



Canterbury Consulting

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Quarterly Asset Class Report

Private Equity

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Quarter Ending June 30, 2017

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.

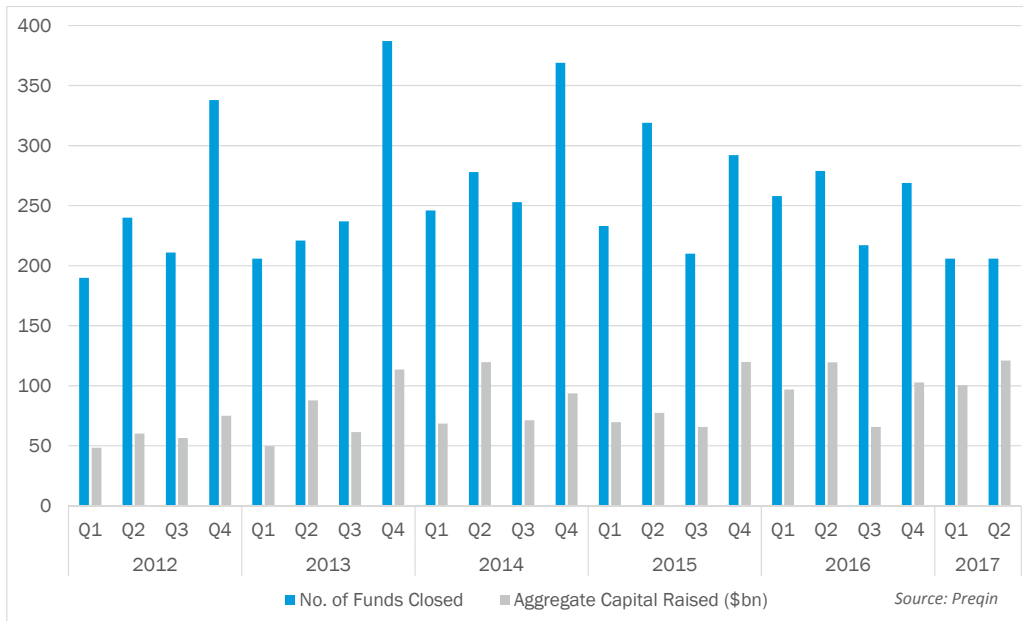
Role	Asset Categories	Risks
Growth	Public and Private Equity	Market Decline
Capital Preservation	Fixed Income, Hedge Funds	Rising Interest Rates, Highly Correlated Markets
Inflation Protection	Real Assets: Real Estate, Commodities	Deflation

- 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.

