
- Opportunistic: We combine top-down and bottom-up analysis to achieve excess risk-adjusted returns through market intelligence and superior manager selection.

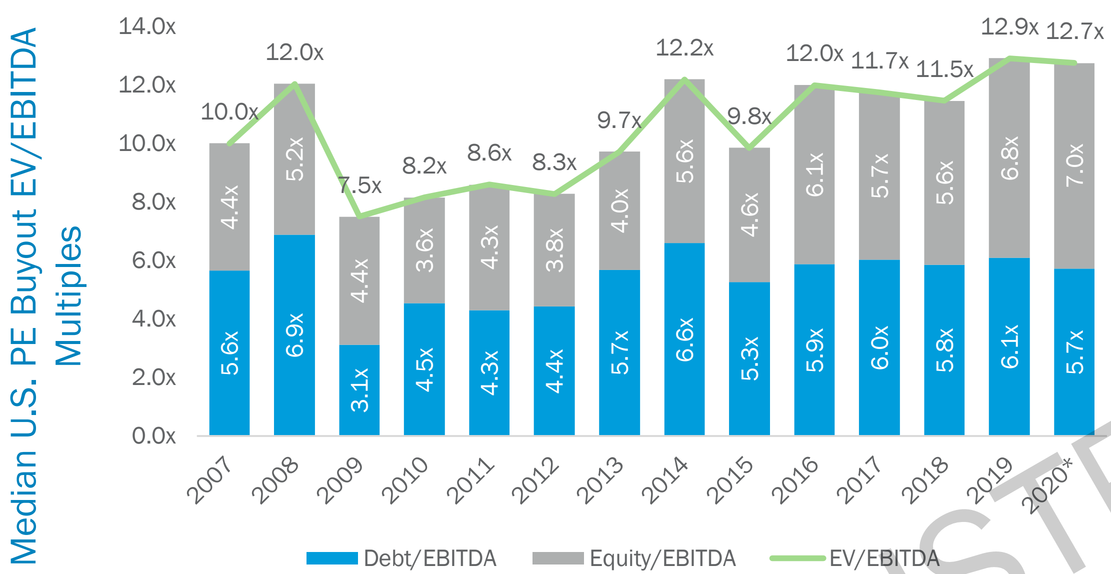
Role	Asset Categories	Risks
Growth	**Public and Private Equity**	**Market Decline**
Capital Preservation	Fixed Income, Hedge Funds	Rising Interest Rates, Highly Correlated Markets
Inflation Protection	Real Assets: Real Estate, Commodities	Deflation

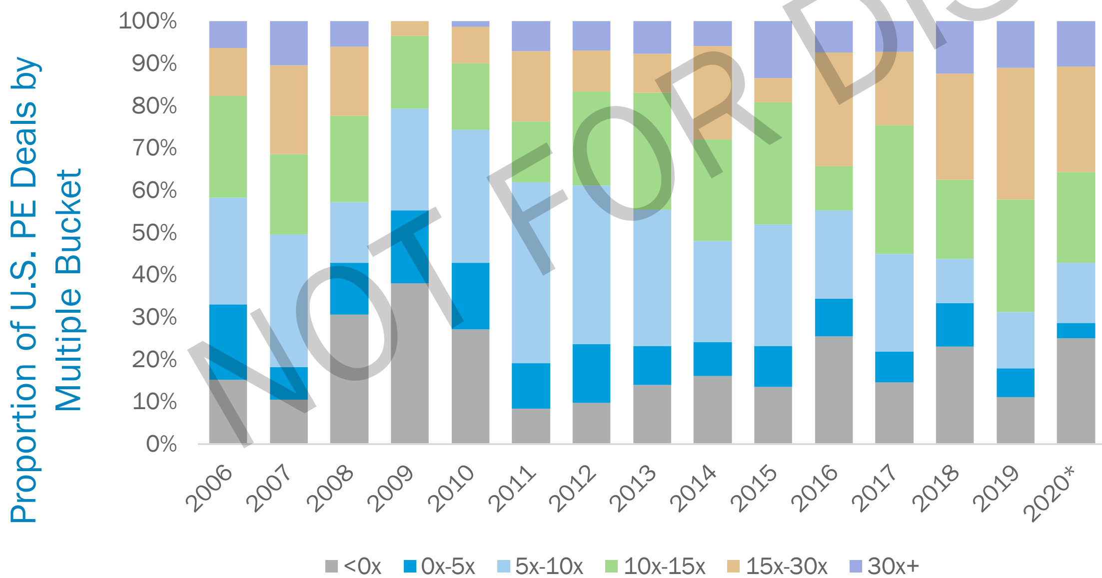
— Over a full market cycle, private equity is intentioned to generate above-market returns commensurate with risks associated with the asset class (i.e., illiquidity, time horizon, etc.).

