CanterburyConsulting

Quarterly Asset Class Report

Private Equity

canterburyconsulting.com

Quarter Ending September 30, 2018

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.

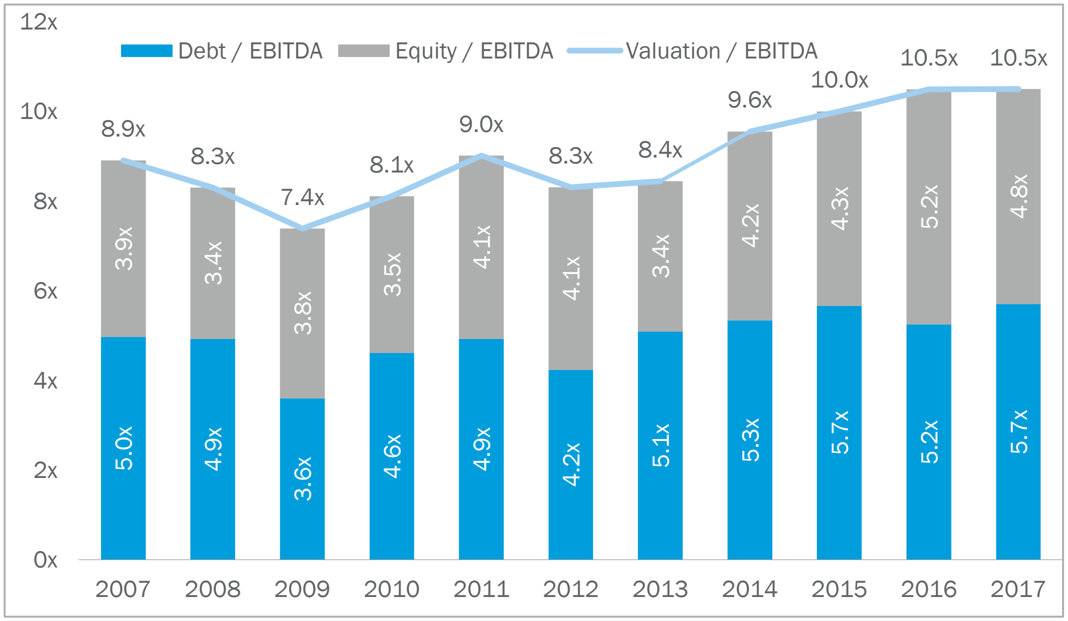
Role	Asset Categories	Risks
Growth	**Public and Private Equity**	**Market Decline**
Capital Preservation	Fixed Income, Hedge Funds	Rising Interest Rates, Highly Correlated Markets
Inflation Protection	Real Assets: Real Estate, Commodities	Deflation

— 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.)

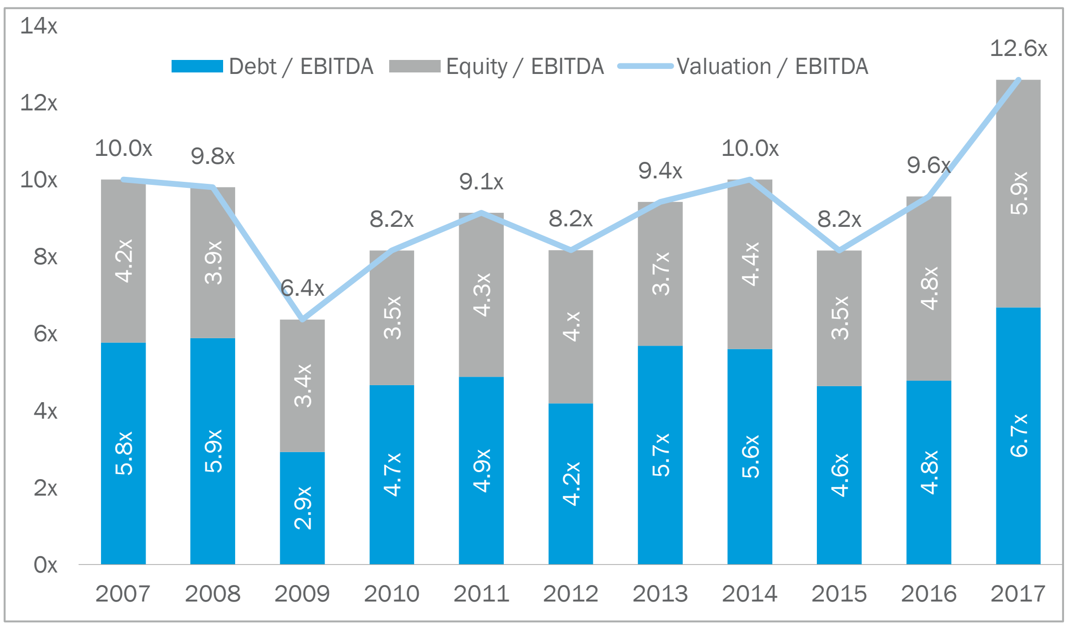
— Given the length of the time required to deploy capital and constant evolution of the opportunity set, investors in private equity must commit consistently across cycles and avoid “market timing” in order to generate returns.

