



Canterbury Consulting

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## Quarterly Asset Class Report

### Private Equity

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December 31, 2015

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

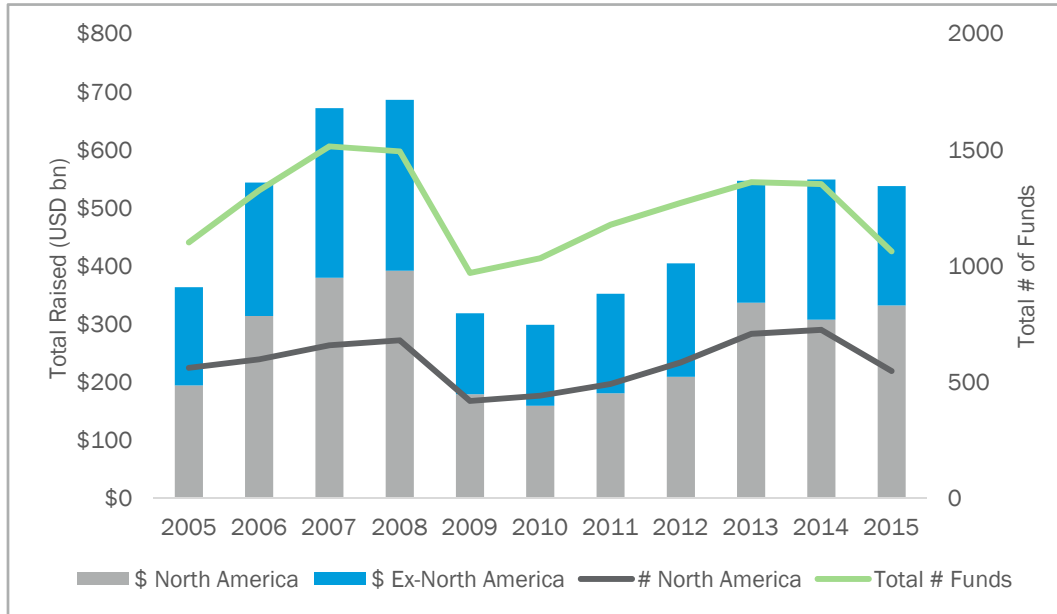
Role	Asset Categories	Risks
Growth	Public and Private Equity	Market Decline
Capital Preservation	Fixed Income, Hedge Funds	Rising Interest Rates, Highly Correlated Markets
Inflation Protection	Real Assets: Real Estate, Commodities	Deflation

