



Canterbury Consulting

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## Quarterly Asset Class Report

### Private Equity

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Quarter Ending September 30, 2017

## 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.

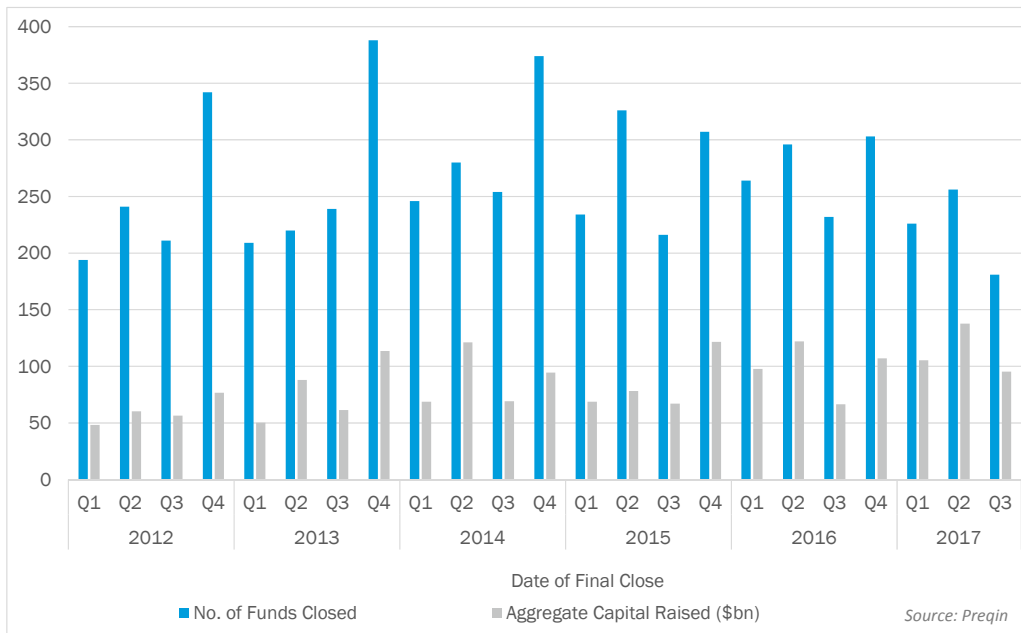
- Canterbury blends strategic and opportunistic approaches to construct private capital portfolios that are diversified by sector, geography, and vintage year.
  - Strategic: using various market inputs to form a baseline, we create a recommended model portfolio allocation.
  - Opportunistic: we combine 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

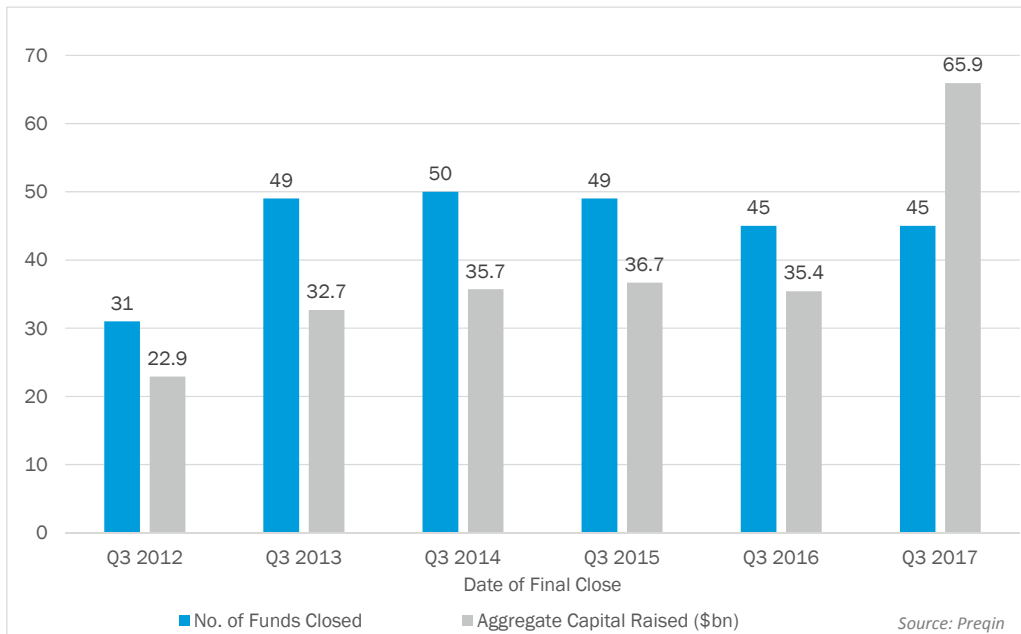
- Over a full market cycle, private equity is expected to generate above-market returns commensurate with risks associated with the asset class (i.e., illiquidity, time horizon, etc.)
- Given the length of the time required to deploy capital and constant evolution of the opportunity set, investors in private equity must commit consistently across cycles and avoid “market timing” in order to generate returns.

