CanterburyConsulting

Quarterly Asset Class Report
Private Equity

canterburyconsulting.com

June 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.

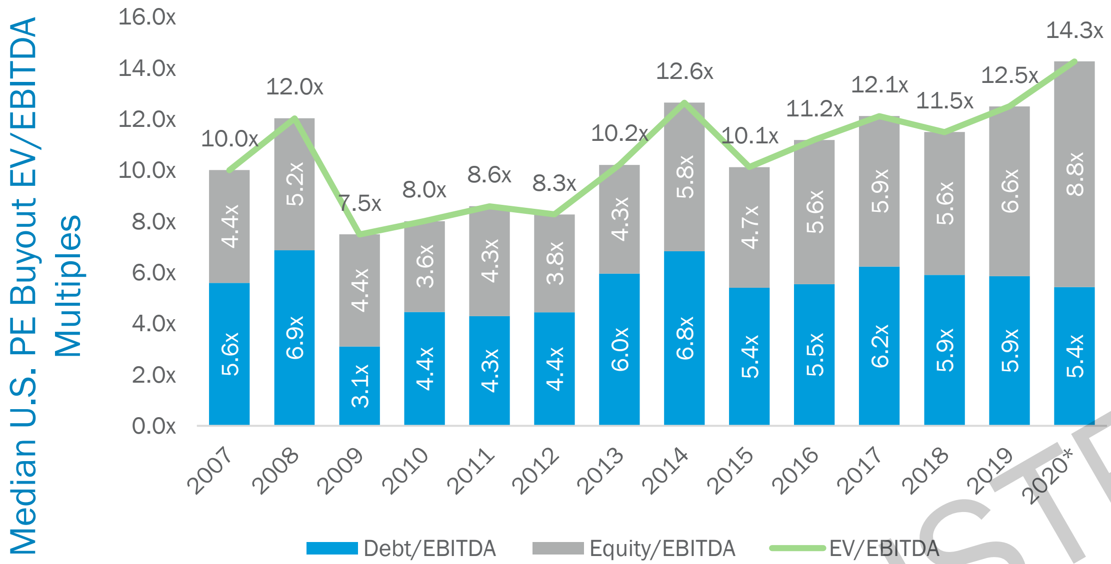
- Strategic: Using various market inputs to form a baseline, we create a recommended portfolio allocation.
- Opportunistic: We combine top-down and bottom-up analysis to achieve excess risk-adjusted returns through market intelligence and superior manager selection.

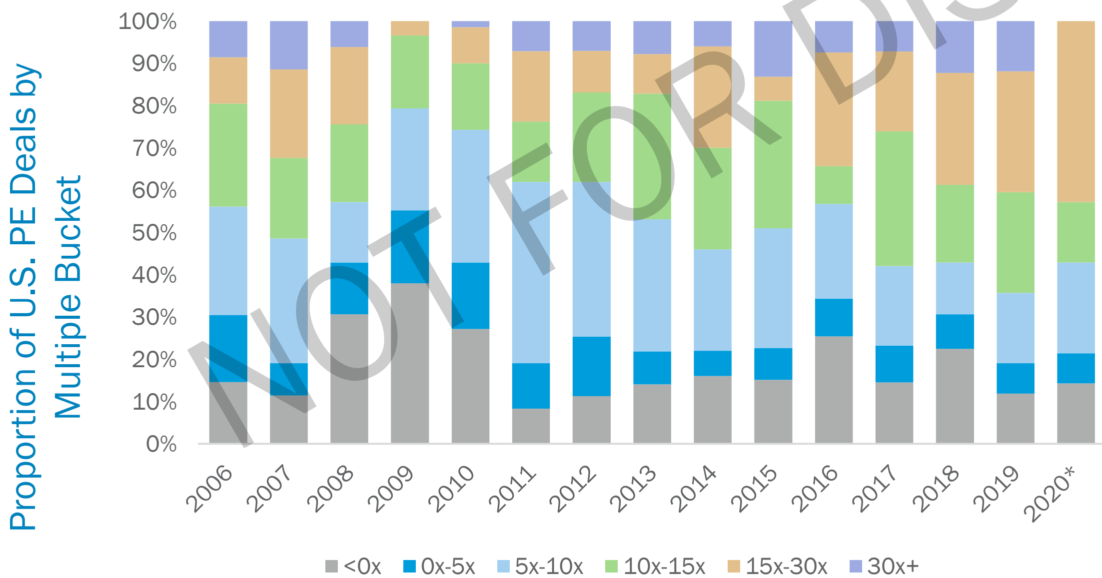
Role	Asset Categories	Risks
Growth	**Public and Private Equity**	**Market Decline**
Capital Preservation	Fixed Income, Hedge Funds	Rising Interest Rates, Highly Correlated Markets
Inflation Protection	Real Assets: Real Estate, Commodities	Deflation