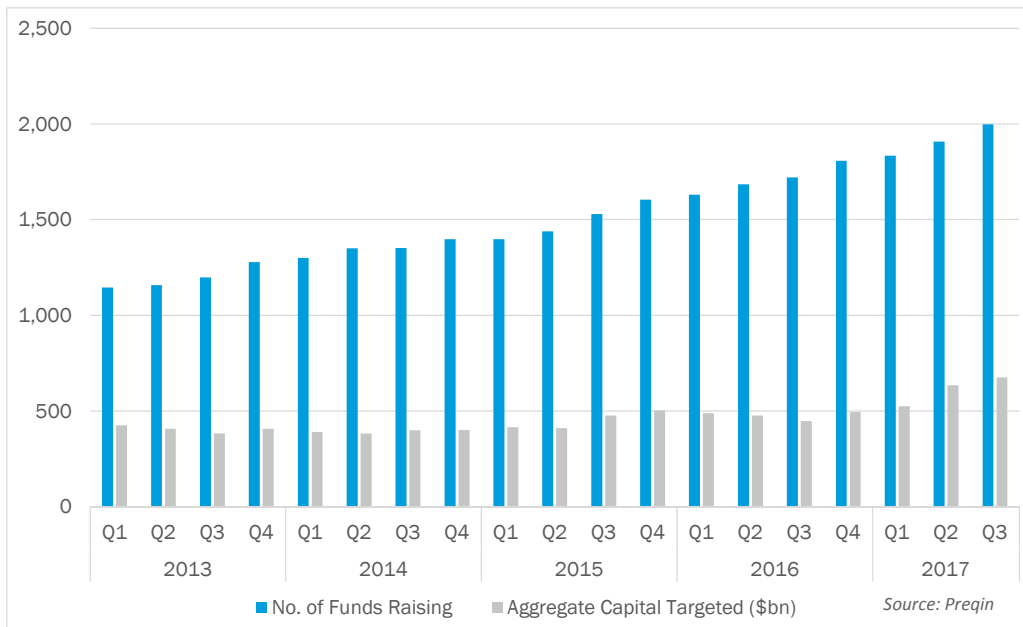
Private Equity Fundraising Overview

Private Equity

Global PE Fundraising



Global PE Funds in Market

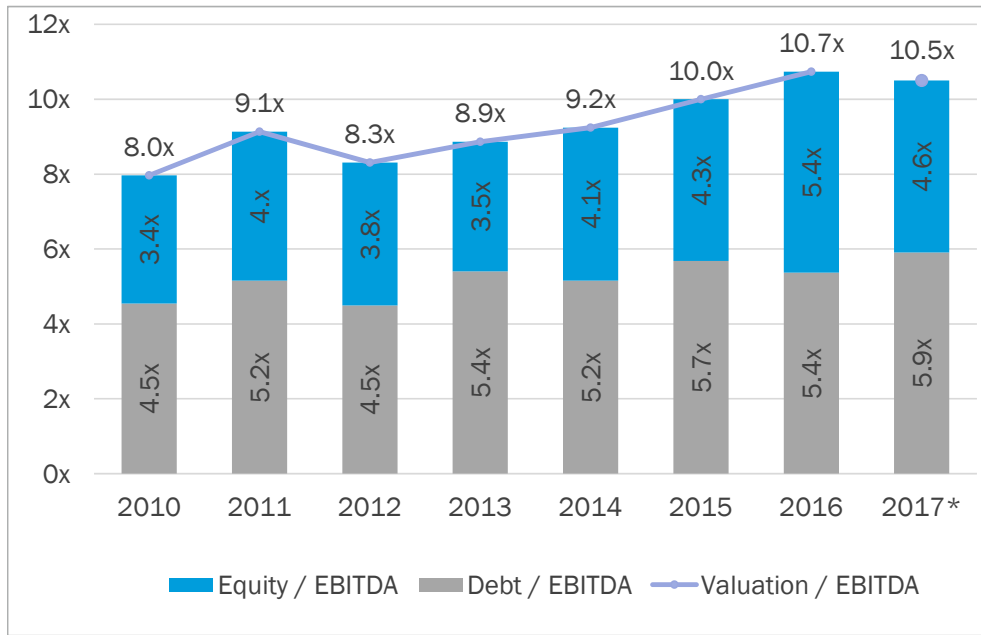


- Private equity funds closed on approximately \$89 billion during Q1 2017, roughly the same amount raised in Q1 a year earlier.
- The five largest funds closed during the quarter were all buyouts funds. Together, these funds closed on 43% of the total private equity raised during the quarter.
- While figures are still being gathered, it is very likely that PE distributions paid out in 2016 broke the 2015 record of \$472 billion. LPs seeking growth are channeling these dollars back into PE, creating record demand for the asset class.
- Funds in market reached a new high at the end of Q1, though the total amount of capital targeted was just shy of the record \$447B seen in Q4 2015.
- North America remains the most sought after region for LP dollars. Approximately half of targeted PE dollars are for U.S. funds, while Asia represents approximately 20% and Europe 16%.

