CanterburyConsulting

Quarterly Asset Class Report
Private Capital

canterburyconsulting.com

September 30, 2022

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.

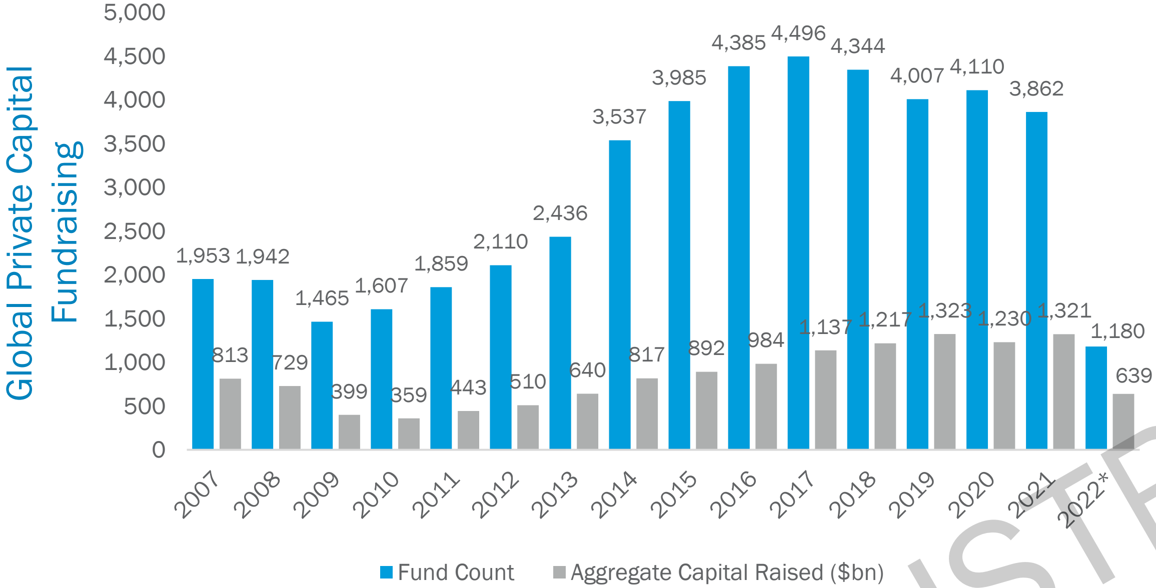
- Strategic: Using various market inputs to form a baseline, we create a recommended portfolio allocation.
- Opportunistic: We combine top-down and bottom-up analysis to target excess risk-adjusted returns through market intelligence and superior manager selection.

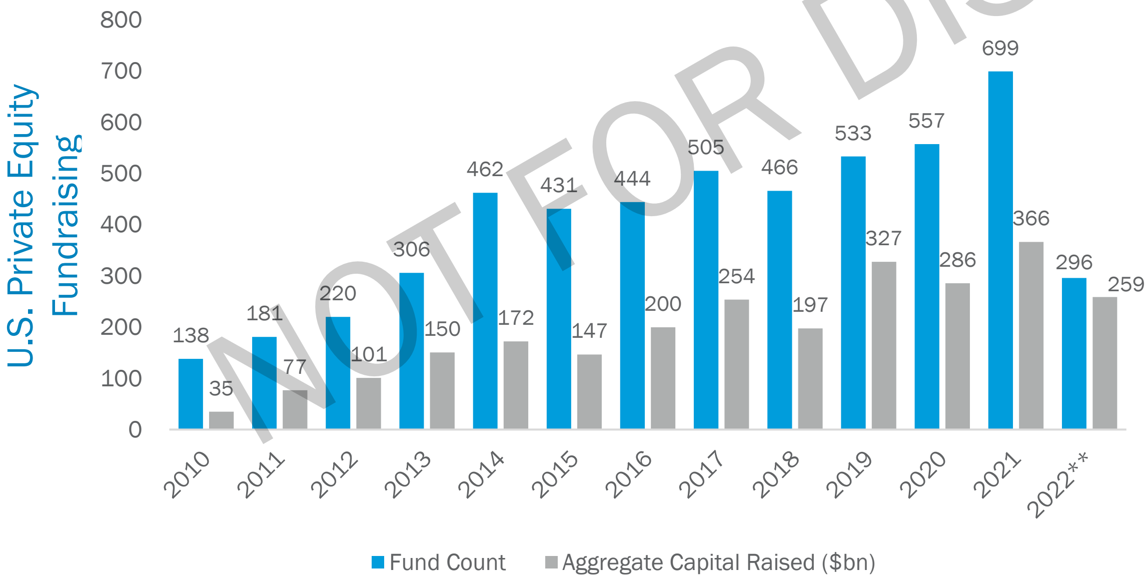
Role	Asset Categories	Risks
Growth	**Public Equity and Private Capital**	**Market Decline**
Capital Preservation	Private Credit, Fixed Income, Hedge Funds	Rising Interest Rates, Highly Correlated Markets
Inflation Protection	Real Assets: Real Estate, Commodities	Deflation

— 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.

Private Equity Fundraising Activity





- Through the first half of 2022, funds globally raised $639 billion, which is on pace to match 2021 fundraising levels. However, a noticeable decline from prior years is the number of funds that are raising, which speaks to fewer GPs raising larger funds.
- Since 2007, private equity funds comprised approximately 40% of fundraising value. So far in 2022, about 36% of fundraising value came from private equity. Noticeable fundraising increases within venture capital (24.6%) and real assets explain this difference. Real assets funds, which capture oil & gas strategies, comprised 14.5% of commitments up from below 10% in the past three calendar years.
- Globally, fund managers who are raising their eighth vintage or above have, so far in 2022, taken in 33.6% of private capital commitments, versus 22.1% on average over the last five calendar years.
- In the U.S., a total of $259 billion was raised across 296 private equity funds. While fundraising volume is on pace to keep up with 2021 totals, GPs may have to stay in market longer than expected as some LPs reevaluate future commitments in response to public market performance and the resulting "denominator effect".