— 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



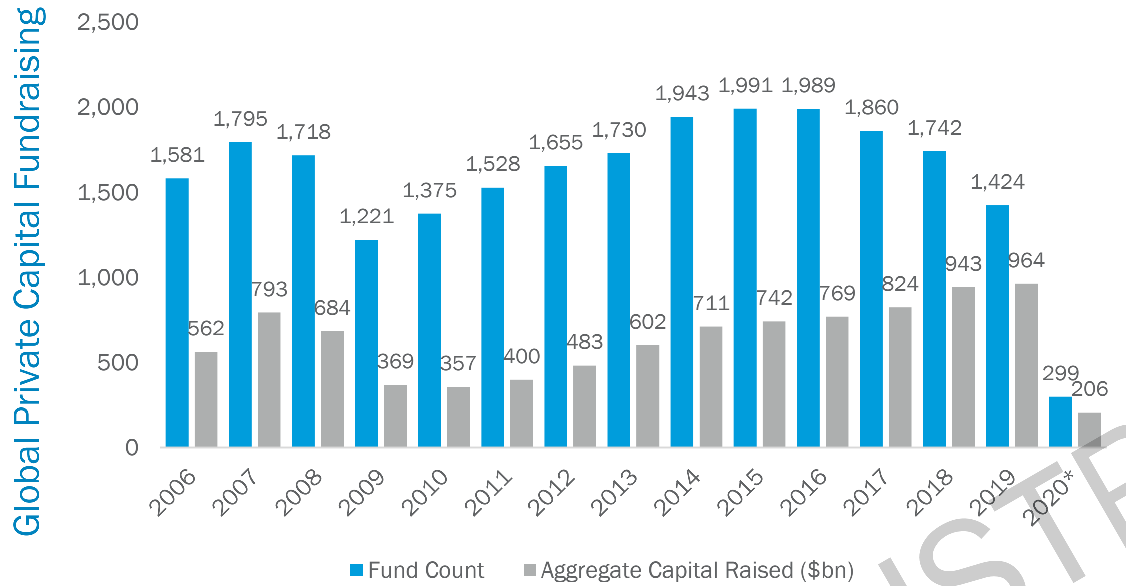


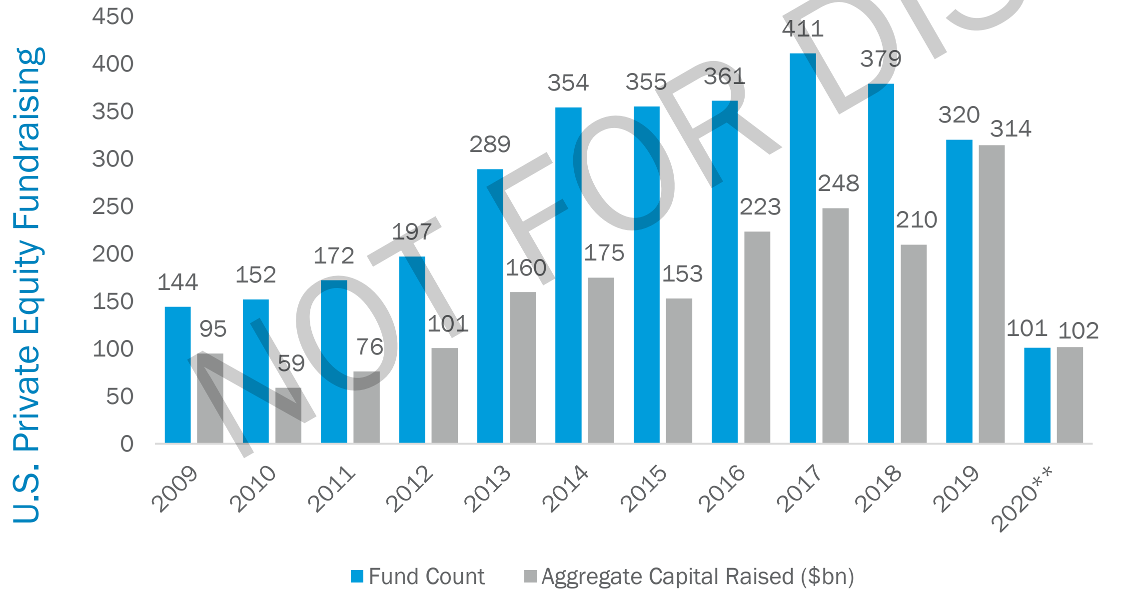
- Despite overall deal volume falling during the quarter relative to Q2 2019, the median U.S. buyout multiple increased to over 14x. This was driven in part by decreased Last Twelve Months (LTM) EBITDA as a result of the COVID-related shutdowns. Additionally, a significant percentage of closed deals were in technology companies, which tend to trade at higher multiples.
- As a result of tighter bank lending standards and firms exercising more fiscal caution, a higher percentage of equity has been used to finance buyout deals.
- Despite the elevated deal multiples, Q2 marks the first full quarter since the COVID-19 pandemic began and should lead to more conservative underwriting forecasts.

Source: PitchBook Q2 2020 U.S. PE Breakdown

** 2020 figures are through June 30, 2020*

Private Equity Fundraising Activity





- Global private capital fundraising activity slowed due to a slower pace of deployment from GPs in existing funds and a temporary reduction of private capital commitments from some LPs due to market uncertainty. While some large and established managers were able to close funds at or above their target size, less established GPs have struggled to reach their target and have had to extend fundraising.
- Of the approximately 100 private equity funds that are fundraising in the U.S. this year, 71% are buyout funds.
- The average buyout fund size is approaching $1.2 billion. Approximately 85% of private equity funds in the U.S. have reported larger fund sizes than their previous fund. Over the last five years, the median fund size step-up has been 1.5x.

Sources: PitchBook Q1 2020 Private Fund Strategies Report and PitchBook Q2 2020 U.S. PE Breakdown.