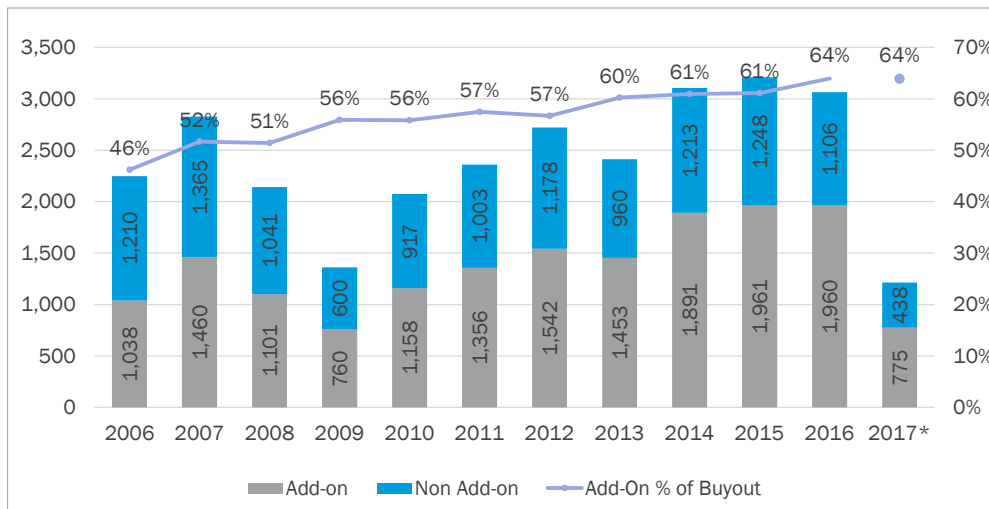
Source: Preqin, reported as of July 2017

Deal Activity

U.S. M&A Value Multiples



US Add-On % of Buyout Activity



Private Equity

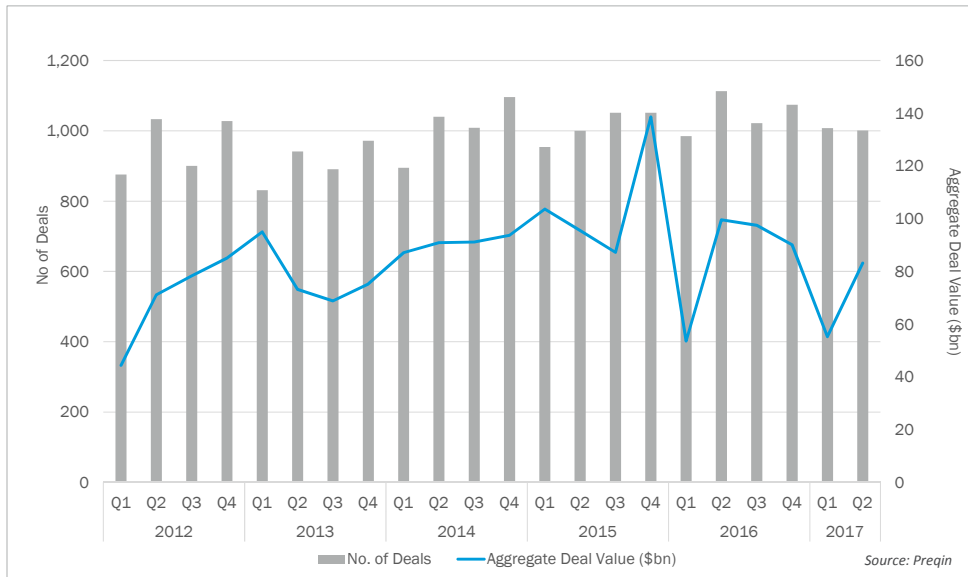
- Valuation multiples continued to climb to record highs at the start of 2017, exceeding the levels experienced at the peak of the last private equity cycle in 2007.
- Factors contributing to increasingly high deal multiples include: cheap debt financing, record capital (dry powder) chasing deals, and more deals in IT businesses, which usually carry higher multiples.
- S&P 500 companies held more than \$1.5 trillion in cash at the end of 2016, the highest level in more than a decade. Limited organic growth prospects for these companies and ample cash reserves have led to a strong strategic acquisition market, helping support historically high valuations.
- Add-ons continue to make up a larger share of acquisitions as PE firms look to bring down their blended acquisition purchase multiples by bolting on smaller companies trading at lower valuations.