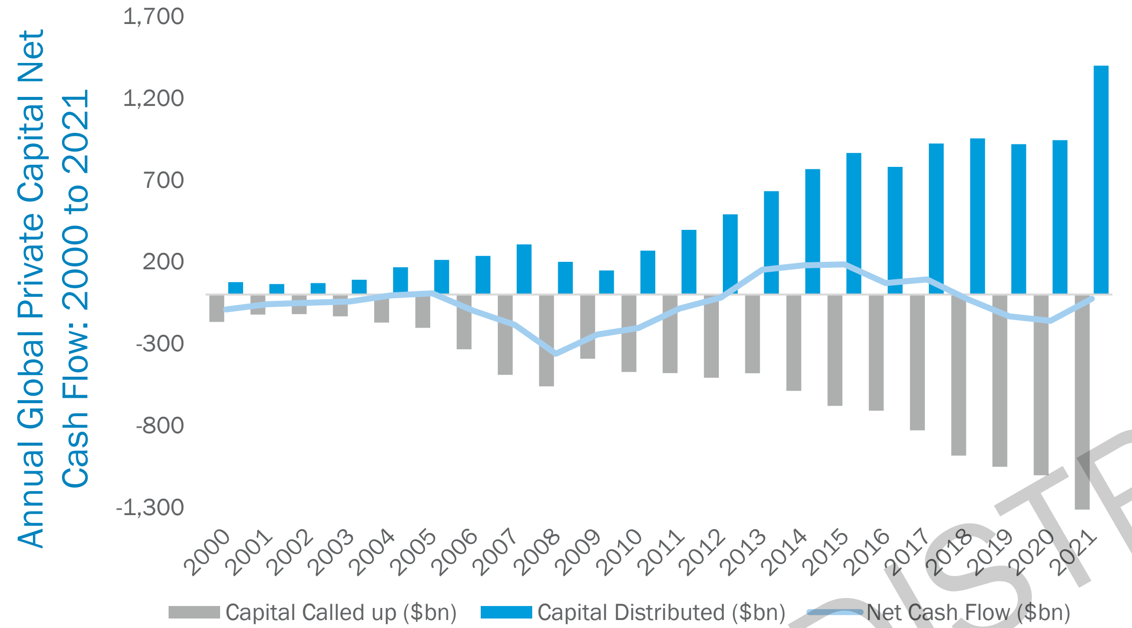
Sources: PitchBook Q2 2022 Global Private Markets Fundraising Report; PitchBook Q3 2022 U.S. PE Breakdown.

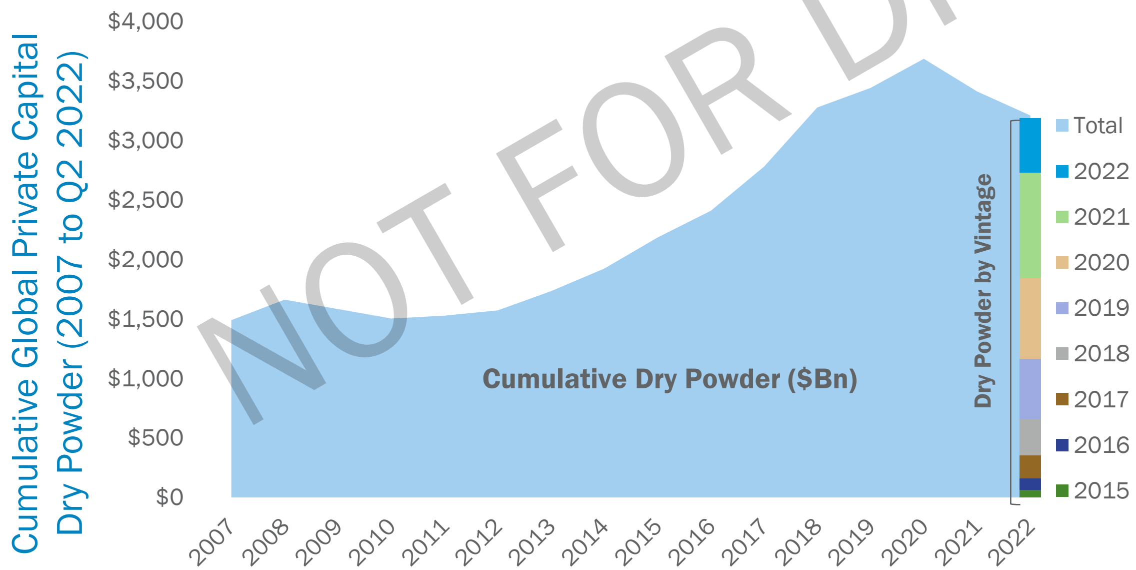
Note: Private equity funds comprise buyout, growth/expansion, diversified private equity, mezzanine, secondaries, co-investment, restructuring/turnaround, capital, and private debt.

