CanterburyConsulting

Quarterly Asset Class Report
Private Capital

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June 30, 2023

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 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 target excess risk-adjusted returns through market intelligence and superior manager selection.

Role	Asset Categories	Risks
Growth	**Public Equity and Private Capital**	**Market Decline**
Capital Preservation	Private Credit, 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 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 the constant evolution of the opportunity set, investors in private capital can commit consistently across cycles and avoid “market timing” to generate returns.

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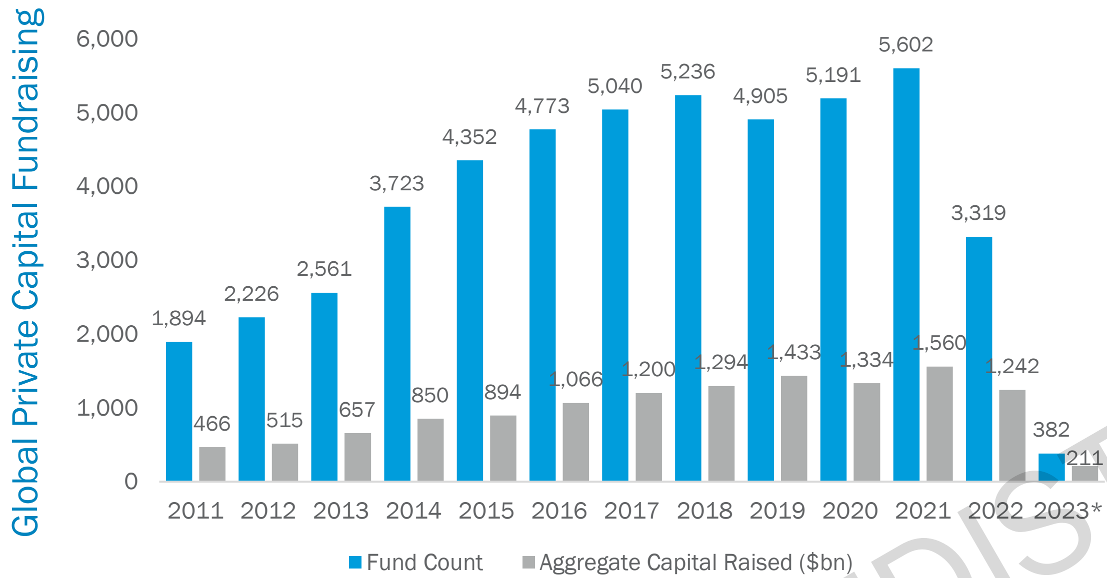
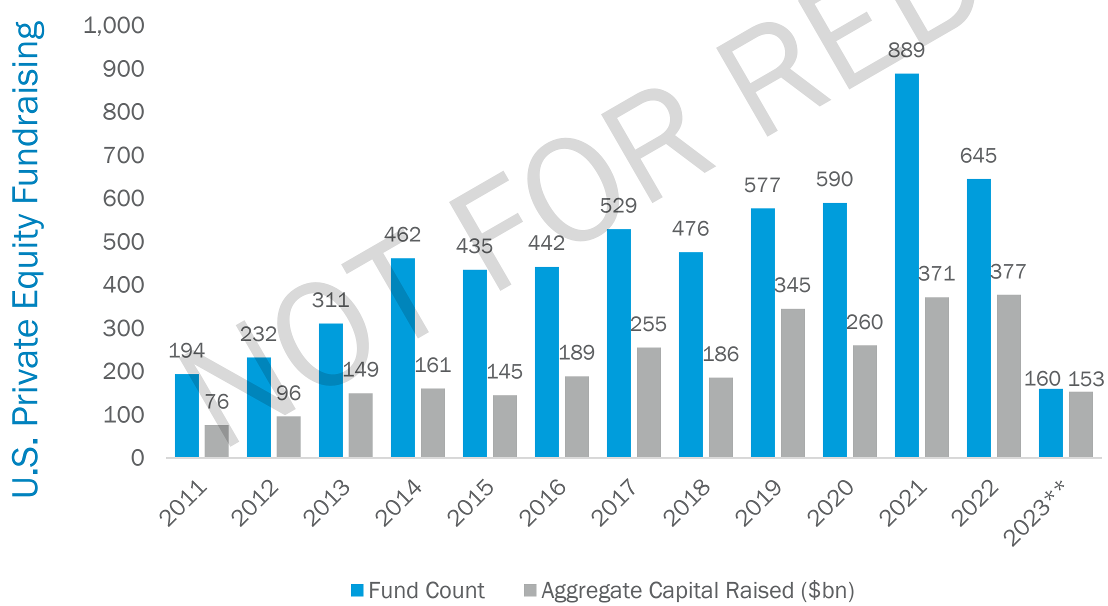
Private Equity Fundraising Activity