- 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

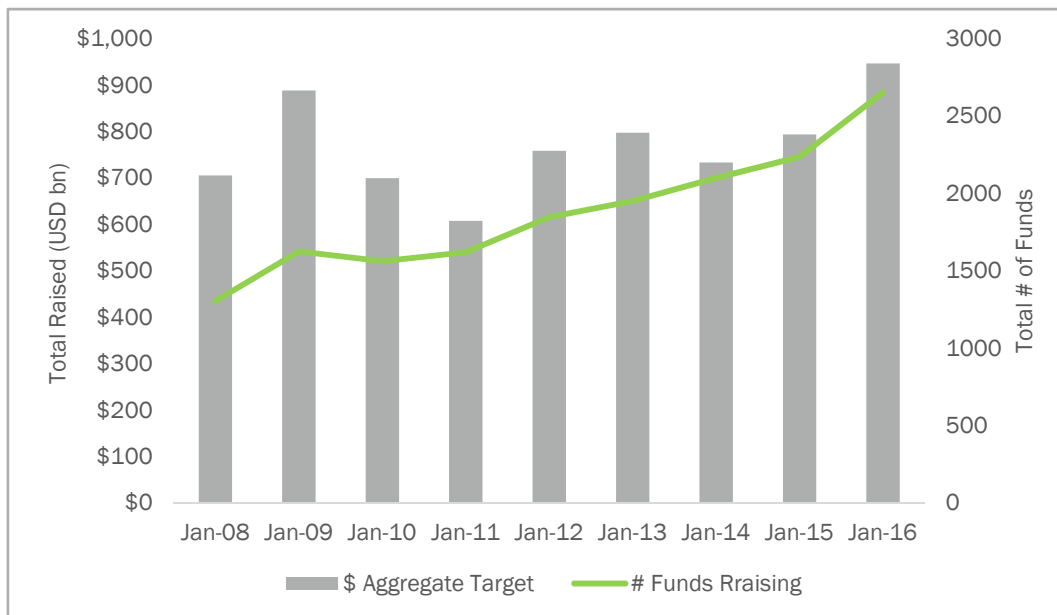
# Fundraising Overview

## Private Equity

### Global Fundraising



### Funds in Market



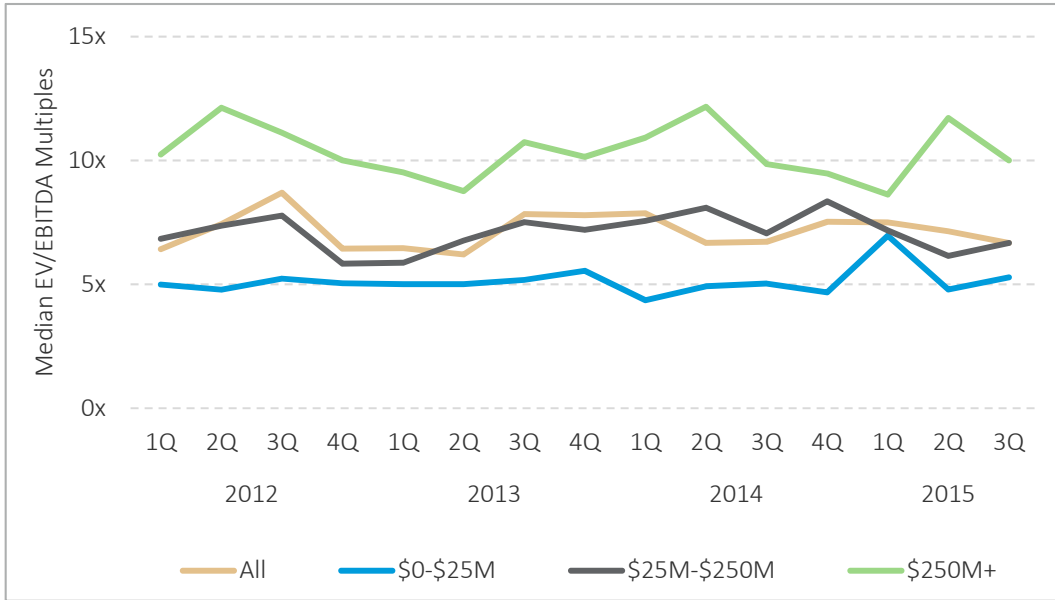
- Based on 4Q 2015 activity, global fundraising levels have dropped off slightly in 2015 relative to the previous two years
- As discussed in previous quarters, the trend of fewer funds raising larger amounts of capital persists
  - In 2015, the average fund size based on global fundraising totals was US\$559 million, vs. US\$465 million in 2014
  - This represents the highest average fund size in the past 15 years
- Based on the estimate of funds in market, fundraising will likely remain competitive in the first half of 2016