**Global Private Capital Fundraising as of June 30, 2022*

***U.S. Private Equity Fundraising as of September 30, 2022*

Global Private Capital: Performance and Dry Powder





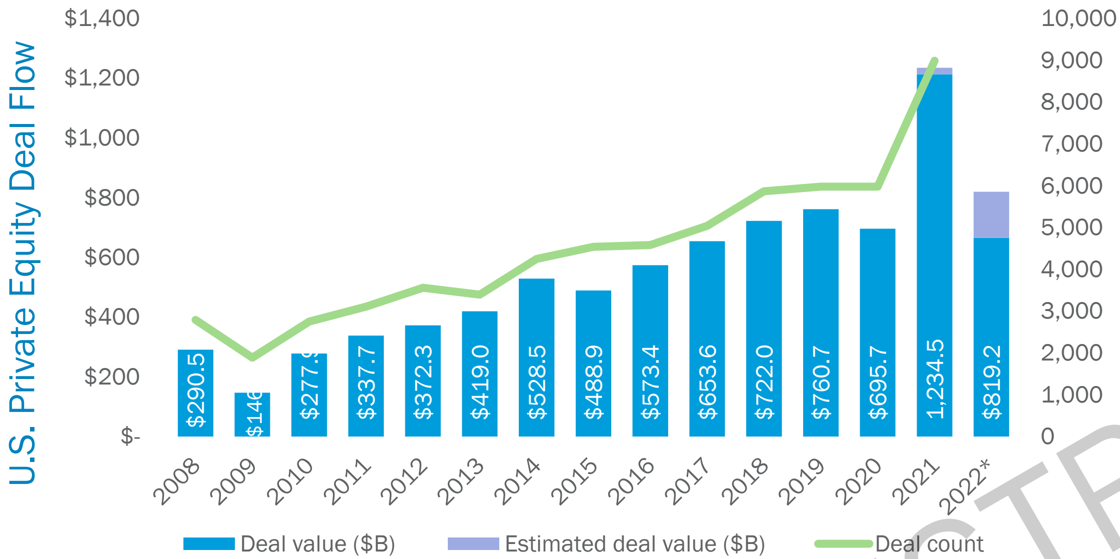
- Global private capital net cash flows remain negative through the end of 2021, as LP capital calls continue to exceed distributions. This has been a noticeable trend since 2018.
- All private capital strategies experienced a net cash outflow except for private equity, fund of funds, and real estate fund strategies,
- Private debt funds experienced the largest LP net cash outflow to date of $51.1 billion as more PE sponsors turn to the private lending markets as traditional lenders apply more stringent underwriting standards.
- Within private debt, direct lending fund strategies benefit from higher interest rates as these loans typically consist of floating rate instruments.
- As of Q2 2022, global private capital dry powder stood at over $3.2 trillion, a 13% decrease from the nearly $3.7 trillion at the end of 2020.

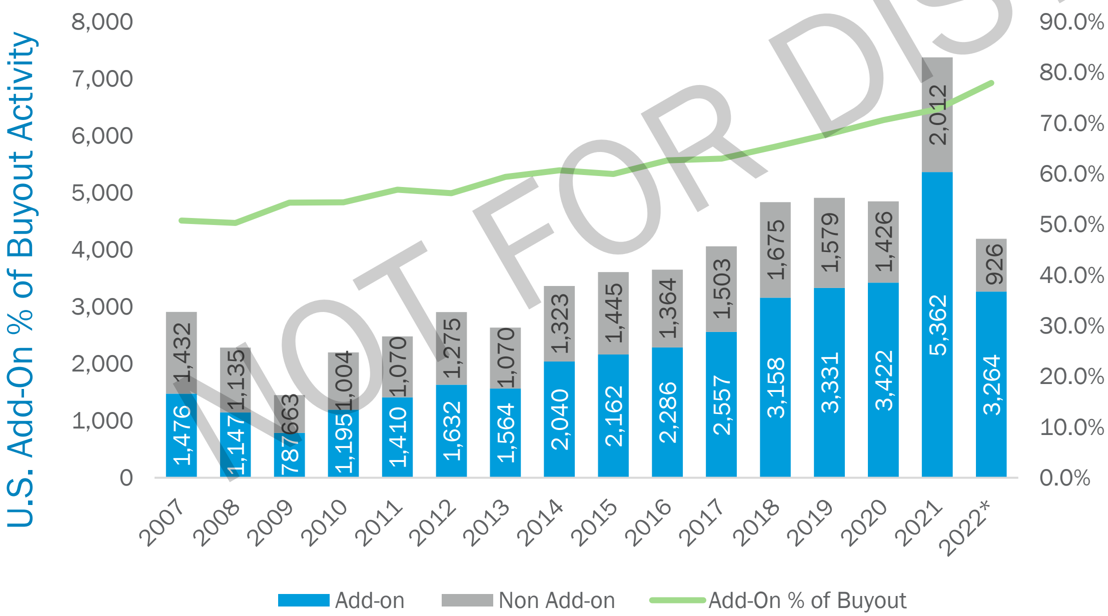
Sources: PitchBook 2022 Global Fund Performance Report, data as of December 31, 2021; PitchBook Q2 2022 Private Markets Fundraising Report