— Given the length of the time required to deploy capital and 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

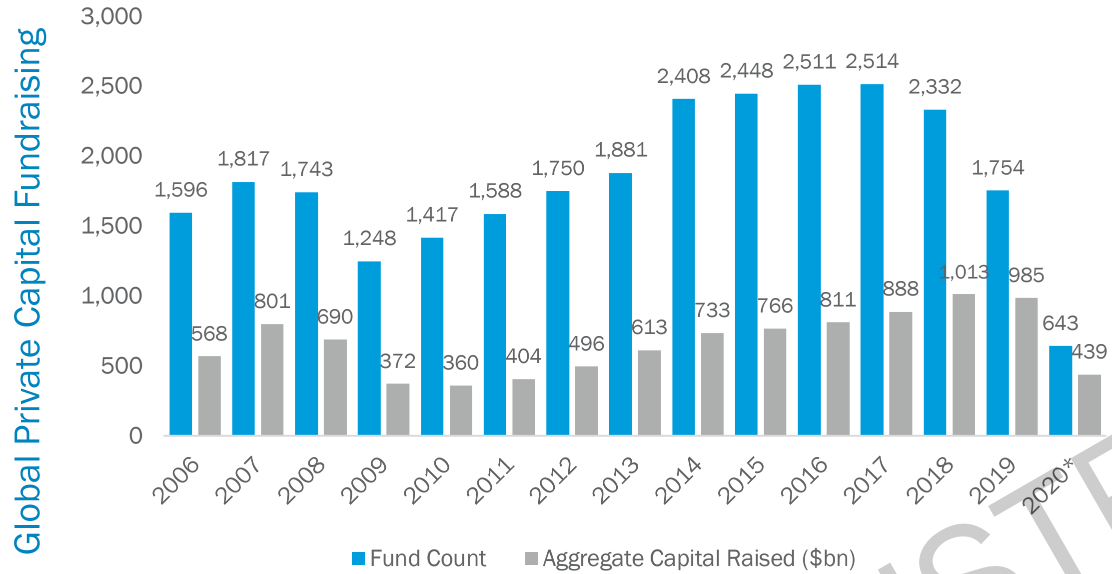


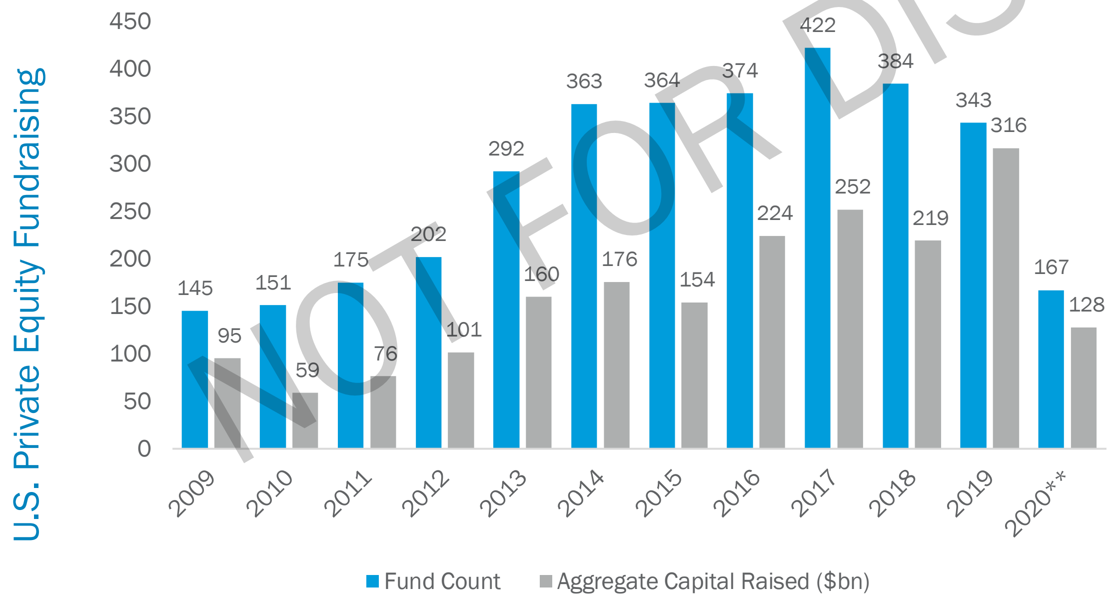


- Current buyout multiples remain elevated and are currently near all-time highs. This is driven in part by the prevalence of technology-focused investments, as fund managers typically pay a premium for companies in this high-growth sector.
- As a result of tighter lending standards in the aftermath of the COVID-related shutdowns and subsequent business disruption, PE fund managers have contributed a higher percentage of equity to finance buyout transactions. The current debt multiple across U.S. PE buyout transactions is currently the lowest it has been in five years.

Source: PitchBook Q3 2020 U.S. PE Breakdown
** 2020 figures are through September 30, 2020*

Private Equity Fundraising Activity





- Global private capital fundraising activity continues to slow, as only 643 funds were in market through the first half of 2020, a decline of 25% from the same period in 2019. Despite the lower fund count, the aggregate capital raised so far in 2020 is