Private Equity Valuation Overview

US M&A (including PE buyout) Multiples



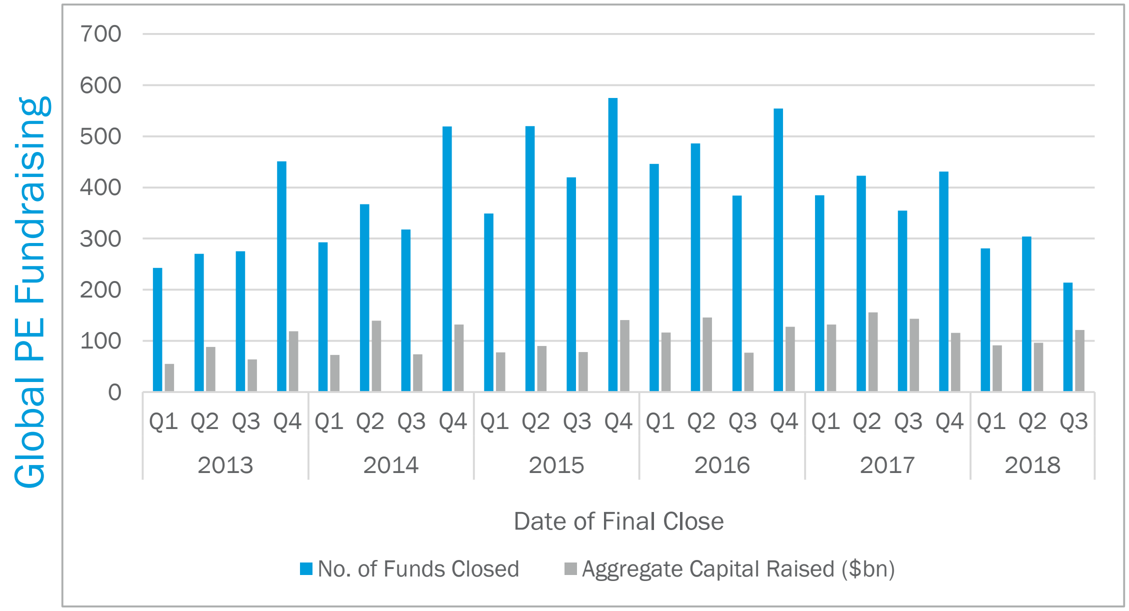
US PE Buyout Multiples

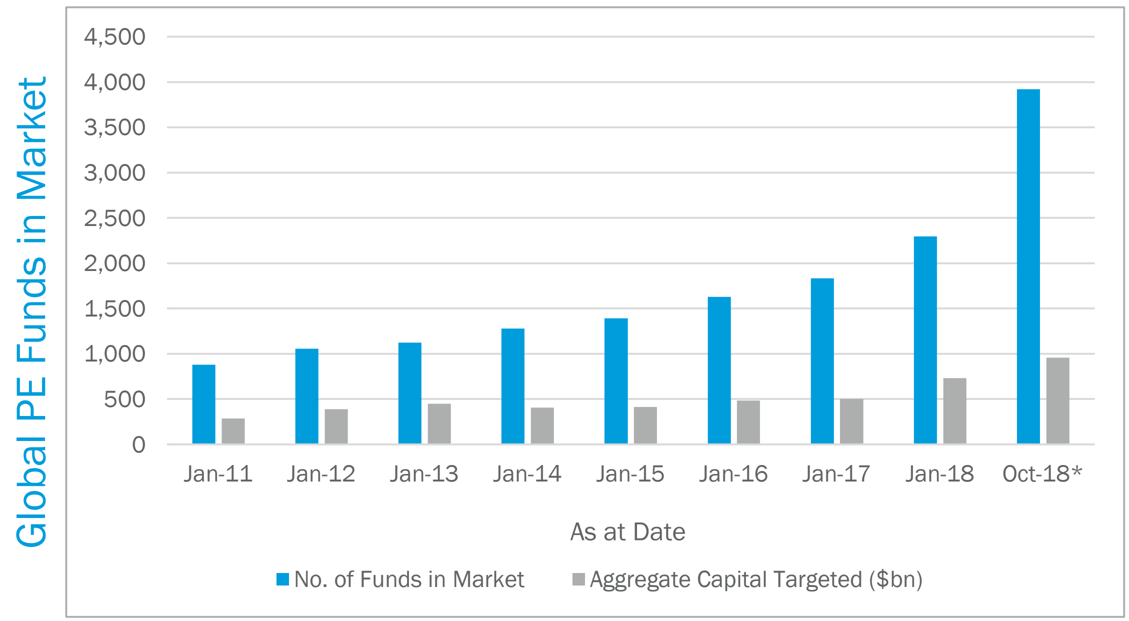


- U.S. M&A and private equity buyout multiples continue to trend upward. Factors that have contributed to such a run-up in purchase price multiples are:
  - **Low-priced debt and equity flooding the private equity market:** Relatively attractive lending terms, especially among private direct lending firms, have been an instrumental part of private equity transactions. Increased equity dollars have also been important, as investors are seeking higher yielding investments and increased diversification.
  - **Increased competition in the private equity buyout space:** The increased dollars raised has increased competition for assets throughout the private equity markets, propelling deal multiples upwards.
  - **Corporate M&A activity:** Competition for assets continue to gain momentum, as corporate buyers have increased their acquisition activity as a prime avenue to support their growth initiatives. These corporations, who often have large balance sheets to rely on, are becoming more willing to pay more for synergies or strategic value, which is intensifying the private equity and buyout markets.