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

Note: Dry powder data As of June 30, 2022

U.S. Private Equity Deal Activity

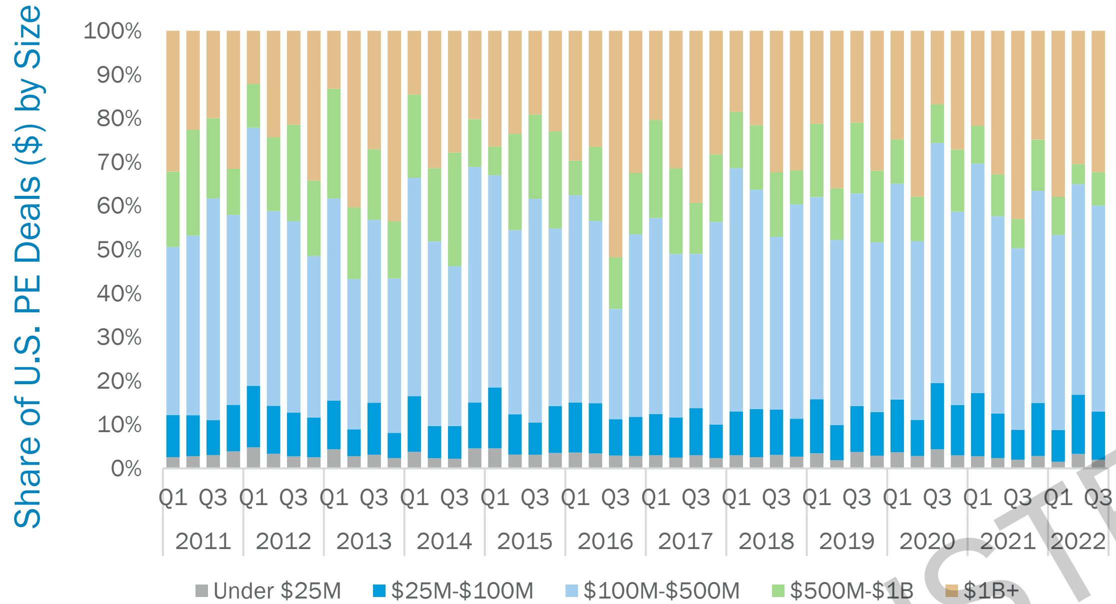


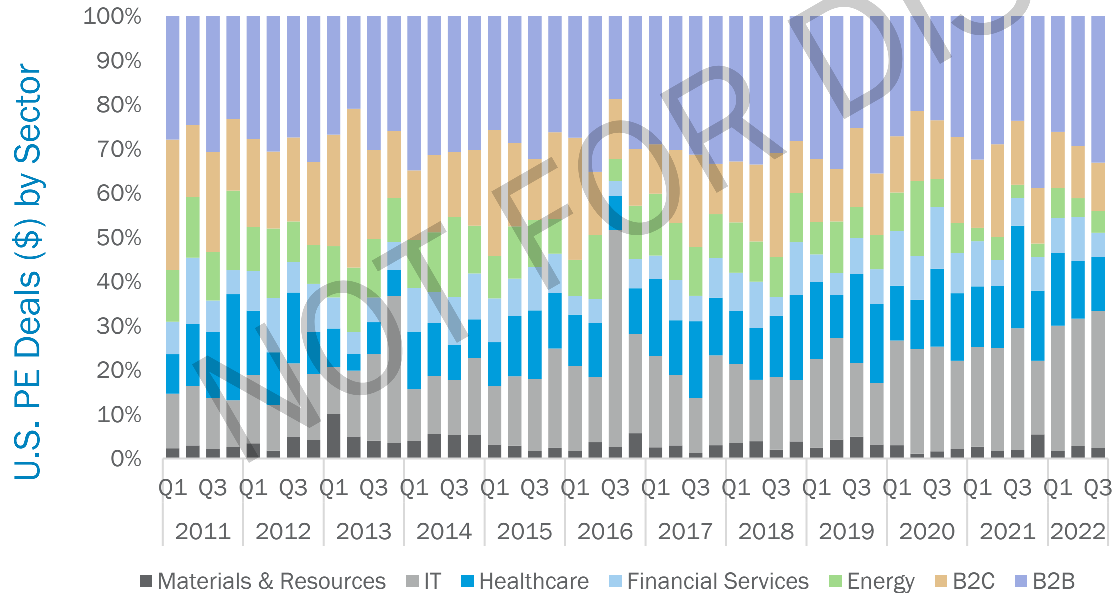


- The rise in interest rates dramatically impacted PE deal activity in August and September. The number of M&A, growth equity, and recapitalization deals collectively slowed by 20.4% in Q3 on a year-over-year basis. However, overall deal activity is still on par with 2021 year-to-date levels.
- Healthcare deal activity showed signs of resilience during the quarter with major transactions taking place within ophthalmology, gastroenterology, behavioral health, and oral surgery.
- The rising interest rate environment applied downward pressure on terminal multiples and valuations particularly within the software and technology space. Year to date IT deal count is down 24.4% compared with the first three quarters of 2021.
- Take-private transactions are on track for a second consecutive year at $100 billion or more in deal value, especially if PE sponsors can purchase public companies at steep discounts to prior valuations.
- Add-on activity continues to be the main driver of buyout activity as PE firms see add-ons as a way to accelerate value creation and bring down overall purchase price multiples.