Source: Preqin, reported as of January 2016

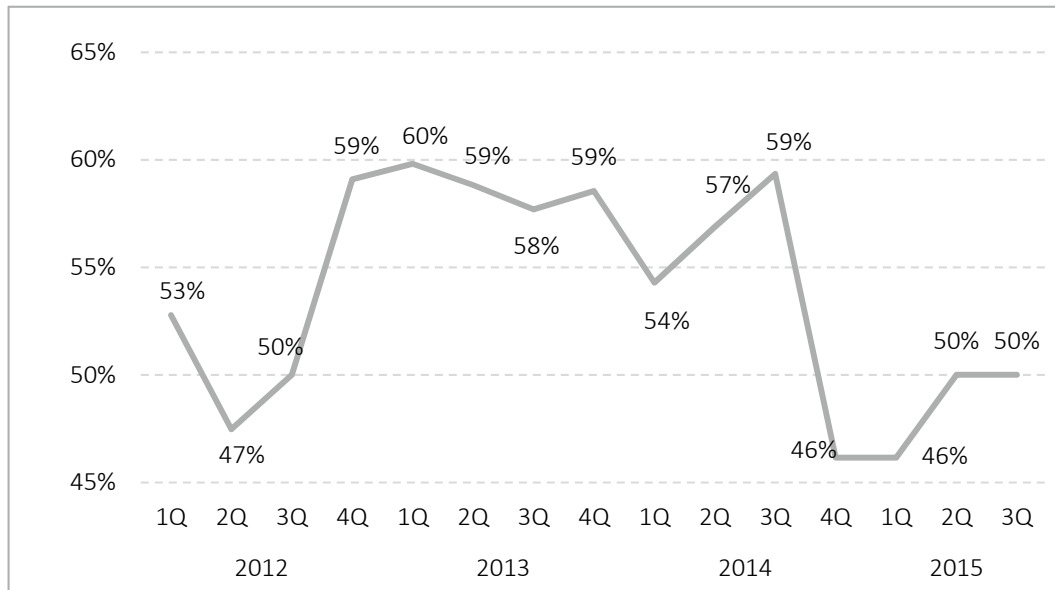
# Deal Activity

## Private Equity

Median EBITDA Multiples by EV



Median Debt % of Total Value



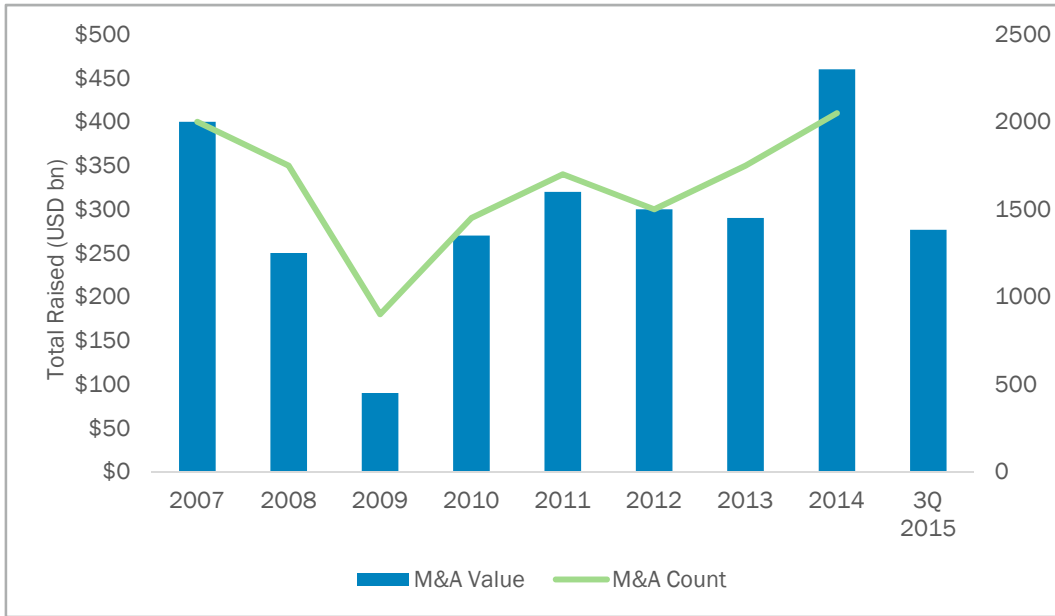
- A review of deal activity through 3Q 2015 indicates that valuation multiples are trending downward after peaking in 2014
- Amid concerns around corporate debt and leverage in existing PE-backed companies, median debt as a percentage of total transaction value has declined in recent quarters as well