nearly identical to the capital raised through the first half of 2019. This implies larger fund sizes and LPs are continuing to commit to the private markets despite the COVID-19 pandemic.
- Within the U.S., private equity fundraising has slowed, with total fund count and capital raised both declining YoY by 27.4% and 42.7%, respectively. This is primarily due to fewer mega-funds that are currently fundraising compared to 2019, which saw over a dozen mega funds close at or above their targets.
- Buyout funds continue to comprise the majority of funds in market in the U.S. The average U.S. PE buyout fund size is currently $900 million and approximately 82% of funds have reported larger fund sizes than their previous fund. Over the last five years, the median fund size step-up has averaged 1.5x.

Sources: PitchBook Q2 2020 Private Fund Strategies Report and PitchBook Q3 2020 U.S. PE Breakdown.

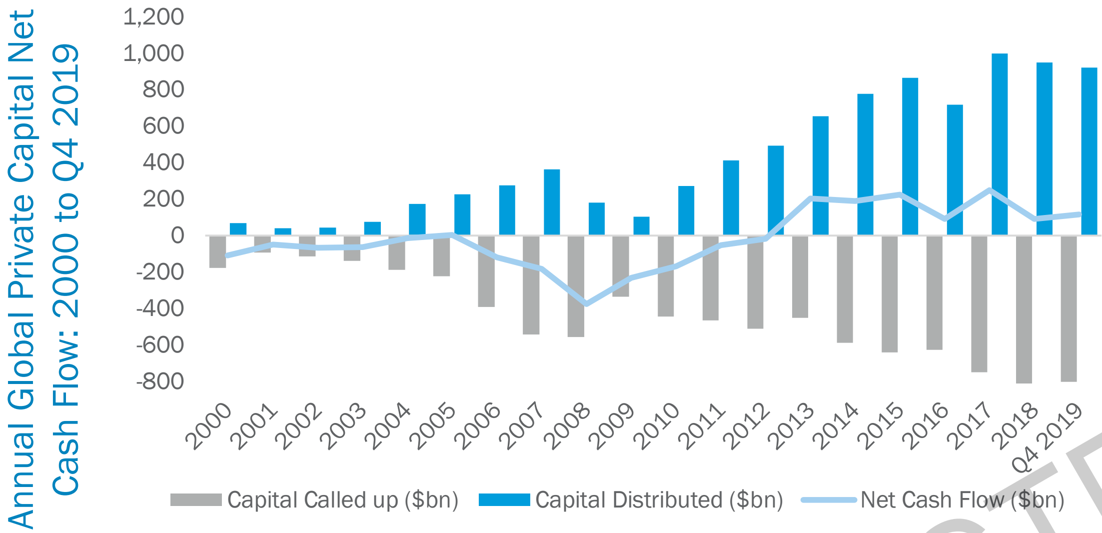
Private equity funds include: buyout, growth/expansion, diversified private equity, mezzanine, secondaries, co-investment, restructuring/turnaround, venture capital, private debt, energy, real estate, and fund of funds.