Source: PitchBook Q3 2022 U.S. PE Breakdown
**As of September 30, 2022*

U.S. Private Equity Deal Activity



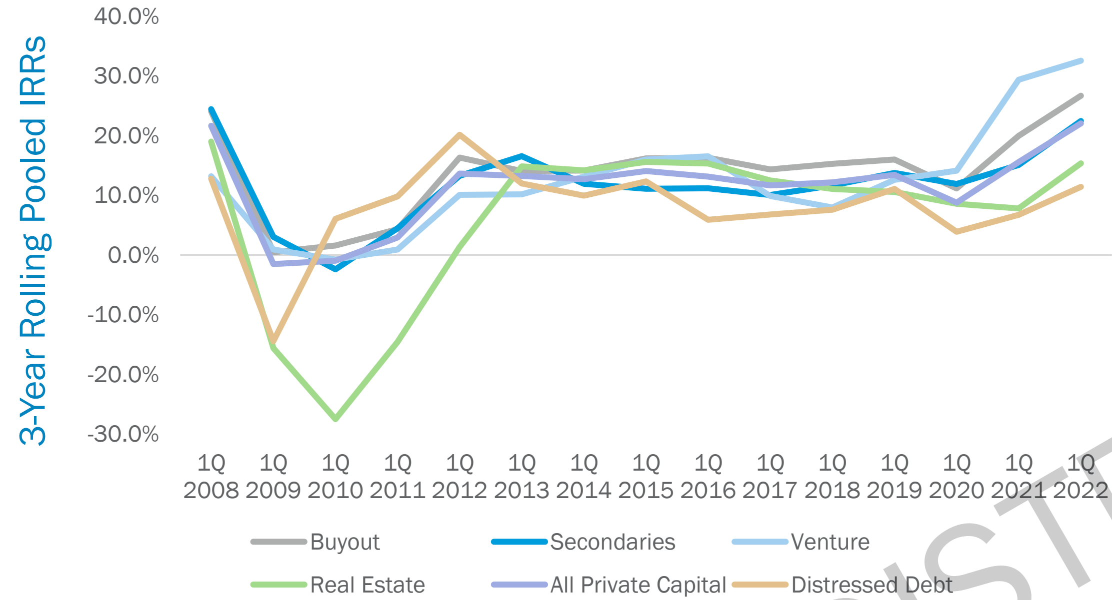


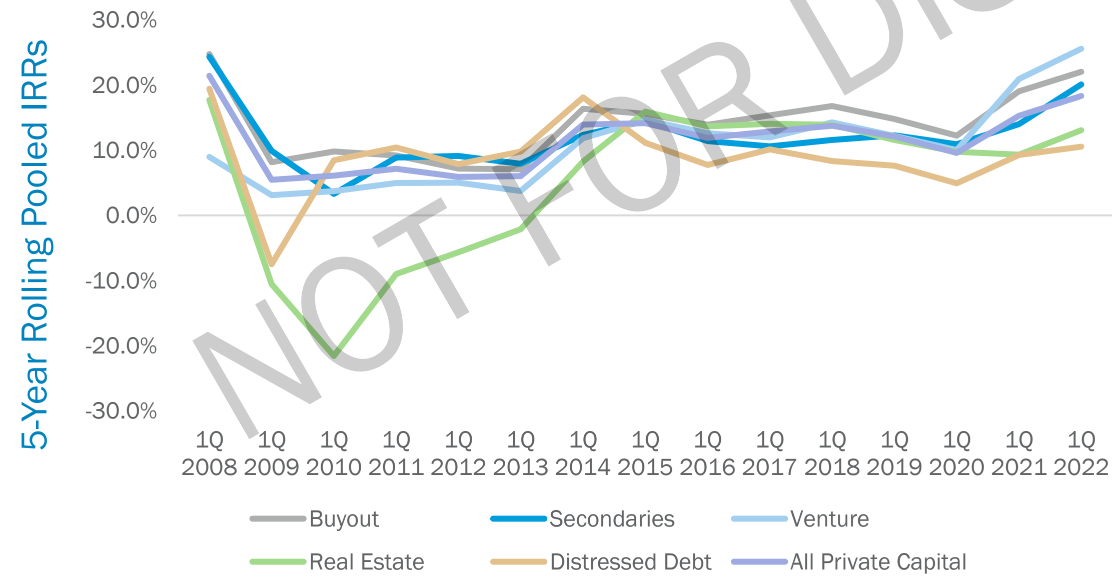
- The share of deals valued at $1 billion+ stood at 32%, which is consistent with the 30% share in the prior quarter. Deals valued at $100 million to $500 million comprised 47% of PE deals during the quarter, which has remained consistent over the last six quarters.
- 42% of deals in the U.S. have been within the business services sector. The share of deal value from the IT sector increased slightly from the prior quarter and comprises 31% of deal value.
- As public market tech companies are currently trading at lower valuations relative to a year ago, large tech buyout firms may begin to consider more take-private transactions or corporate carve-outs in this sector. Cybersecurity, for example, continues to gain attention as companies seek out digital service providers to shield themselves from cyberattacks. During the quarter, Thoma Bravo announced that it would take authentication software company Ping Identity private for an estimated $2.8 billion.