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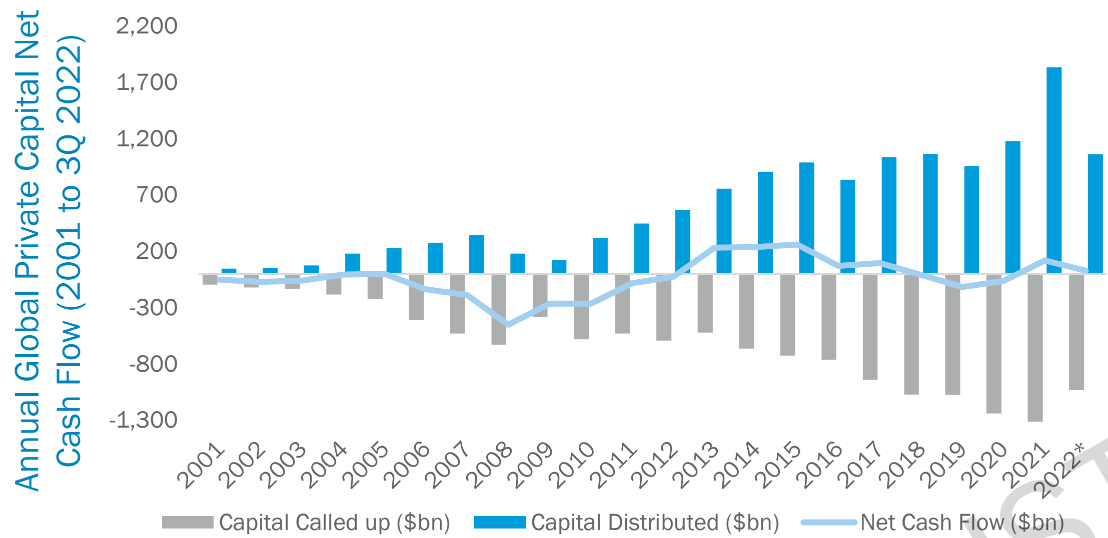
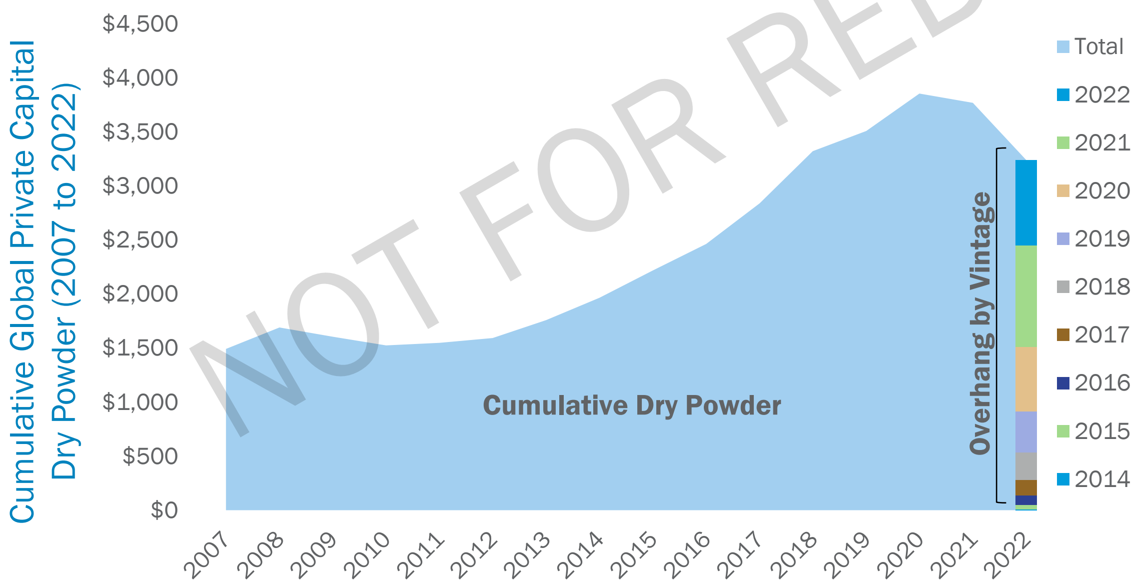
- Through the first quarter of 2023, global private capital funds raised just over $200 billion across 382 private capital funds. This is well below the pace of the $1.3 trillion that was raised in Q1 2022.
- 74.8% of private capital funds raised globally were larger than their prior funds, which is slightly below what was observed in 2022. However, the median step-up has significantly come down, currently at 43.8% versus 55.6% in 2022.
- Capital raised in Asia has continued to fall since reaching its high point in 2018, where it represented nearly one-third of global private capital raised. That share has since fallen to 11.2% in 2022 and 8.2% thus far in 2023. Europe has also experienced fundraising challenges with this region only accounting for 16.2% of fundraising in 2022 and 17.5% in 2023. This is compared to a 10-year average of around 20-25%
- Global venture capital fundraising remains challenged, having raised only $29.5 billion through the end of Q1 2023. This represents a 72% drop from the first quarter of 2022.
- Thus far in the U.S., a total of $153 billion was raised across 160 private equity funds. U.S.-based GPs are expecting to extend fundraises in response to LPs reaching allocations or needing to cut back allocations in response to the “denominator effect”.