# Private Equity Fundraising Overview

## Global PE Fundraising



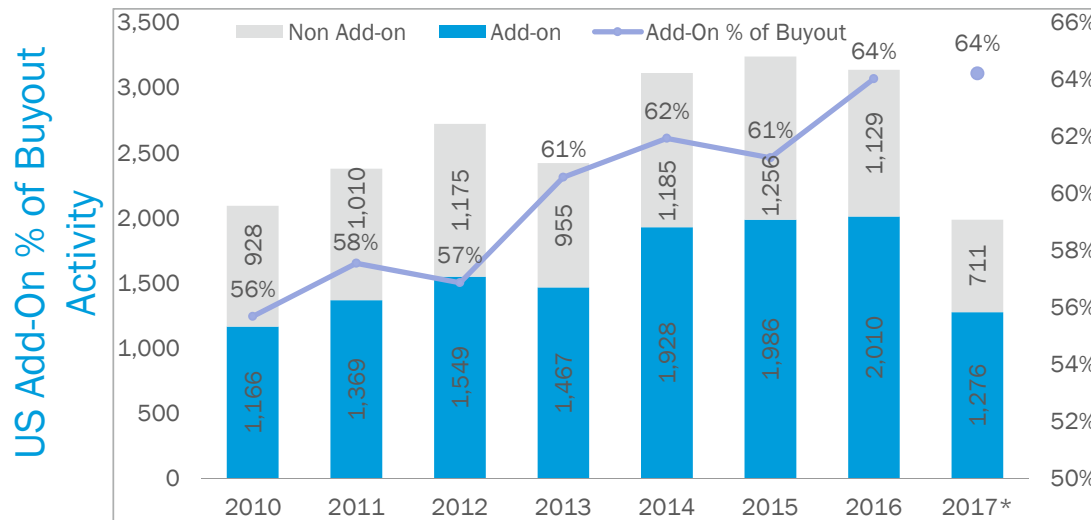
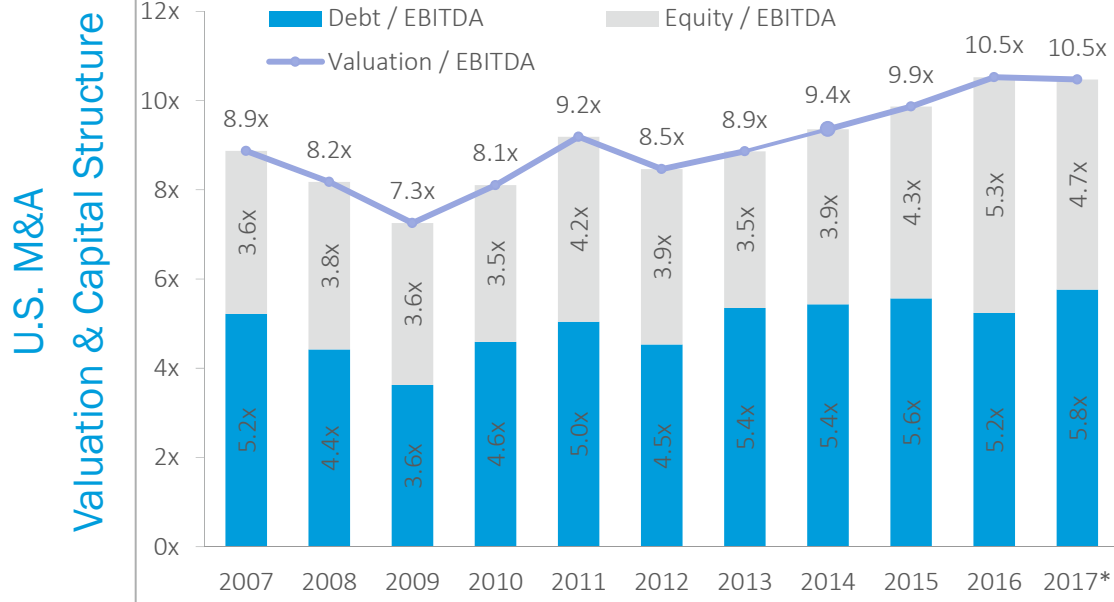
## Global PE Funds in Market