Source: Pitchbook

Private Equity Fundraising Overview



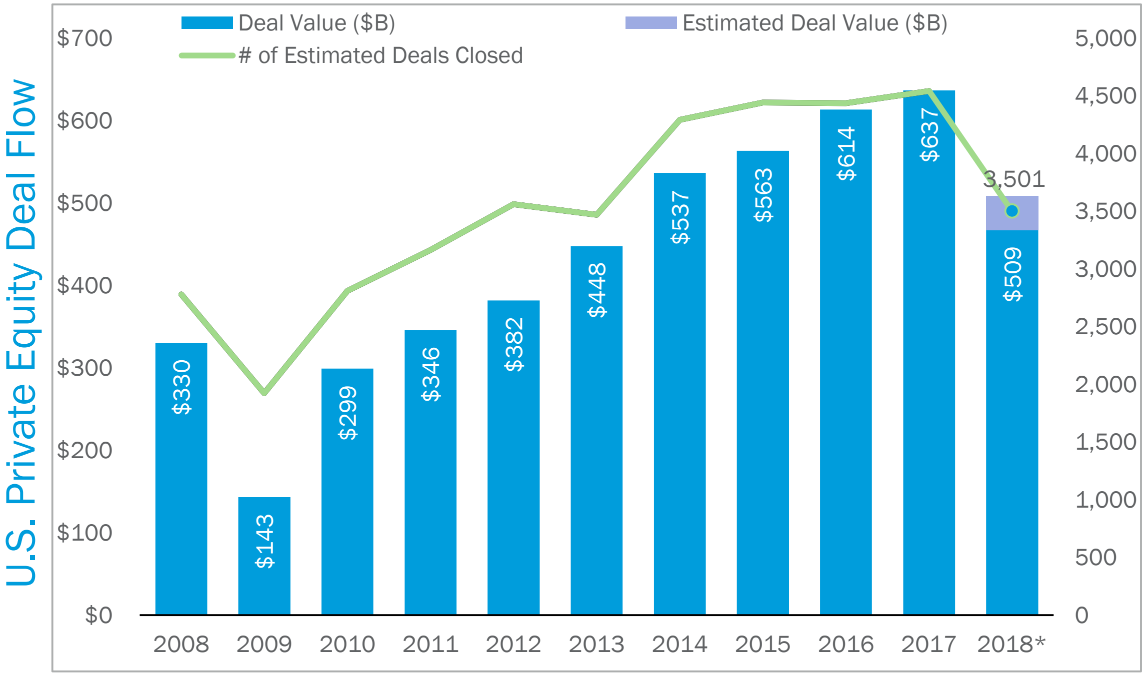


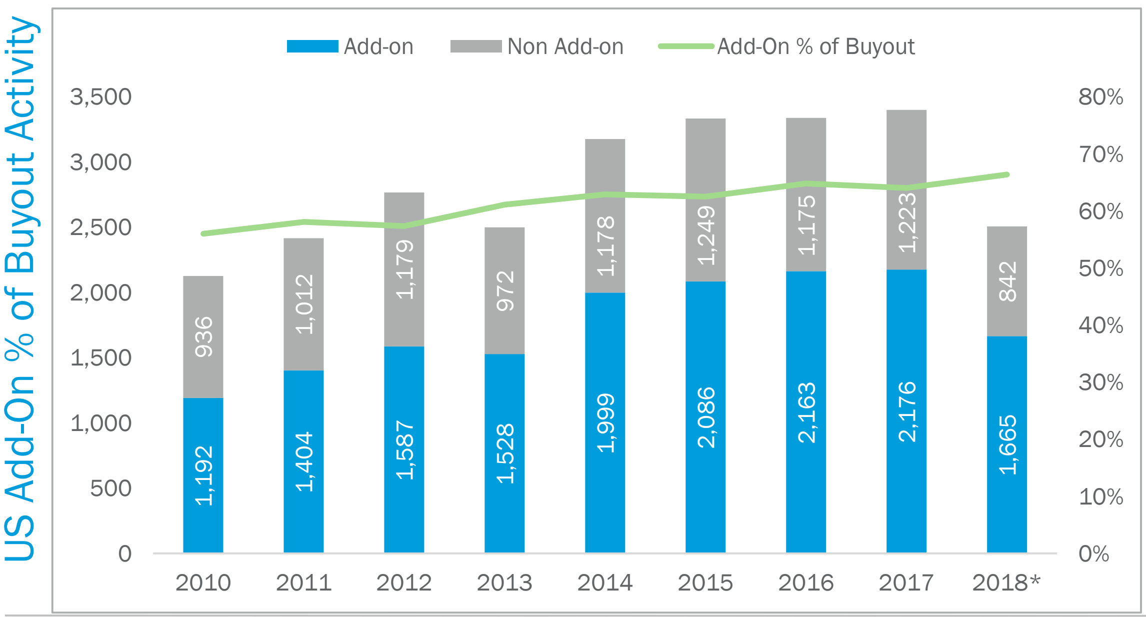
- 214 private equity funds globally closed on $121 billion during Q3 2018, still 15% below the $143 billion raised from 355 funds in Q3 2017. However, Q3 was the highest quarterly fundraising total in 2018 to date.
- The average capital raised per fund has increased from $316 million in Q2 2018 to a high of $566 million in Q3.
- Venture capital funds had their most successful quarter in six years, with 101 funds securing $18 billion.
- Global PE funds in market reached a new all-time high at the end of Q3 2018, with nearly 4,000. The total amount of capital targeted is also at an all-time high of $956 billion.
- North America comprised 68% of PE fundraising during Q3, versus 44% in Q2. This is attributable to the 10 largest vehicles closing during Q3 being North America-focused. Europe and Asia comprised 8% and 21% of global PE fundraising, respectively.

Source: Preqin, reported as of October 2018
**2018 figures are through 9/30/2018, unless otherwise noted*