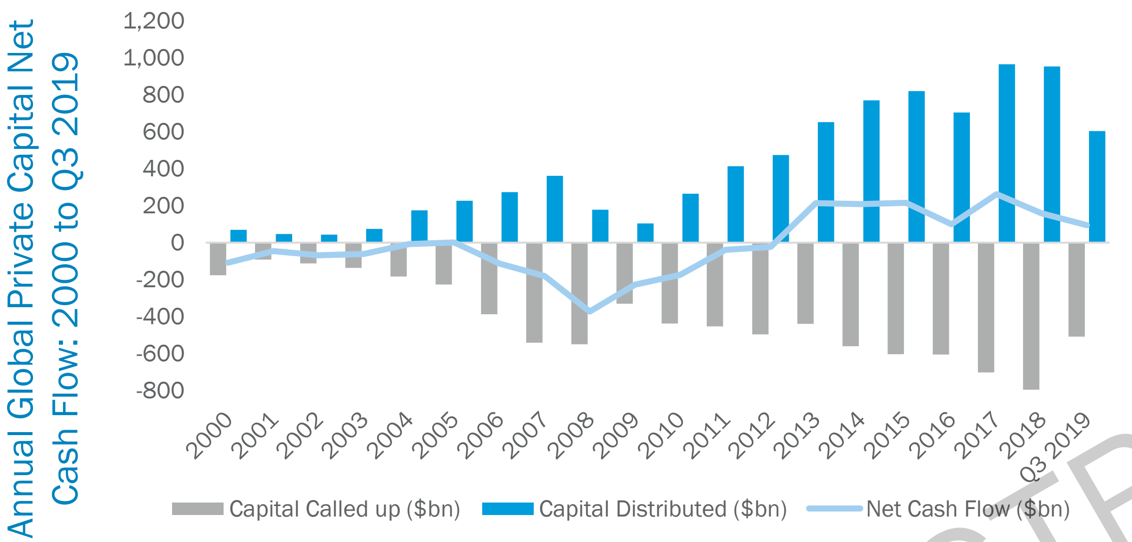
Private equity funds include: buyout, growth/expansion, diversified private equity, mezzanine, secondaries, co-investment, restructuring/turnaround, venture capital, private debt, energy, real estate, and fund of funds.

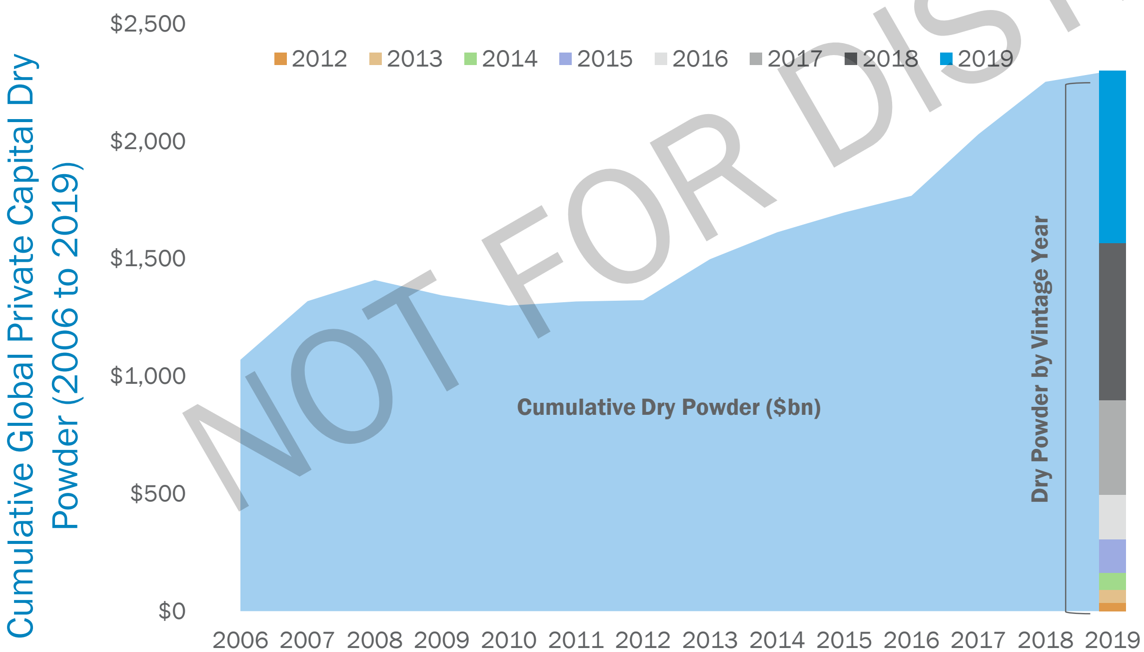
** Global PE Fundraising as of March 31, 2020*