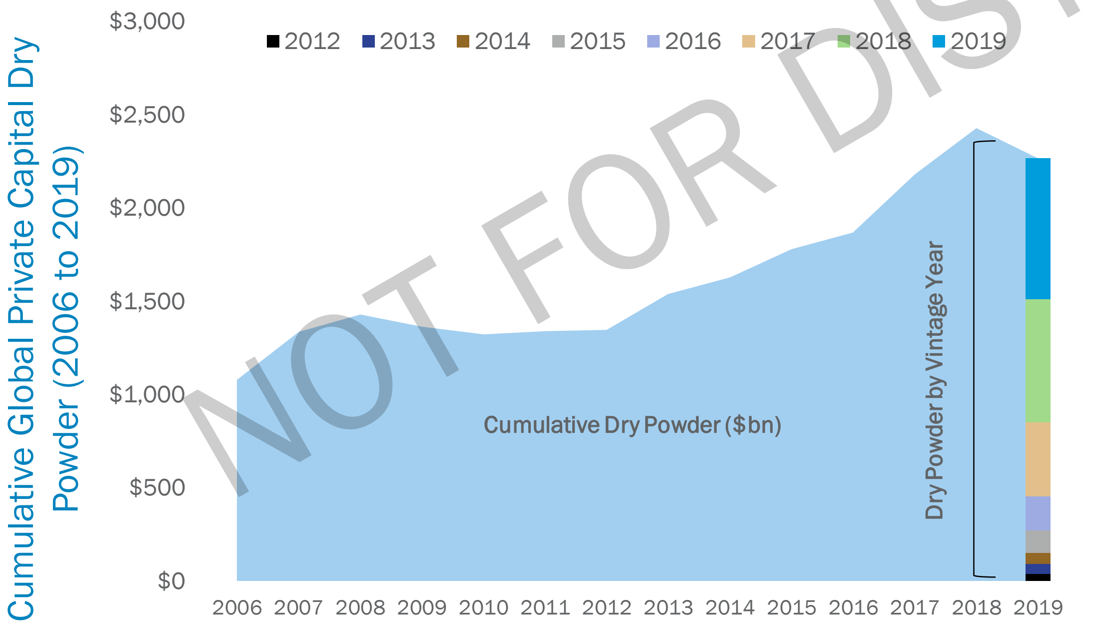
** Global Private Capital Fundraising as of June 30, 2020*