Source: PitchBook Q3 2022 U.S. PE Breakdown

Horizon Performance

Private Capital



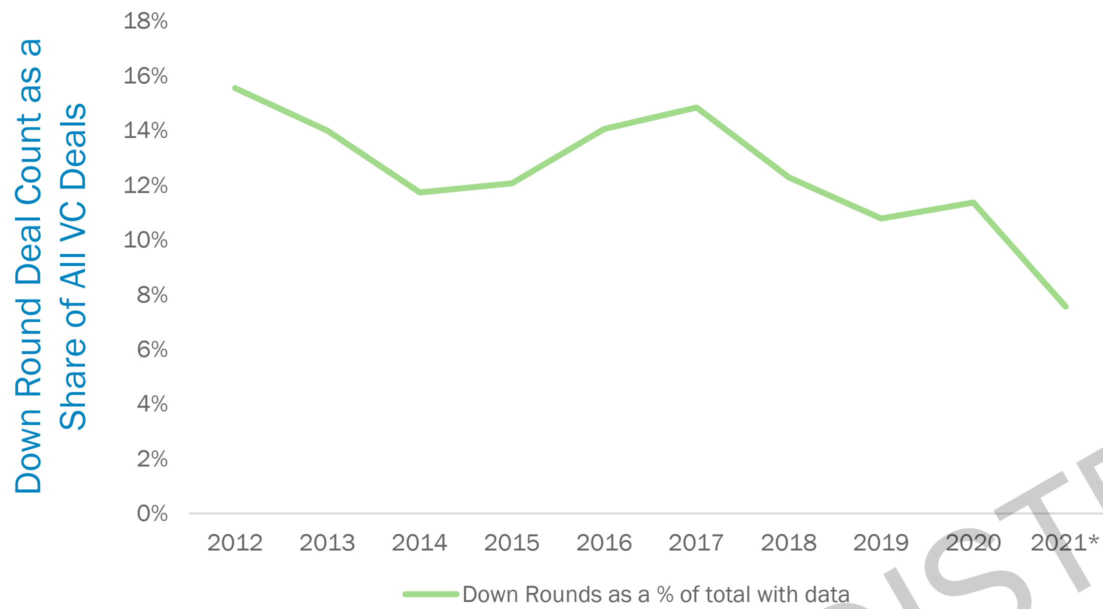


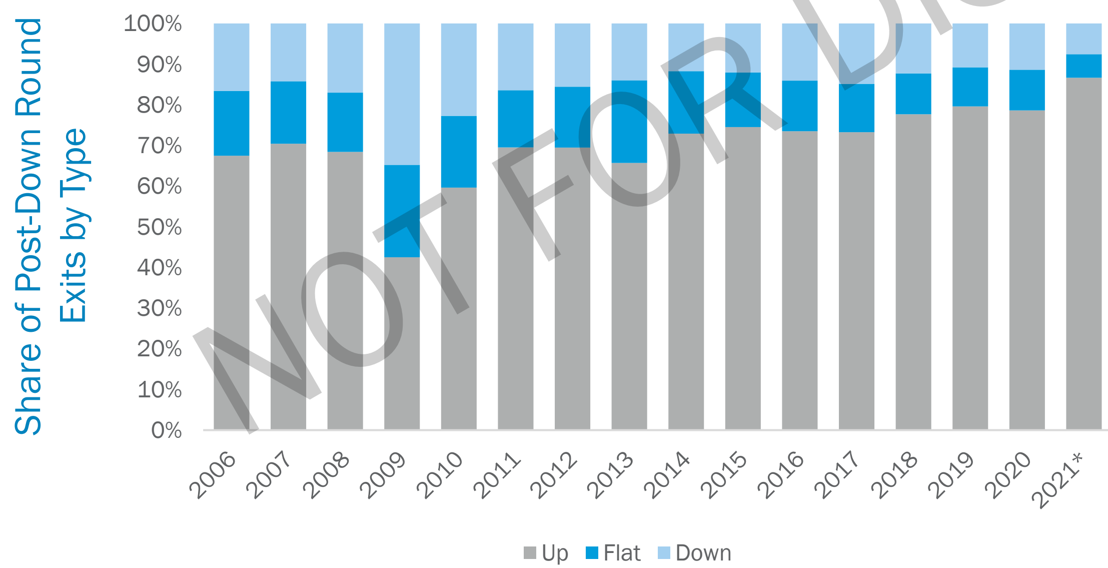
- Through Q1 2022, all private capital strategies experienced upticks in performance led by venture capital and buyout. It is expected that most strategies will be flat or down, depending on sector exposure and strategy type, in the second and third quarters.
- Over a five-year rolling basis, venture performance has surpassed buyout, and both continue to be the top-performing private capital strategies.
- Canterbury notes that venture capital exhibits a riskier return profile versus other strategies, given the larger disparity between top quartile performance and bottom quartile performance.

Source: PitchBook, as of March 31, 2022
Note: Real estate consists of value-add and opportunistic funds only.

Quarterly Spotlight: U.S. Venture Capital

Private Equity



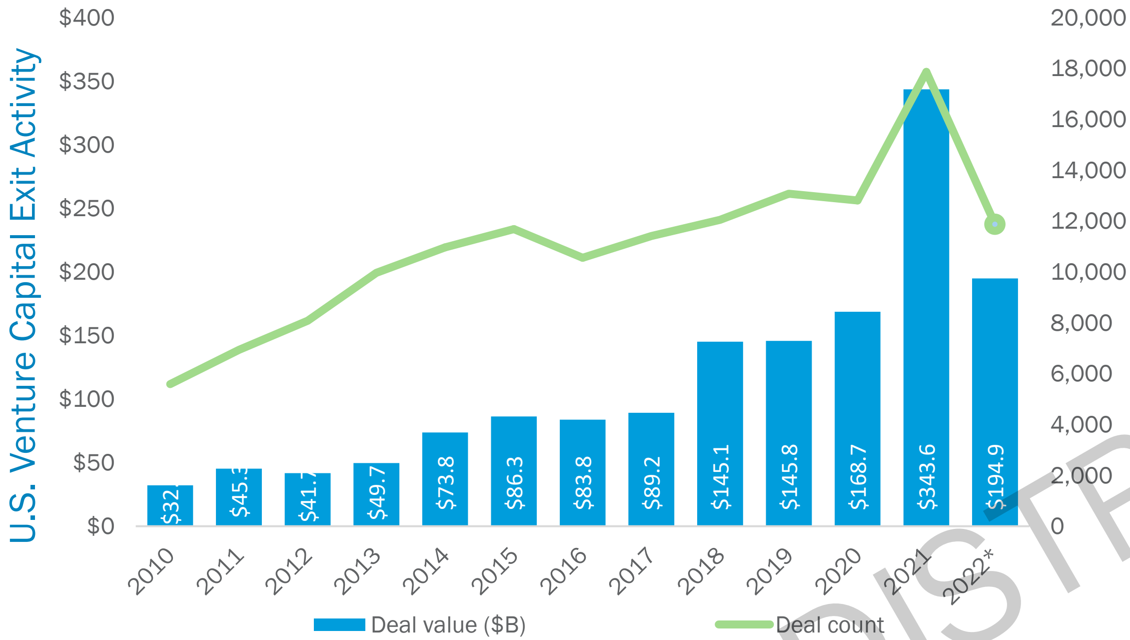


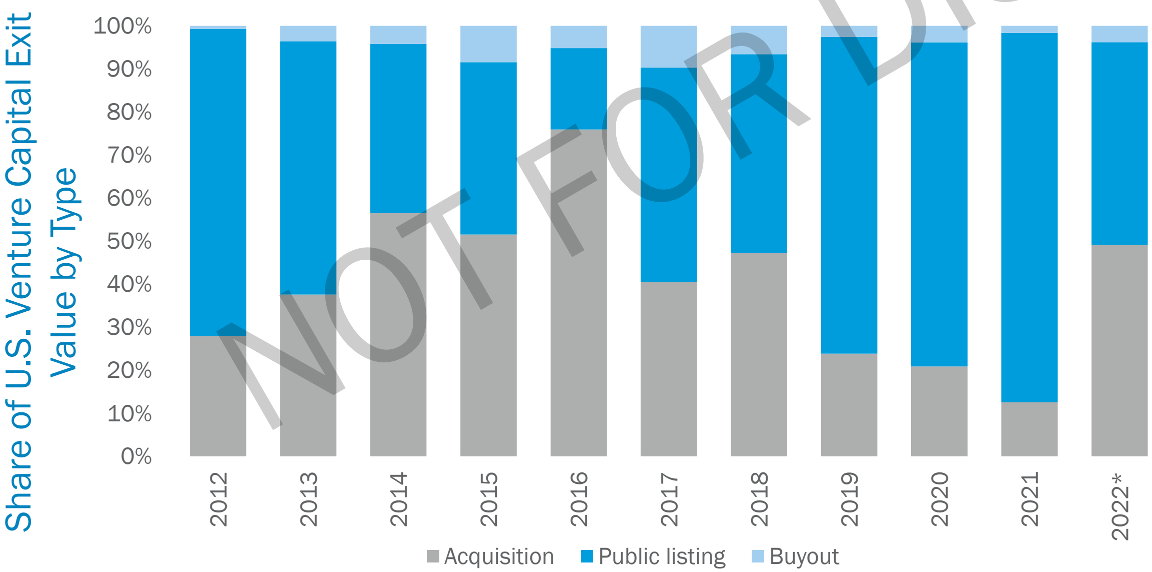
- Only 6% of completed rounds, as of Q2 2022, have been at lower valuations than the company's previous financing round.
  - By comparison, 2021 was a record year for venture, and yet down rounds represented 7% of total activity.
  - The typical financing round for a venture-backed company provides approximately 18 to 24 months of runway before a company must seek additional financing. Given this fact and the knowledge that many companies recapitalized during late 2020 and early 2021, we expect to observe more down rounds in the quarters to come.
- Since 2016, 166 companies that had previously taken a down round were exited through a buyout from a private equity firm, representing 19.4% of the exits for these companies.
  - Within the broader venture ecosystem, just 11.5% of exits occur via buyout.