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

Global Private Capital: Performance and Dry Powder

Private Equity

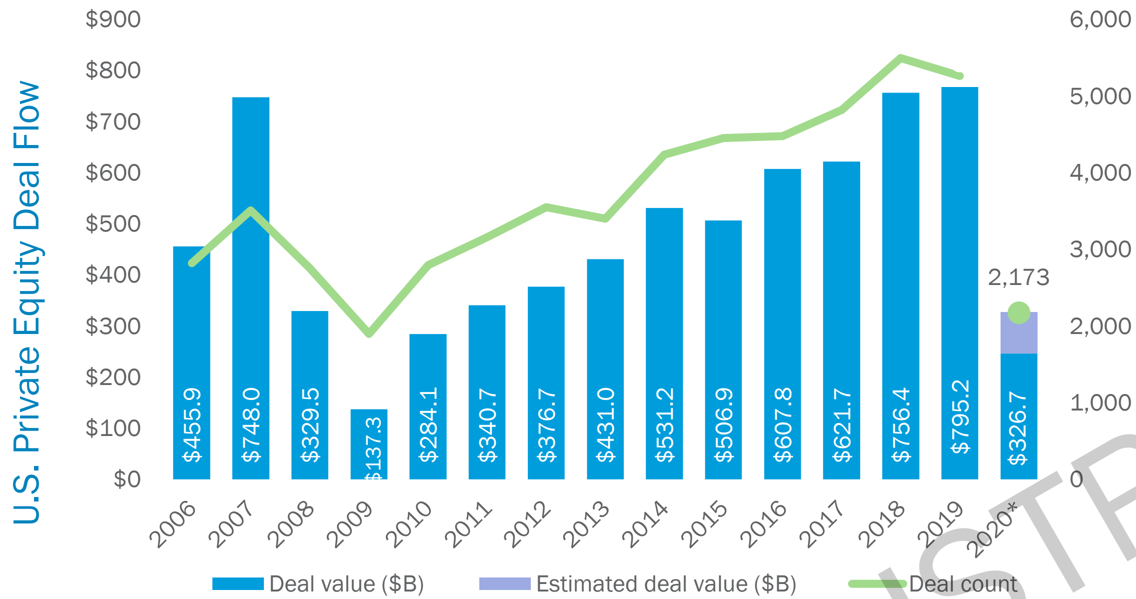


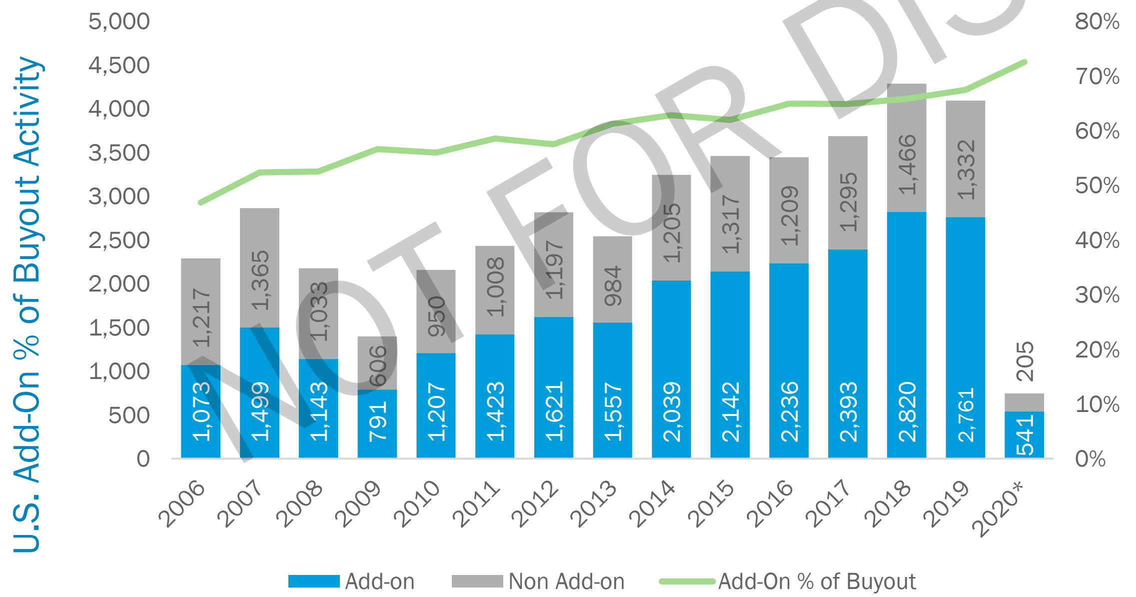


- Through Q3 2019 (the most recent data available), global LPs had received over $600 billion in distributions, compared to $510 billion in capital calls. However, net cash flow has declined since reaching a high in 2017.
- COVID-19 impacted businesses throughout the first half of 2020, which will likely lead to significant impairment and write-downs in certain industries. Global private capital dry powder stood at $2.3 trillion, as of Q3 2019, which could be deployed at attractive entry points relative to recent years if the market continues to be impacted.
- $1.4 trillion, or 61% of dry powder, is from funds raised in 2018 and 2019.

Sources: PitchBook 2020 Global Fund Performance Report as of September 30, 2019; PitchBook Q1 2020 Private Fund Strategies Report as of September 30, 2019