Sources: PitchBook Q1 2023 Global Private Markets Fundraising Report; PitchBook Q2 2023 U.S. PE Breakdown.
Note: Private equity funds comprise buyout, growth/expansion, diversified private equity, mezzanine, secondaries, co-investment, restructuring/turnaround, capital, and private debt.
**Global Private Capital Fundraising as of March 31, 2023*
***U.S. Private Equity Fundraising as of June 30, 2023*

Global Private Capital: Performance and Dry Powder





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- Through Q3 2022, global private capital net cash flows are slightly positive at $25.6 billion. However, as GPs extend exit timelines beyond their underwritten estimates, as a result of the higher cost of debt and uncertain macroeconomic environment, LP net cash flows may drop back into negative territory.
- Venture capital continues to experience a challenging exit environment with fewer public market exits. As of the end of Q3 2022, total venture capital net cash flows amount to negative $80.2 billion. Private debt experienced a negative $17.7 billion net cash flow through Q3 2022, which reflects the higher level of contributions to this strategy relative to distributions as more LPs are contributing capital into private debt.
- As of the end of 2022, global private capital dry powder stood at over $3.2 trillion, a 13% decrease from the $3.7 trillion at the end of 2020. GPs have been deploying more capital relative to the fund commitments being raised.

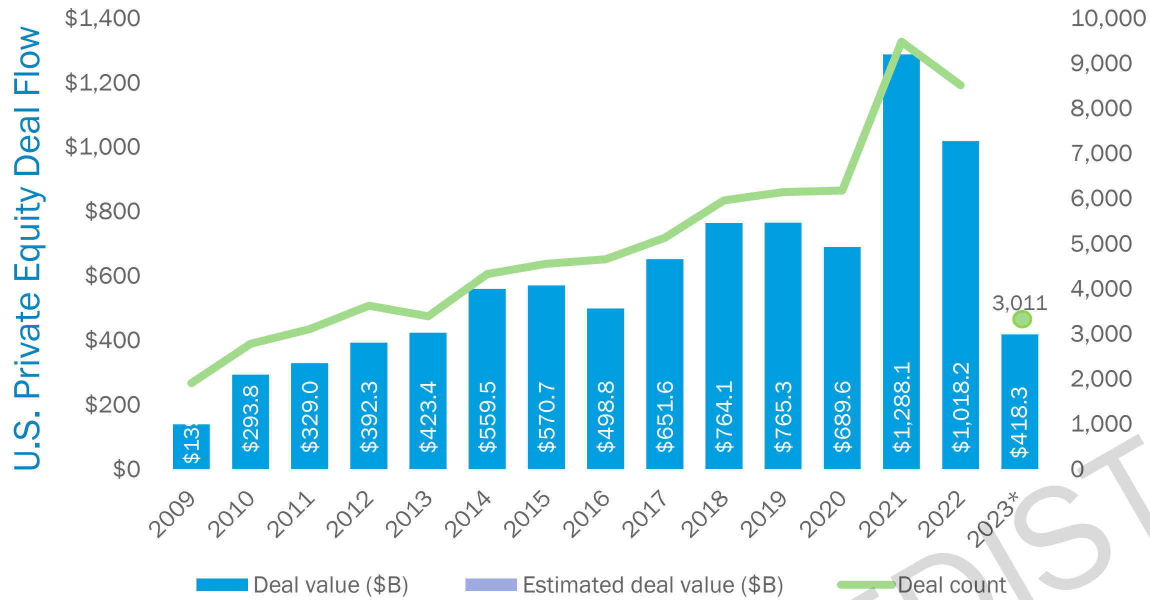
Sources: PitchBook 2022 Global Fund Performance Report; PitchBook 2022 Global Private Market Fundraising Report

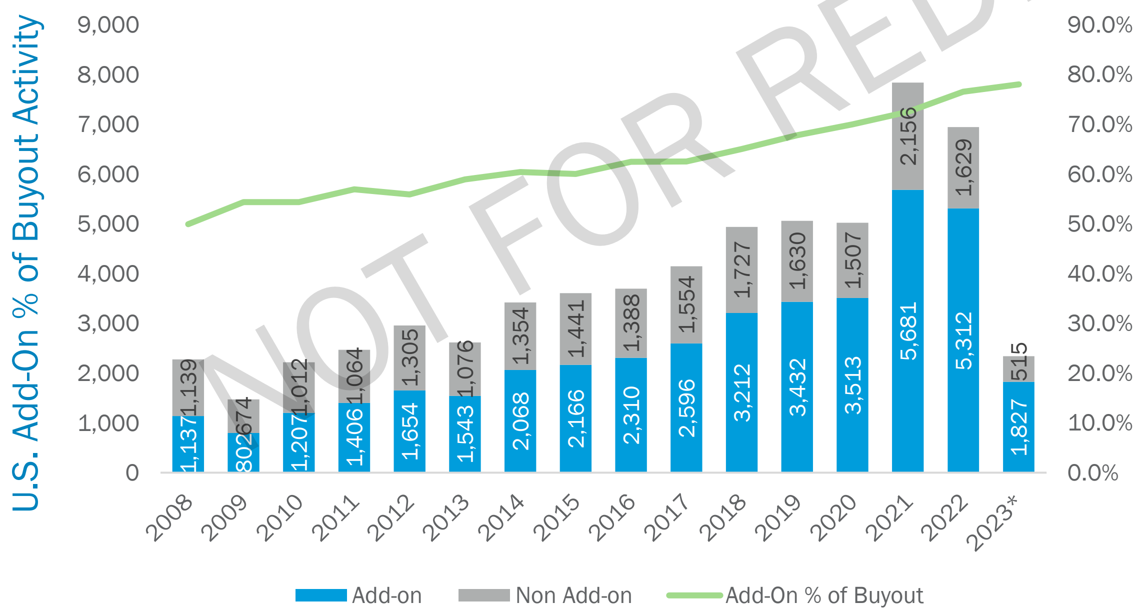
Note: Private equity funds comprise buyout, growth/expansion, diversified private equity, mezzanine, secondaries, co-investment, restructuring/turnaround, capital, and private debt.