- Fundraising in Q3 2017 fell from the previous quarter but increased compared to the same quarter a year earlier. The number of funds closed fell to 181 from 256 in Q2, while dollars raised fell by \$42 billion. However, dollars raised were up 43% compared to Q3 2016.
- Larger firms continued to dominate fundraising. The five largest funds closed during the quarter raise approximately half the \$95 billion raised in the quarter.
- PE distributions of \$488 billion 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.
- Outstanding dry powder climbed to a record high of \$954 billion in September 2017, almost \$100 billion higher than at the beginning of the year.

Source: Preqin, reported as of September 2017

# Deal Activity

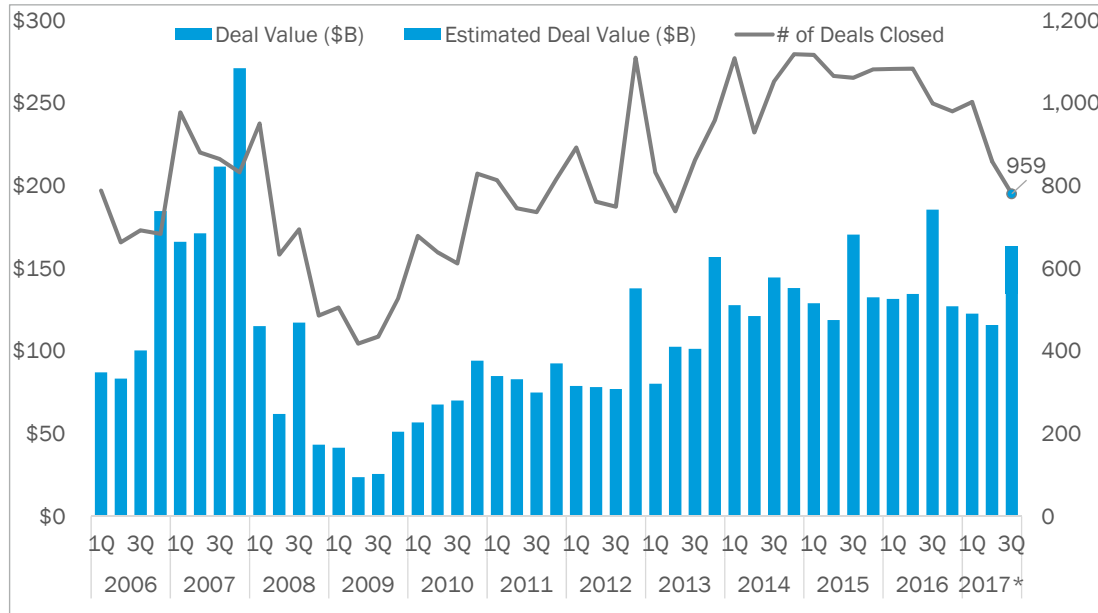


- Valuation multiples remained at record highs at the end of Q3 2017, higher than the levels experienced at the peak of the last private equity cycle in 2007.
- Factors contributing to increasingly high deal multiples include: cheap debt financing, record capital (dry powder) chasing deals, and more 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.