Source: Pitchbook

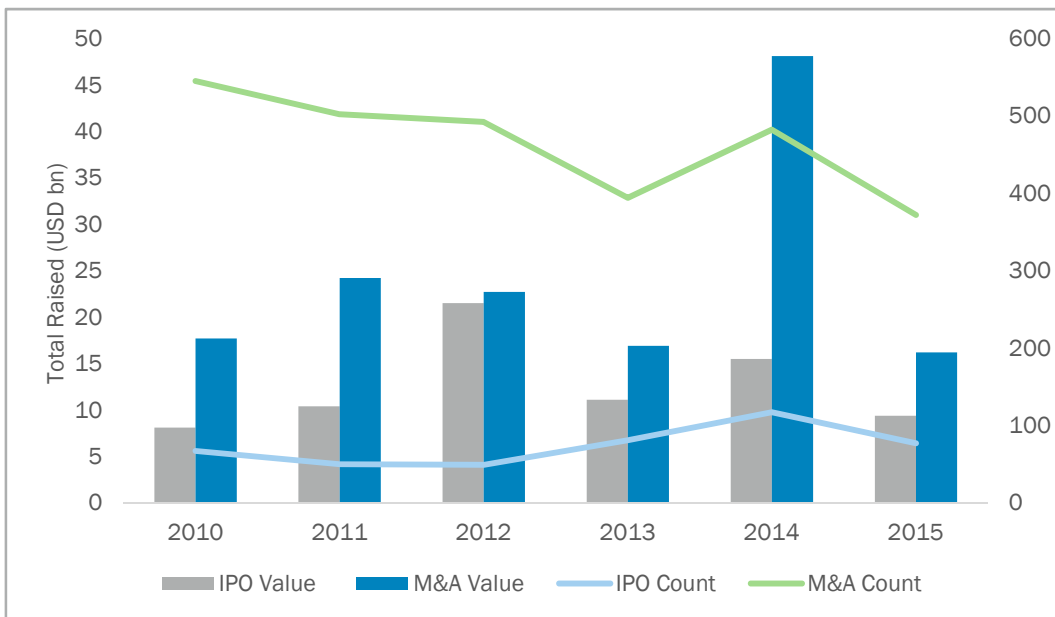
# Exit Activity

## Private Equity

### Private Equity-Backed



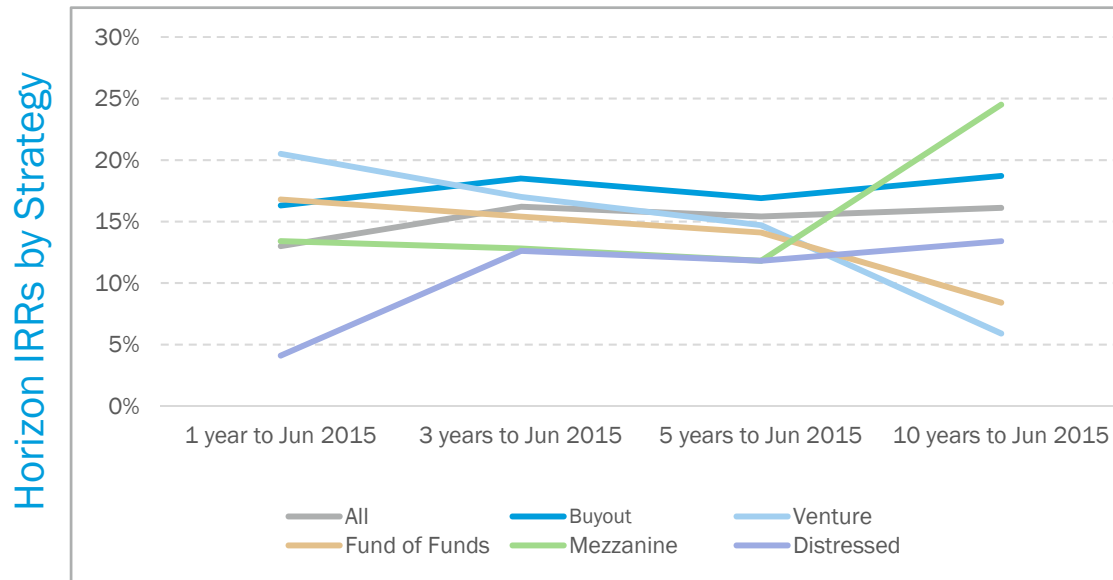
### Venture-Backed



- After a banner year in 2014, global private equity-backed M&A activity has slowed in 2015 due to market uncertainty
  - Total M&A volumes through 3Q 2015 have declined approximately 2.3% percent over same time period in 2014
- M&A and IPO volumes for venture-backed companies through 4Q 2015 have declined to 2013 levels
- While the increase in volatility and uncertainty may impact future exit activity, it will also provide attractive opportunities to deploy capital

Source: NVCA, MergerMarket (based on disclosed M&A values)

## Horizon Performance



## Private Equity

- Although short-term performance is not meaningful in private equity, it is evident all strategies benefited from the “rising tide” of valuations seen over the past year
  - Buyout performance has been strong over the long term, while venture has benefited from the current valuation environment
  - Given market strength of the past few years, distressed strategies have underperformed on a relative basis in the short-term

Source: Preqin, reported as of October 2015