Source: PitchBook PE Breakdown 2Q 2017
 *2017 figures are through 6/30/2017

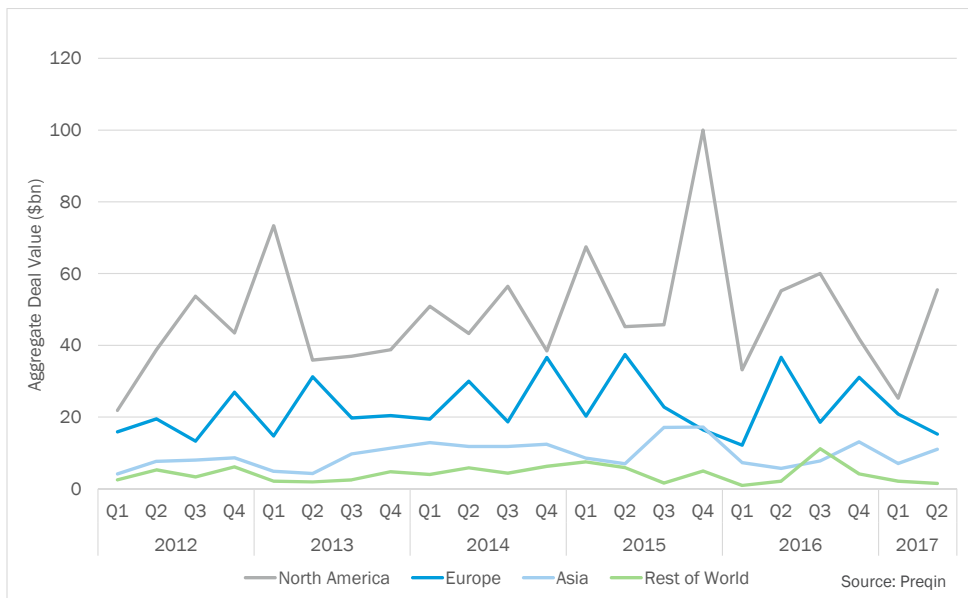
Deal Activity

Private Equity

PE Buyout Deals



Buyout Deals by Region



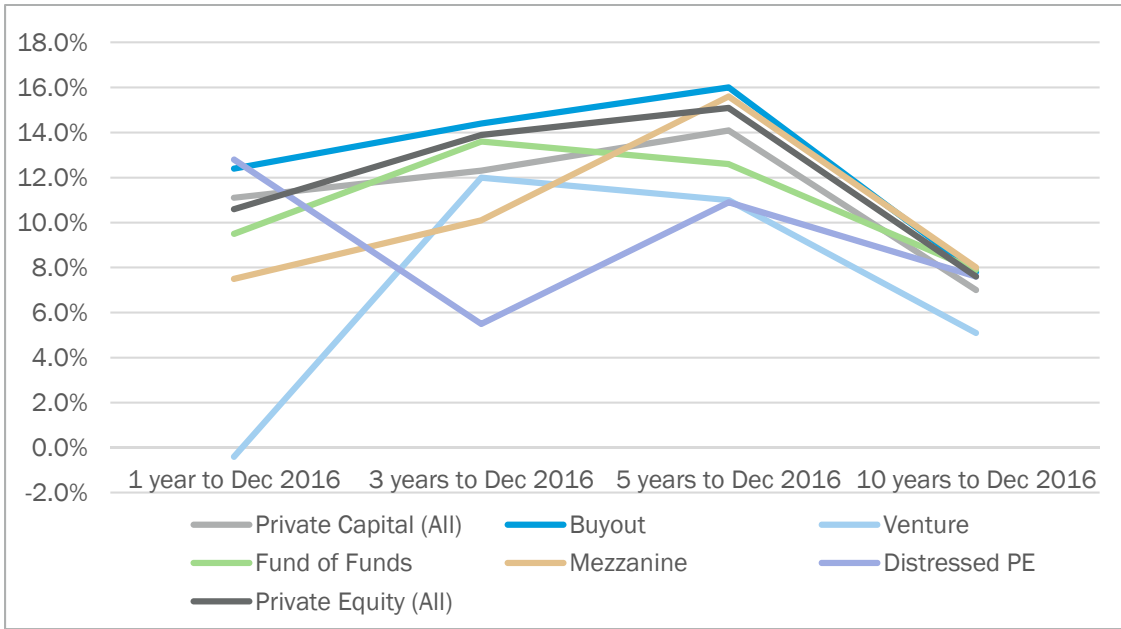
- During Q1, PE deal making slowed, dropping 8% from the previous quarter. The \$118.7 billion in deal value represented the lowest quarterly level since Q1 2015. It should be noted that such figures can be skewed dramatically by just a few big deals in any given quarter.
- IPO activity heated up during the quarter, with 13 PE-back companies going public. In Q1 2016, not a single PE-backed company was taken public.