*** U.S. PE Fundraising as of September 30, 2020*

Global Private Capital: Performance and Dry Powder

Private Equity

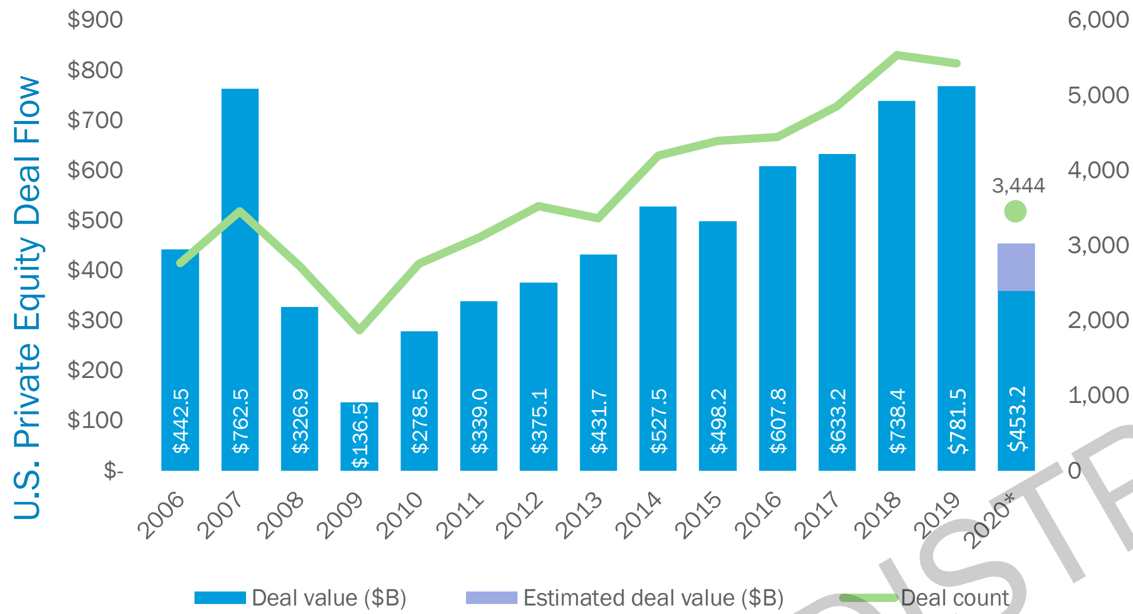


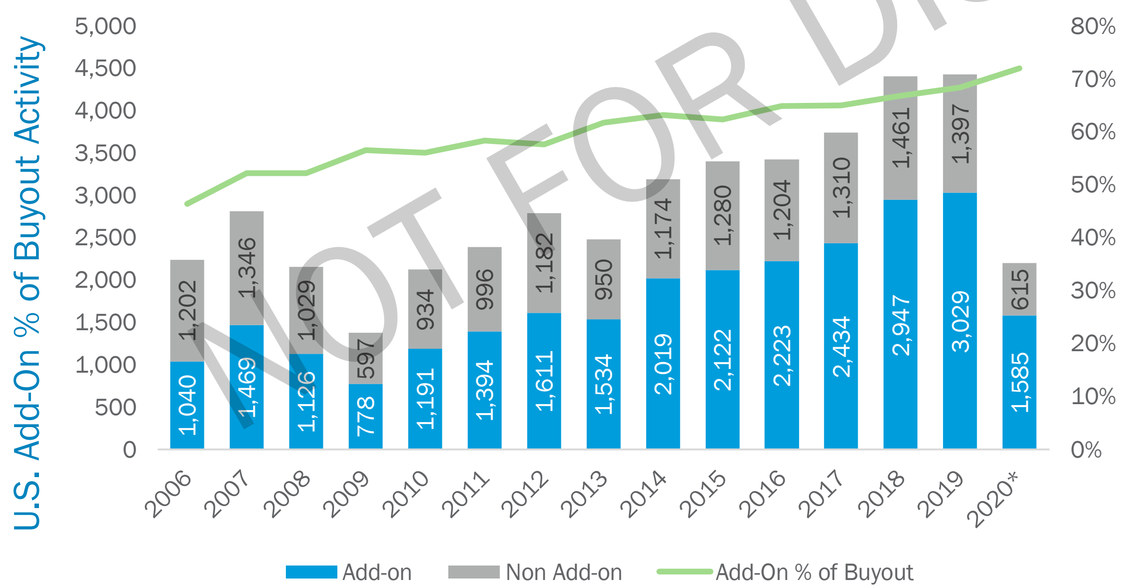


- Through Q4 2019 (the most recent data available), global LPs had received approximately $920 billion in distributions, compared to over $800 billion in contributions. While net cash flows in 2019 did surpass net cash flows in the prior year, the number was less than half of what it was in 2017.
- As of Q3 2020, U.S. PE exit activity is on pace to hit a 10-year low in terms of count and an eight-year low in terms of value. This, and the record levels of dry powder, could have an adverse effect on distributions and could reverse the seven-year positive net cash flow trend.
- Global private capital dry powder stood at approximately $2.3 trillion as of Q4 2019. $1.4 trillion, or 62.5%, of dry powder is from funds raised in 2018 and 2019.

Sources: PitchBook 2020 Global Fund Performance Report as of December 31, 2019; PitchBook Q3 2020 U.S. PE Breakdown; PitchBook Q2 2020 Private Fund Strategies Report as of December 31, 2019