**As of September 30, 2022*

U.S. Private Equity Deal Activity

Private Capital





- Through the second quarter of 2023, $418.3 billion was transacted on across 3,011 deals. Deal activity overall has declined in four of the last six quarters. Since peaking in Q4 2021, quarterly deal count is down 24% while deal value is down 49.2%.
- Through the second quarter, there were 31 deals that were valued at $1 billion or greater which significantly lags the historical trend. Sponsors are hampered by the higher cost of debt which is making it difficult for larger deals to be financed without additional equity.
- In Q2 2023, carveout deals made up 7.8% of all U.S. private equity deals, the highest in recent quarters. As a percentage of buyout deals, carveouts represented 10.3% of year-to-date deal volume, The largest carveout deal in the quarter was Baxter International's divestment of its BioPharma Solutions business, which was acquired by Advent International and Warburg Pincus for $4.25 billion.
- As a percentage of total deal volume, add-on transactions accounted for 78% of total buyout activity. This trend has remained consistent over the last decade, with the buy and build approach favored by GPs as a mechanism to blend down overall purchase multiples. GPs also find it easier to obtain debt financing for add-ons due to their size relative to platform investments.

Source: PitchBook Q2 2023 U.S. PE Breakdown
**As of June 30, 2023*

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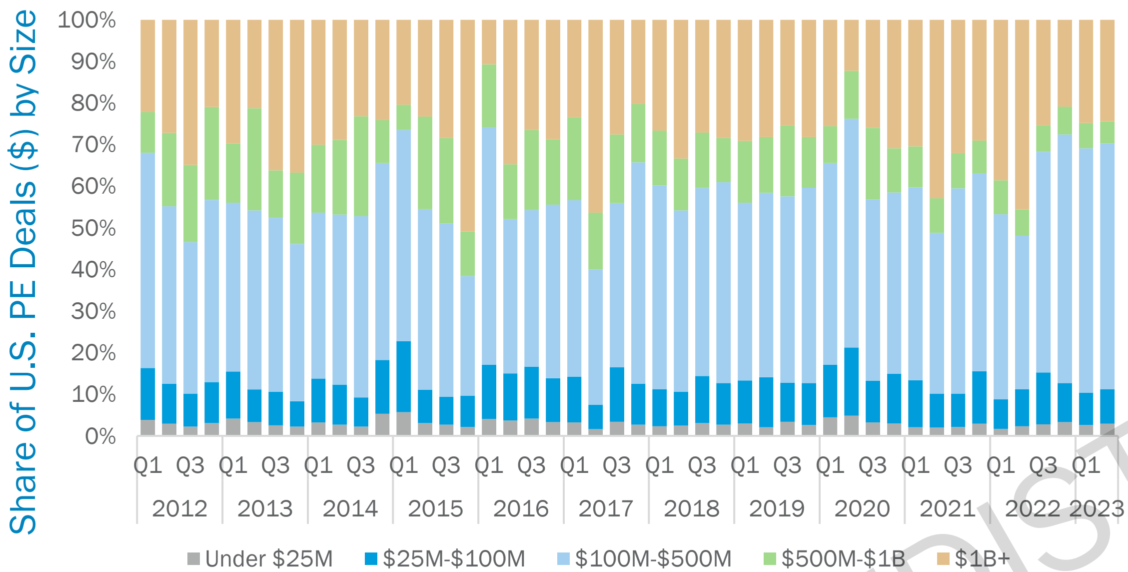
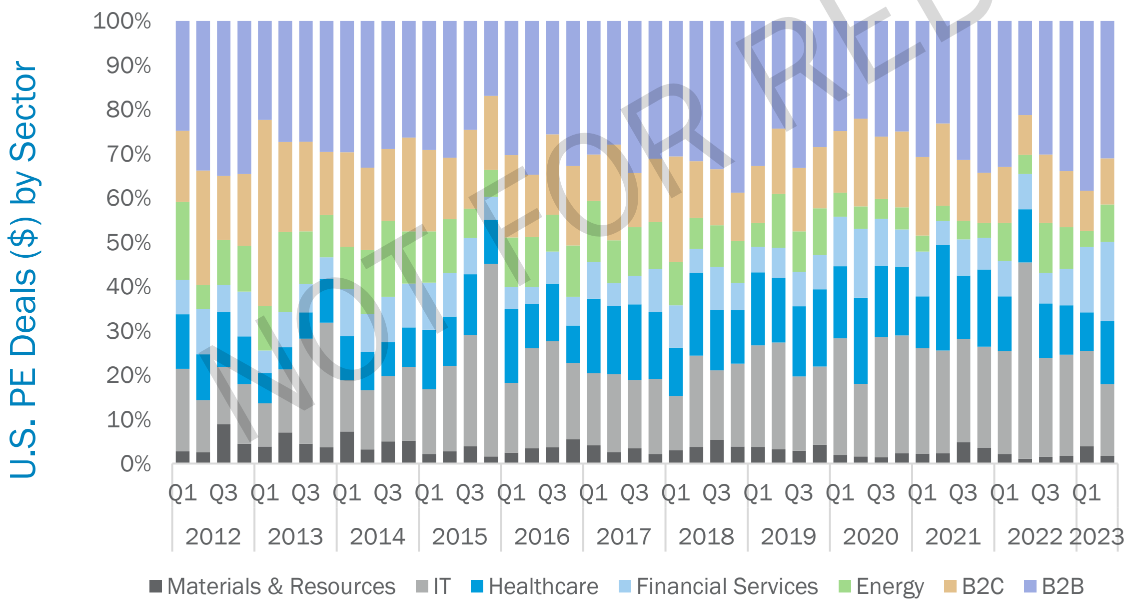
U.S. Private Equity Deal Activity