U.S. Private Equity Deal Activity



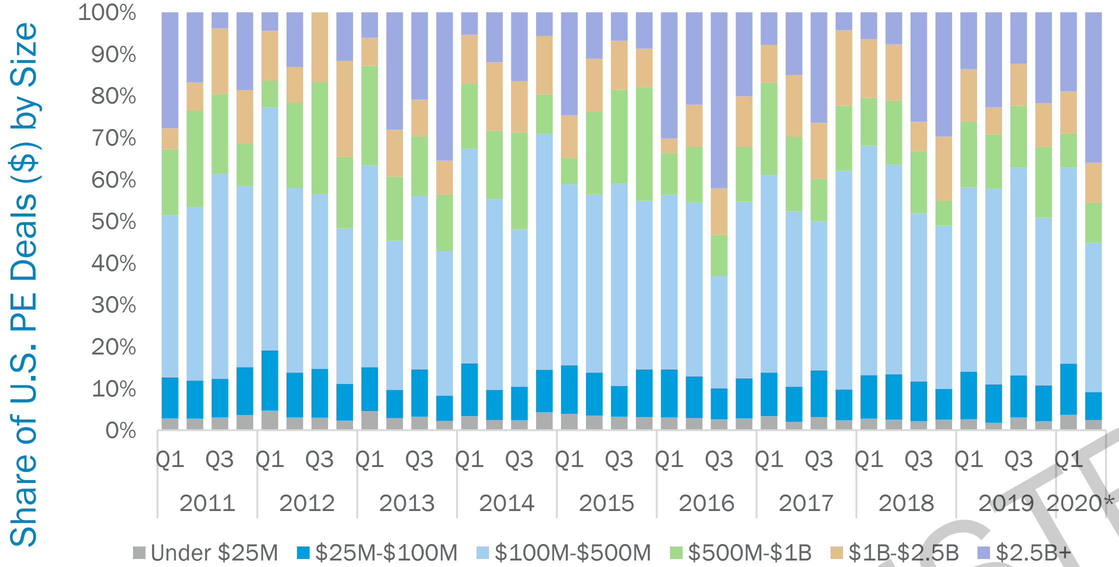


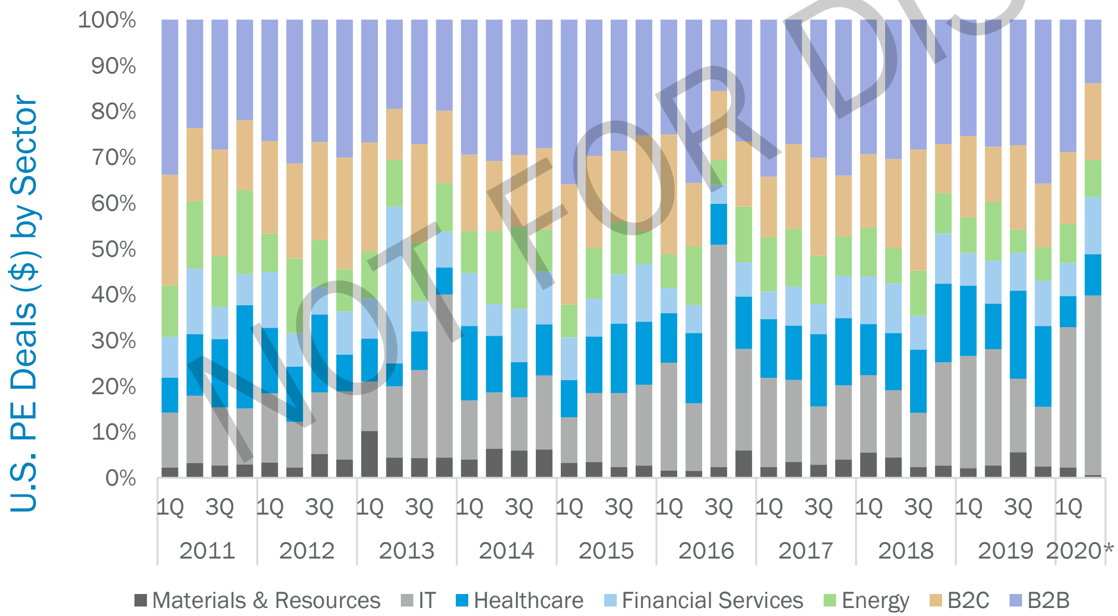
- Through the first half of 2020, U.S. private equity firms closed on 2,173 deals totaling $326.7 billion, which is down 20% compared to the same period in 2019.
- While private investment activity slowed, GPs explored other avenues for deals. An example has been private investments in public equities (PIPEs). Notable PIPE deals that occurred during the quarter include Silver Lake and Apollo's $1.2 billion investment in Expedia, as well as Providence and Ares' $400 million purchase of convertible preferred stock in Outfront Media. Silver Lake also participated in a $3 billion fundraising round for Google's self-driving car unit, Waymo, and a $3 billion round for Airbnb.
- Buyout sponsors have 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 over 70%. Add-on acquisitions can drive efficiencies and blend down the purchase multiple of the platform investment.