U.S. Private Equity Deal Activity





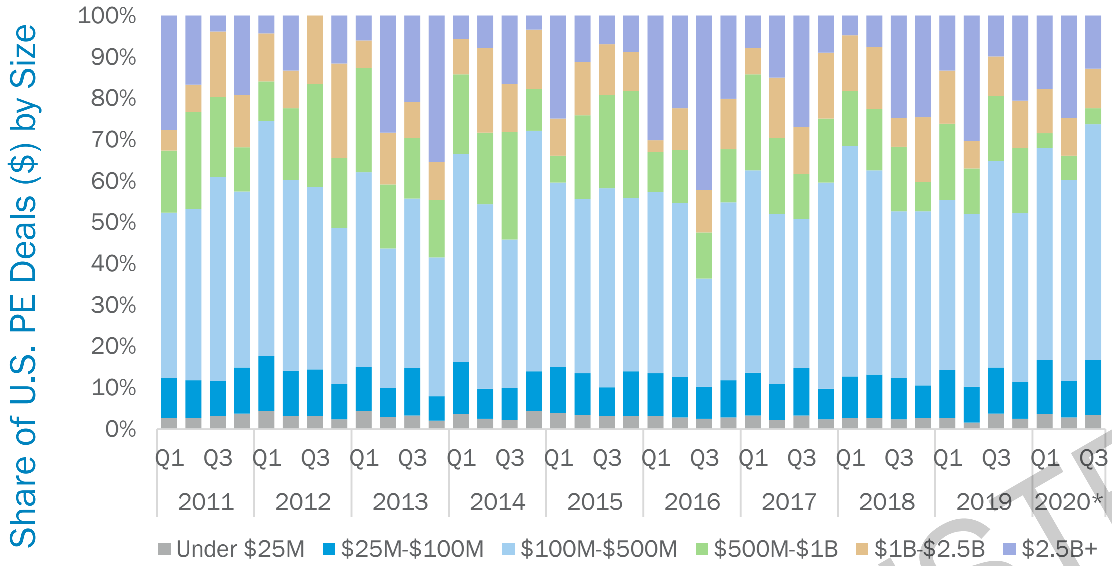
- Through Q3 2020, U.S. private equity firms closed on 3,444 deals totaling $453.2 billion in value, declining 16.2% and 20.6%, respectively, from the same period in 2019.
- Corporate carve-outs and divestitures have steadily comprised 8–10% of U.S. PE deal activity over the last decade, and should be a source of growing opportunity as companies in hard-hit sectors — such as retail, leisure, and hospitality — sell off business units and assets for liquidity to focus on their primary business lines.
- Buyout sponsors have steadily increased add-on activity to bolster their portfolio companies. This can be seen through the increased share of add-on deals as a percentage of overall U.S. buyout activity, at 72%. Add-on acquisitions can drive efficiencies and blend down the purchase multiple of the platform investment.
- To date, 85% of add-on activity has been in tech, healthcare, and business services (B2B and B2C). This trend has remained consistent over the last decade.