Source: PitchBook Q3 2022 Report: Down Rounds, Impacts, and Exit Opportunities

**As of December 31, 2021*

Quarterly Spotlight: U.S. Venture Capital



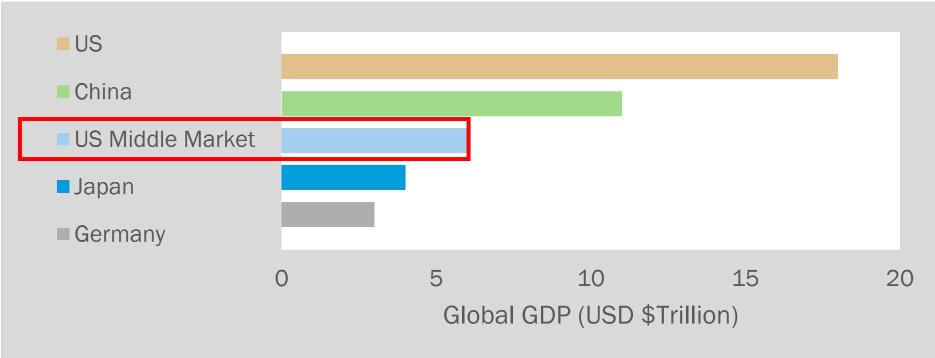


- The total dollars invested in late-stage venture-backed companies decreased by 48% from the Q2 figure of $48 billion and set a record 11-quarter low.
- Based on exit activity observed through Q3 2022, PitchBook estimates exits will reach a five-year low during 2022. It is understood, at this point, that the IPO window has effectively dried up, limiting late-stage companies' options for additional capital.
- Through Q3 2022, the share of exits via acquisitions has increased meaningfully both in terms of exit value and count. This trend is likely to continue as the availability for late-stage companies to pursue public listings remains challenged.

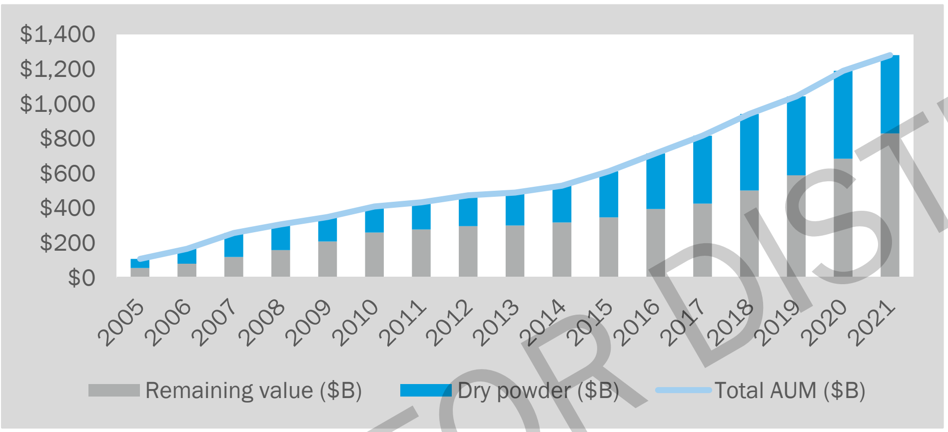
Source: PitchBook Q3 2022 NVCA Venture Monitor
**As of September 30, 2022*

The Private Credit Opportunity

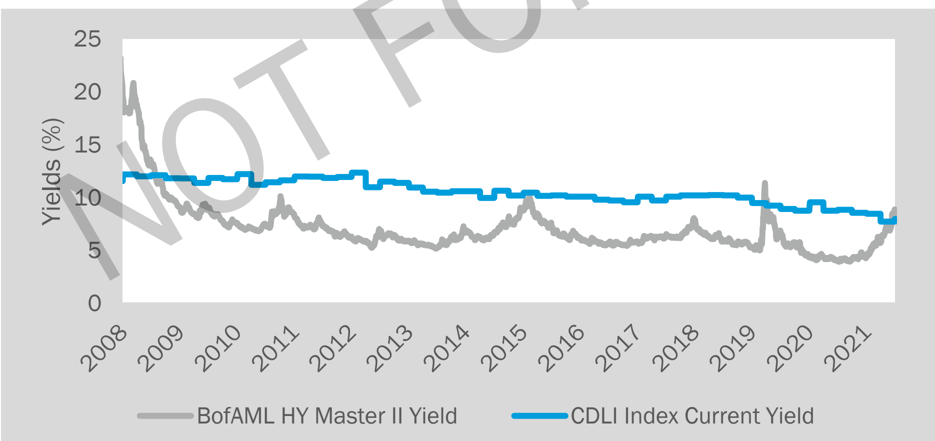
Size of Global Economies (GDP)