Private Capital





- The share of deals valued at $1 billion+ stood at 24% through Q2 2023, consistent with the prior quarter. Deals valued at $100 million to $500 million comprised 59% of PE deals over the quarter.
- To date in 2023, 44.7% of private equity deal value in the U.S. has been within the business services sector, and this has remained consistent over the last decade.
- Technology sector deals slowed in Q2 2023, followed by an active Q1 that saw six software take-private deals announced, totaling $23.5 billion. To date, tech deal activity totaled 700, equating to $80 billion.

Source: PitchBook Q2 2023 U.S. PE Breakdown

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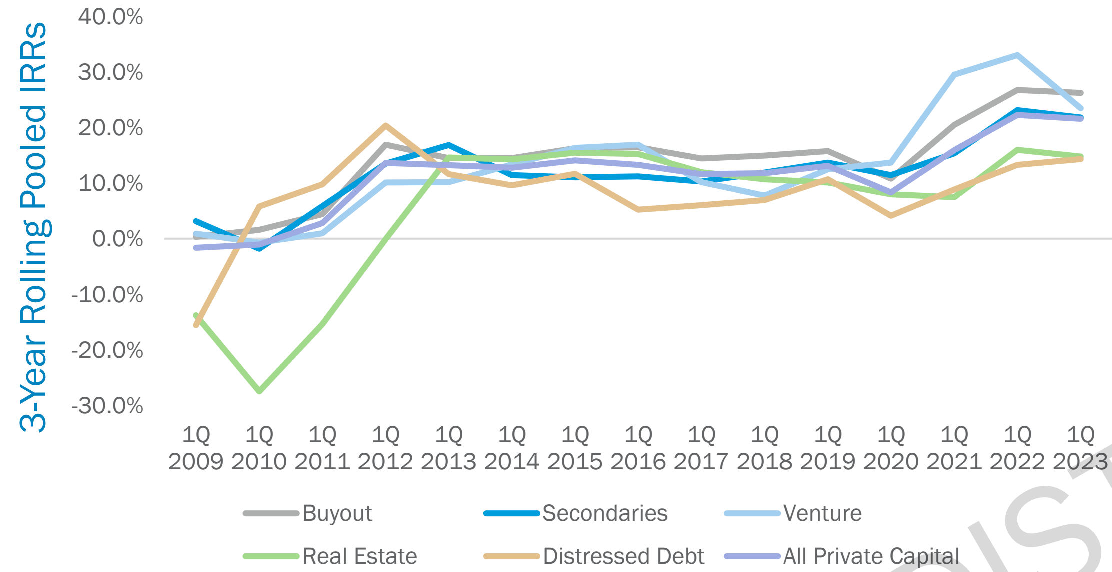