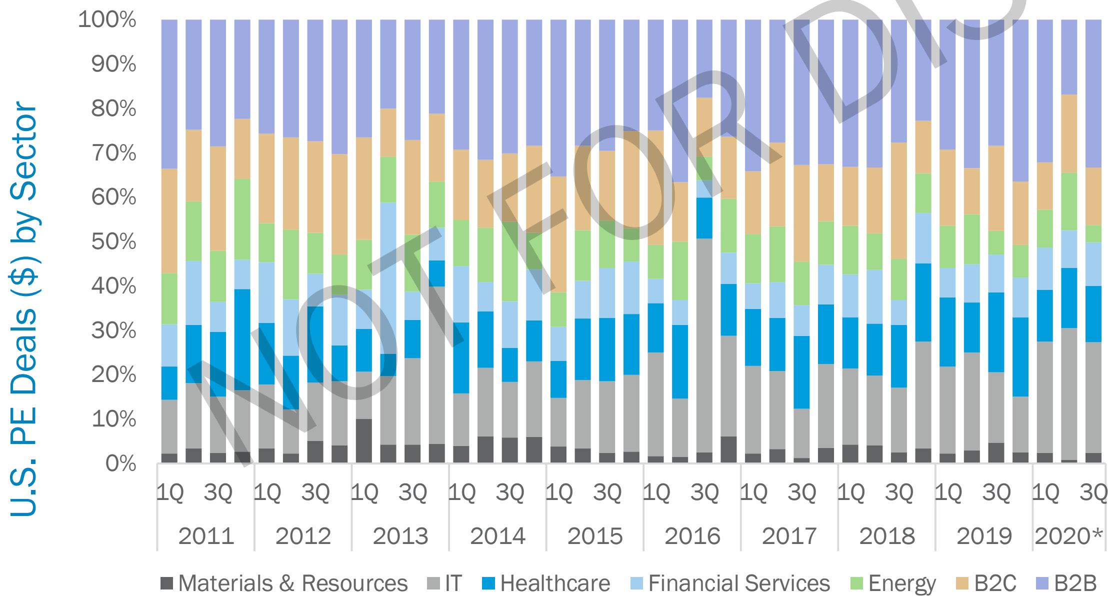
Source: PitchBook Q3 2020 U.S. PE Breakdown