Source: PitchBook Q2 2020 U.S. PE Breakdown
** As of June 30, 2020*

U.S. Private Equity Deal Activity

Private Equity





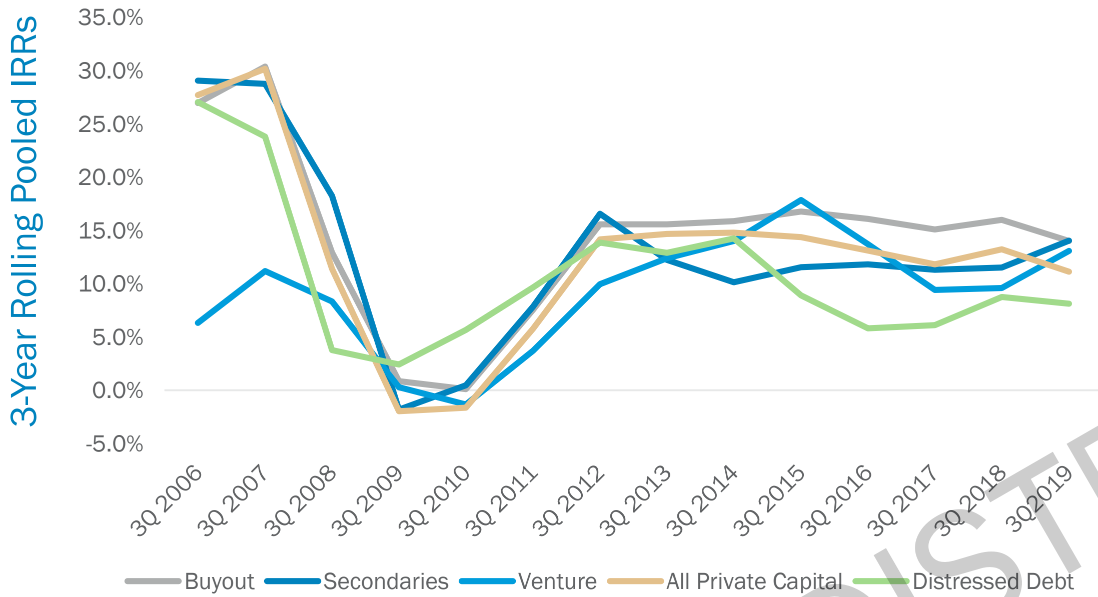
- 55% of total PE deal activity in the U.S. comprised deals valued between $100 million to $1 billion, compared to 66% a year ago. Since reaching a high of $205 million in 2019, the median PE buyout size decreased significantly to $135 million.
- The proportion of PE deals valued at $2.5 billion and higher was the highest since Q3 2016. This was driven by HR management software firms Kronos and Ultimate Software Group merging during the quarter to create an entity valued at $22 billion. Both firms were controlled by Hellman & Friedman and were backed by Blackstone, GIC, and JMI Equity pre-merger. Also during the