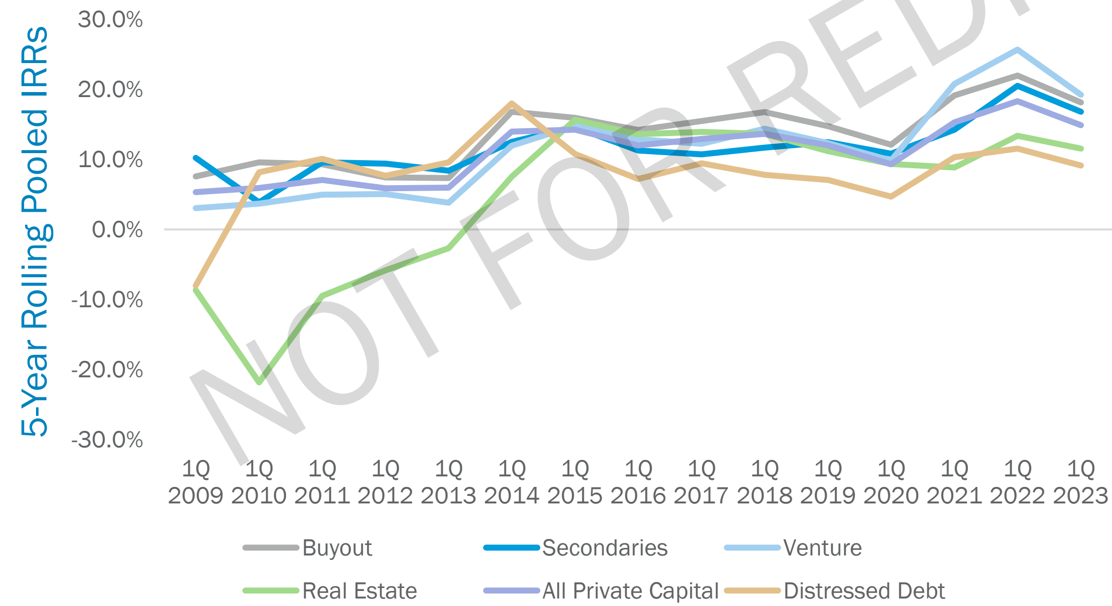

- From Q1 2022 to Q1 2023, private capital strategies exhibited mixed performance on a three-year rolling return basis. Buyout, secondaries, and real estate remained relatively flat, with distressed debt posting a gain. Venture capital experienced a dramatic drop in performance as venture firms are struggling to create exit opportunities and are making material write downs to their existing portfolio holdings.
- On a five-year rolling basis, returns for all private capital strategies are down over the last year. Real estate, which exhibited a positive return profile from 9/30/2021 to 9/30/2022, now exhibits a negative return profile as the impact of increased interest rates and asset owners struggling to recapitalize their existing properties have adversely impacted valuations and returns.

Source: PitchBook, as of March 31, 2023
Note: Real estate consists of value-add and opportunistic funds only.