** As of September 30, 2020*

U.S. Private Equity Deal Activity

Private Equity



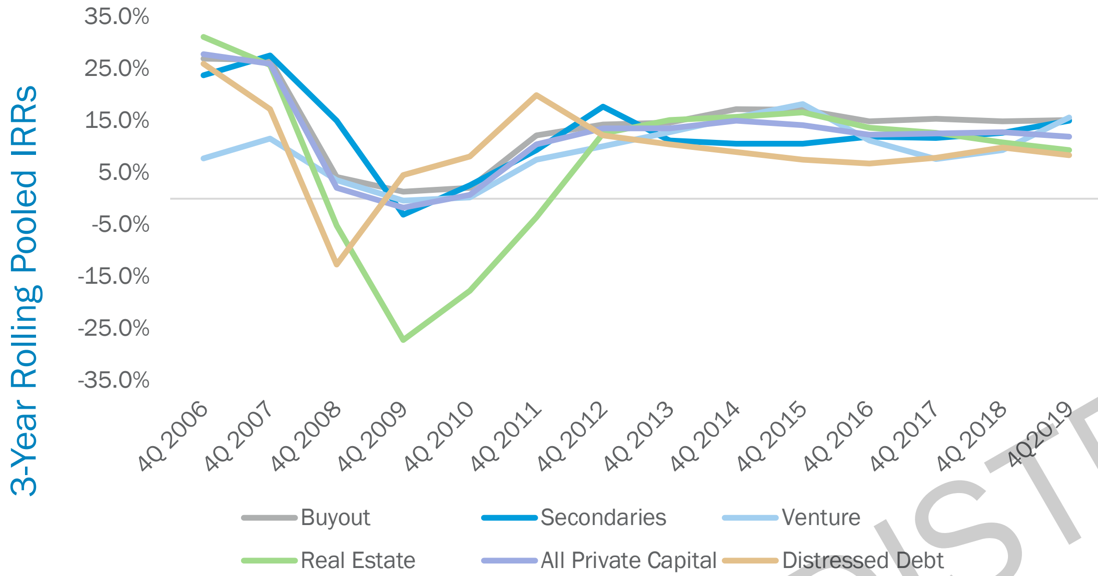


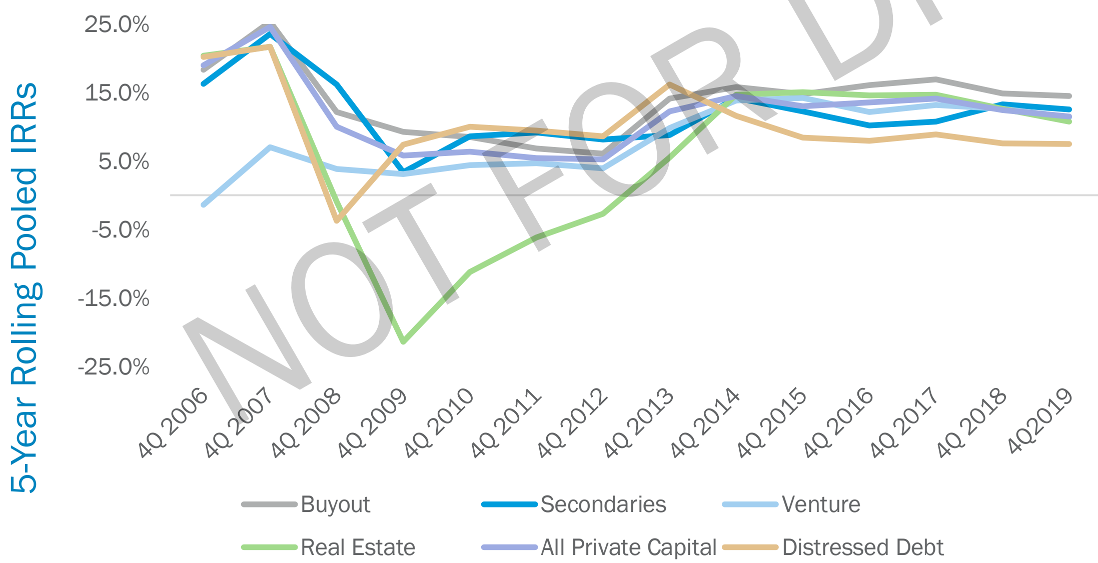
- Year to date, 57% of U.S. PE deal activity comprised deals valued between $100 million and $500 million, the highest it has been since Q1 2012.
- So far in 2020, there has been a significant decline in the proportion of PE deals valued between $500 million and $1 billion, comprising 4% of total deal flow versus 16% during the same time last year.
- While deal flow remained behind 2019 figures, there are a couple of pending deals that are likely to take place during Q4: Blackstone's $4.7 billion deal for Ancestry.com and KKR's $3.0 billion deal for 1-800 Contacts.
- While investments tied to the healthcare sector remain attractive, most opportunities are within technology. Year to date, over $50 billion has been closed on or allocated to tech-focused, U.S.-based PE funds. This should increase the share of PE deal activity within the sector.

Source: PitchBook Q3 2020 U.S. PE Breakdown
** As of September 30, 2020*

Horizon Performance

Private Equity





- Through Q4 2019, private equity markets remained stable over the prior several years. Traditional buyout and secondary funds outperformed the rest of the private equity universe, both over a three- and five-year time horizon.
- Historically, buyout funds launched during an economic downturn have outperformed buyout funds launched two to three years prior. This is due to the opportunity for managers to purchase assets at a discount and experience appreciation as the economy recovers.
- While distressed debt has lagged, the current market environment could potentially favor this strategy, as companies across a wide array of industries are facing lower levels of revenue and possible bankruptcy. Distressed debt managers should be able to capitalize on this opportunity set.

Source: PitchBook, as of December 31, 2019