- There were only two “mega deals” (>\$2.5 billion) in Q1, very few compared to the 20 that took place during all of 2016.
- Approximately 20% of PE deals closed in Q1 involved IT companies. This represents an increase from the 10%-15% that has been typical over the past decade.

Source: PitchBook PE Breakdown 2Q 2017
 *2017 figures are through 6/30/2017

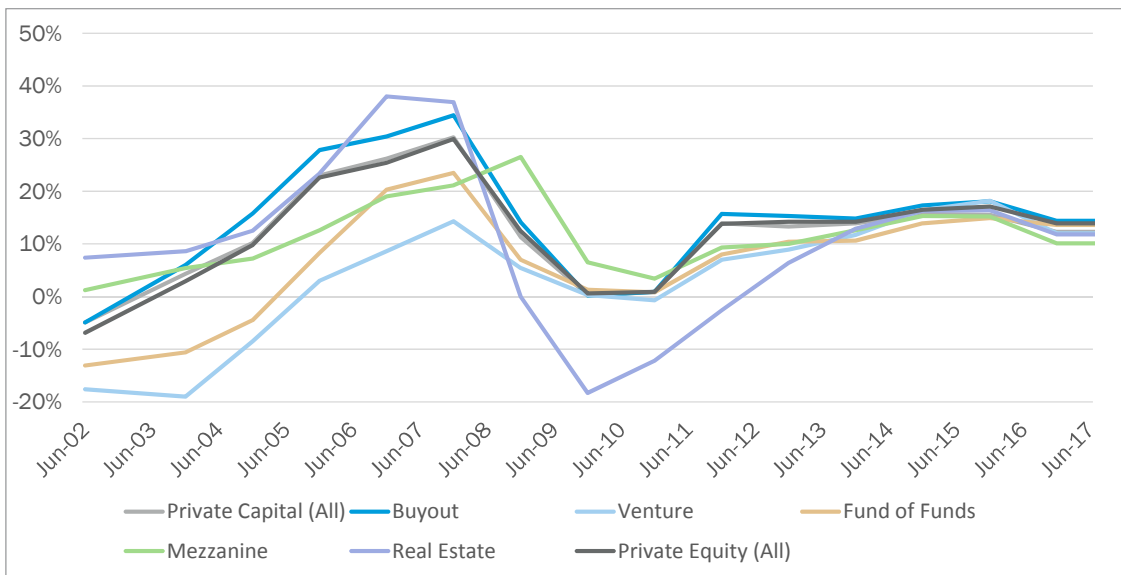
Horizon Performance

Private Equity

Horizon IRRs



Three-Year Rolling Returns



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

Source: Preqin, July 2017