Size of Private Debt Market ($B)



Yields (High Yield vs. Middle Market Debt)

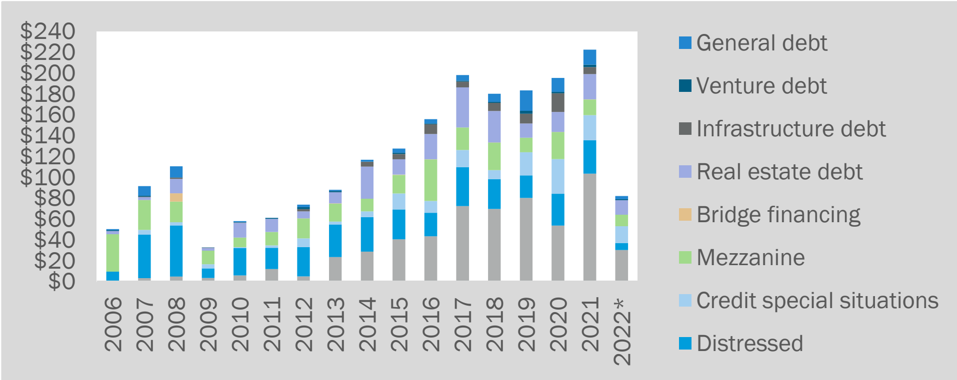


- From a GDP perspective, the U.S. middle market segment, defined as businesses that are between $25 million and $1 billion in enterprise value, is the third largest economy in the world.
- 200,000 businesses categorized in the middle market equate to a combined one-third of private sector GDP.
- The private credit asset class has grown considerably since the Global Financial Crisis. Since 2018, dry powder has ranged between $400 to $500 billion as debt appetite from private equity and other market participants has grown.
- Middle market loans have generally produced a yield premium above public high yield with lower volatility.
- The Cliffwater Direct Lending Index (CDLI) is an asset-weighted index of directly originated middle market loans. The index measures unlevered, gross of fees, performance of the underlying loans of Business Development Companies (BDC's).

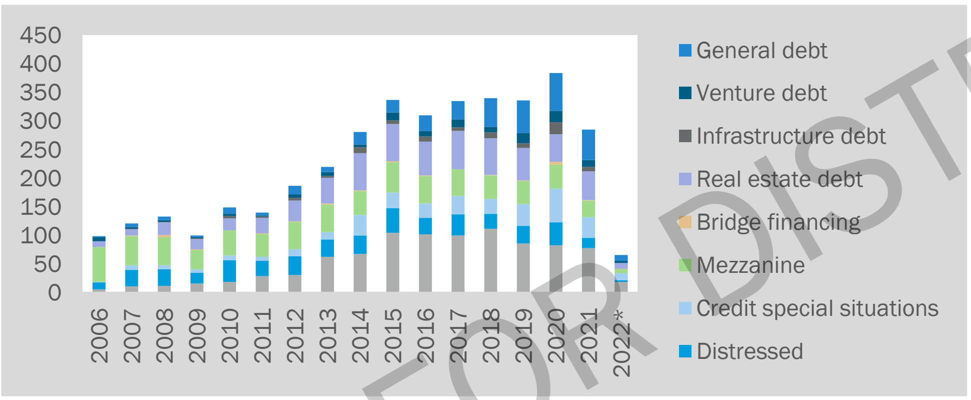
Sources:; Churchill, National Center for the Middle Market; Pitchbook; The Lead Left; Cliffwater Direct Lending Index Data as of June 30, 2022.

Private Credit Activity

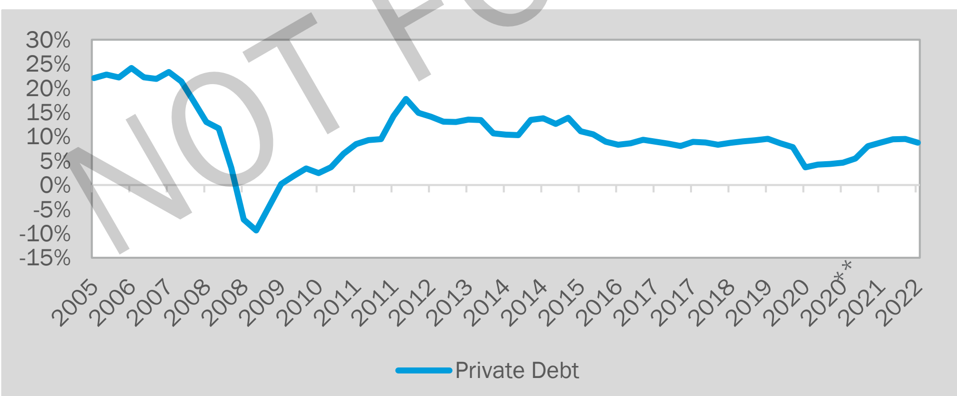
Fundraising by Strategy ($B)



# of Funds Launched by Strategy



Rolling 3-Year Pooled IRR (%)



- While 2021 was a record year for private credit fundraising, 2022 levels have decreased significantly, driven by LPs pausing or delaying contributions to new private debt funds as LP portfolios are becoming less valuable due to the public market sell-off, effectively increasing the weighting to alternative assets (known as the “denominator effect”).
- Although overall fundraising is lower this year, private debt asset managers are raising larger fund sizes relative to prior years.
- Direct lending strategies have led most of the fundraising activity, followed by special situations lending.
- Rolling 3-year private debt IRRs have moderated between 5-10% over the last several years as the asset class matures.

Source: Pitchbook
Private Debt includes the aggregation of general debt, venture debt, infrastructure debt, real estate debt, bridge financing, mezzanine debt, credit special situations, and distressed debt as defined by Pitchbook.

**AUM and fund count data as of 6/30/2022; **Rolling 3-Year IRR data as of 6/30/2022.*