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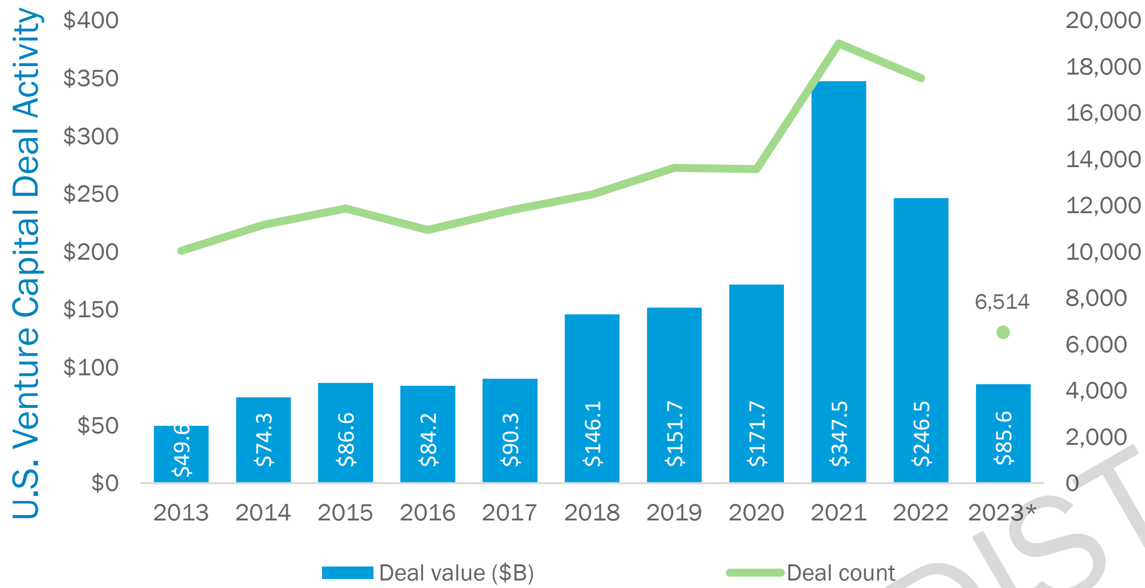
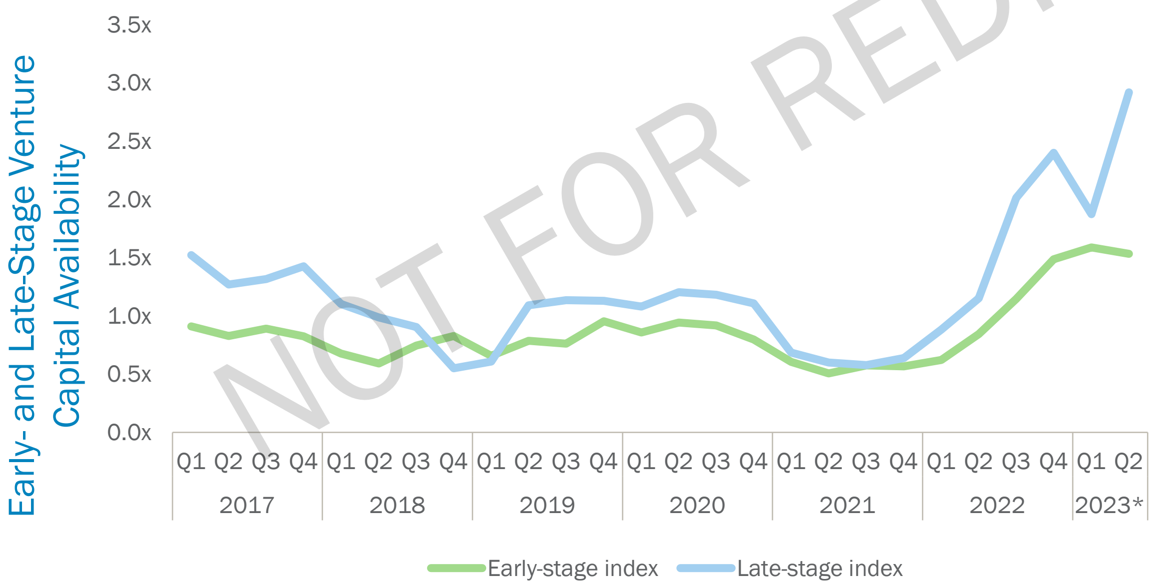
Quarterly Spotlight: U.S. Venture Capital Activity





- U.S. venture capital deal activity has slowed down dramatically to start the year. As of Q2, there was $85.6 billion in total deal value across more than 6,500 transactions. This is on pace to be the lowest level of deal activity since 2016.
- Down rounds have finally begun to appear in the data, with 14.2% of completed financings in Q2 at a lower valuation than the previous round.
- A record-breaking number of companies obtained financing during 2021 and 2022 when valuations were frothy, and liquidity was widely available. As these conditions have dried up, these same companies have had to flip their business models from “grow at all costs” to “survive at all costs” by cutting costs, laying off staff, and optimizing for profitability.
- The venture ecosystem has ballooned over the last decade and as markets have retrenched over the last several quarters, competition for capital has heightened. The supply and demand imbalance is particularly acute within late-stage rounds where demand for capital exceeds supply by a factor of nearly three.

Source: PitchBook Q2 2023 NVCA Venture Monitor
**As of June 30, 2023*

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