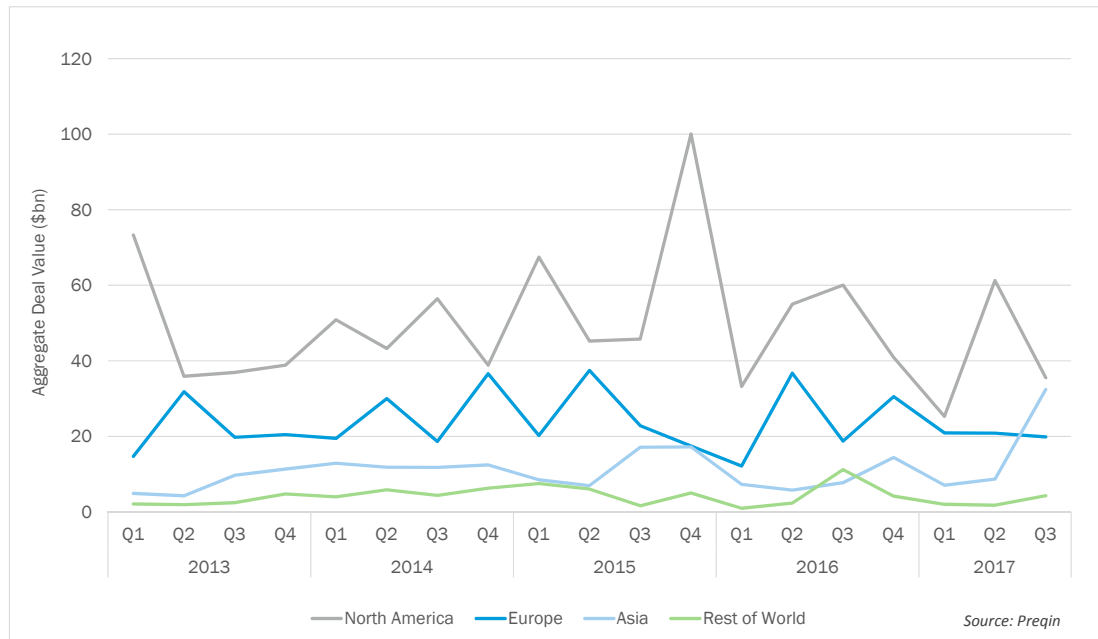
Source: PitchBook PE Breakdown 3Q 2017  
\*2017 figures are through 9/30/2017