quarter, JAB Holdings' portfolio company, Compassion-First Pet Hospital, acquired the National Veterinary Association for $5 billion from Ares and OMERS.
- U.S. private equity deals have been skewed toward the technology sector so far in 2020, comprising 39% of overall deal value. Technology companies have been resistant to the negative effects of COVID-19 and remain an attractive opportunity among private equity sponsors.

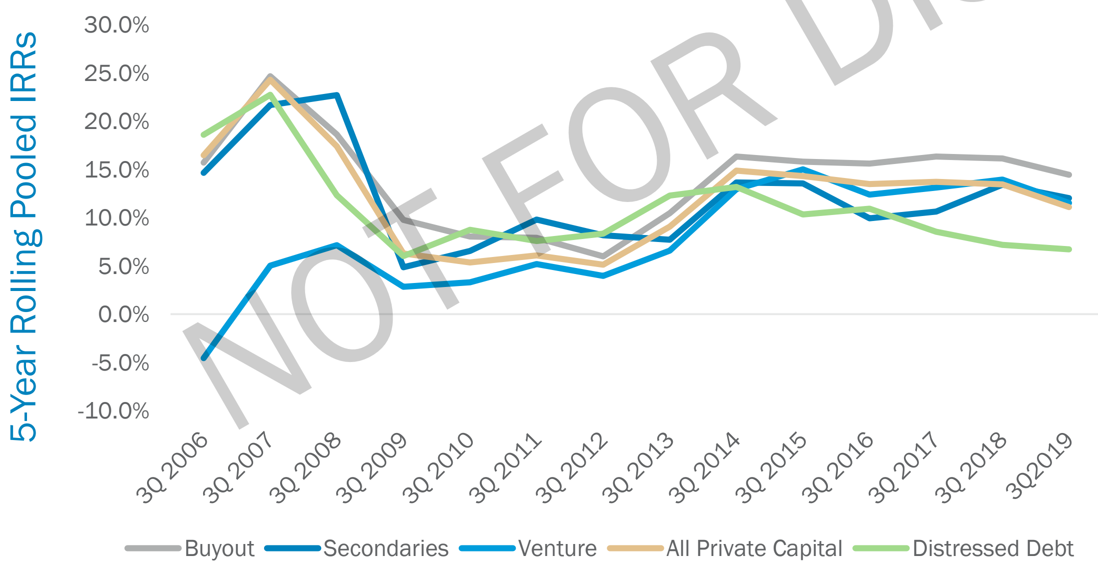
Source: PitchBook Q2 2020 U.S. PE Breakdown

** As of June 30, 2020*

Horizon Performance

Private Equity





- Through Q3 2019, private equity markets have remained stable over the last several years. Traditional buyout funds and secondaries 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 September 30, 2019