# Deal Activity

U.S. PE Activity by Year



Deals by Region

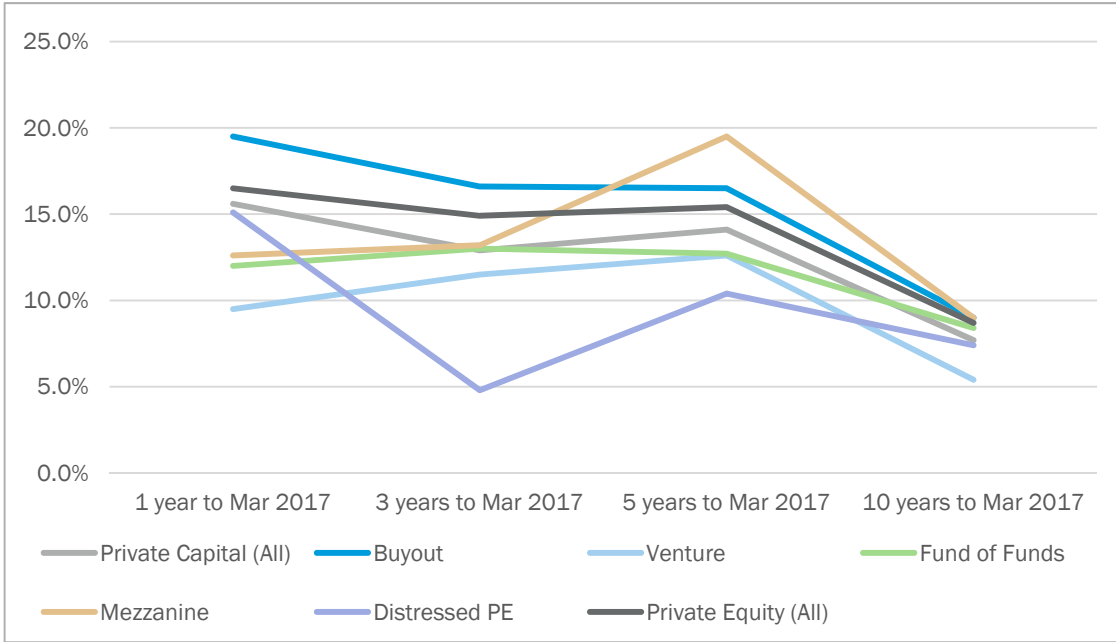


- 953 buyout deals were announced or completed globally during Q3 2017, in total worth \$92 billion. This figure represents a 9% decrease in the number of deals completed compared to the previous quarter, though the dollar amount stayed the same.
- The number of deals and aggregate deal value from Q3 2017 are 7% and 6% lower respectively compared to Q3 2016, which may be the result of high valuations making it difficult for GPs to source attractive opportunities.
- During Q3, a consortium led by Bain Capital completed its JPY2 Trillion purchase of Toshiba Memory Corporation. The deal was the largest private equity-backed buyout deal since 2015.

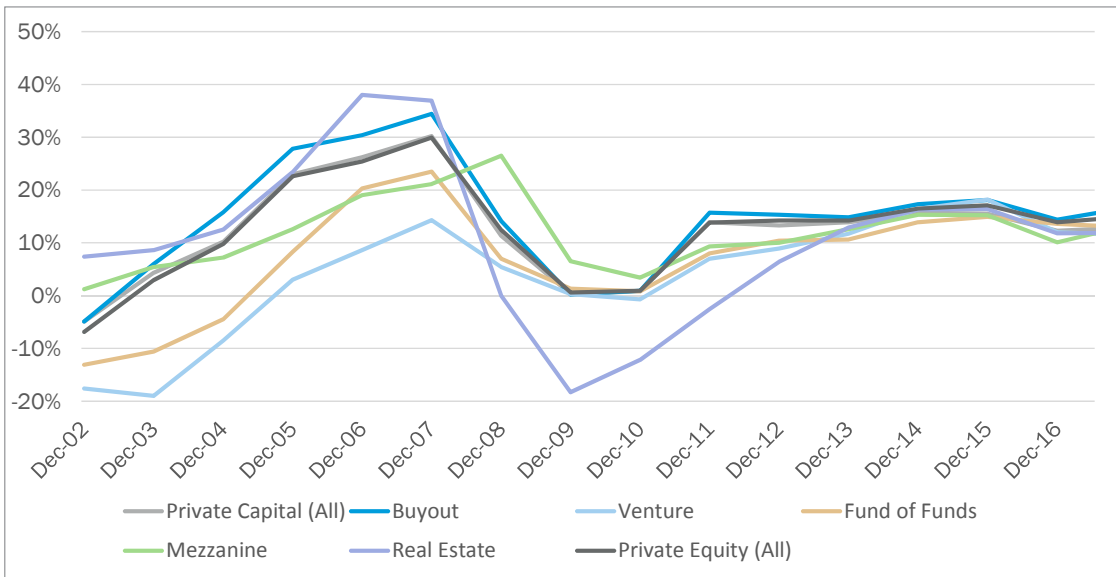
Source: PitchBook PE Breakdown 3Q 2017  
 \*2017 figures are through 9/30/2017

# Horizon Performance

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, October 2017