Deal Activity

Private Equity



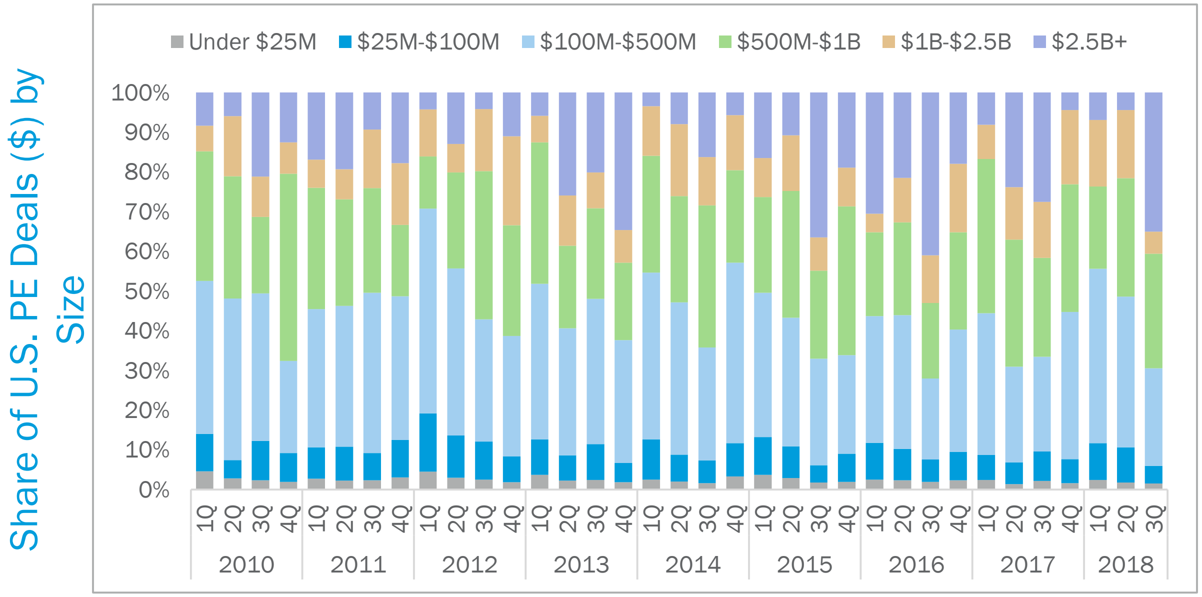


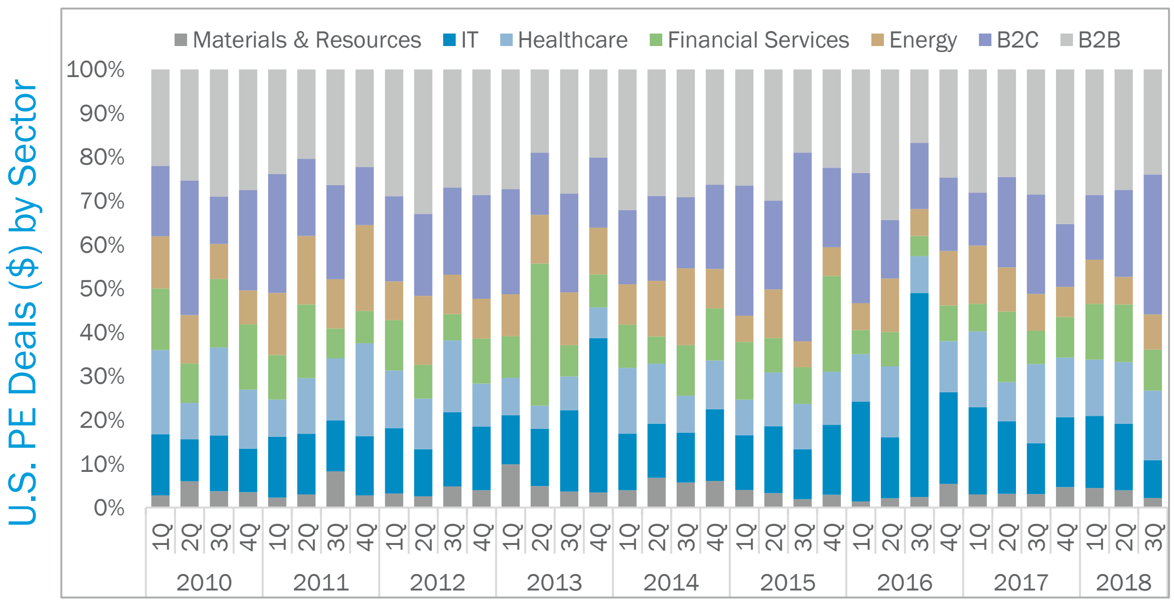
- U.S. private equity deal activity remained robust through the first three quarters of 2018, with just over 3,500 deals closing, an increase of 2.1% from 2017. Deal value is up 3.4% over the first three quarters of 2017.
- Deal activity continues to be driven by easy access to credit, spurring record fundraising that resulted in dry powder totaling over $1.1 trillion as of Q3 2018.
- Add-ons accounted for 66% of all buyout activity as of Q3, with PE firms continuing to focus on the lower middle market as a source for add-on opportunities. Add-on acquisitions typically have more attractive entry prices and can usually be acquired quickly to drive operational improvements.
- 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 U.S. PE Breakdown 3Q 2018
**2018 figures are through 9/30/2018*

Deal Activity

Private Equity





- Despite the continued strong deal presence in the middle market, Q3 saw the emergence of mega size buyout transactions ($2.5B+), which accounted for 35% of U.S. PE deals during Q3 (in dollar terms). This is the largest share in two years. The easy access to credit and build up of dry powder, as well as the growing size of mega-buyout funds is driving these larger transaction sizes.

- These larger buyout are also driven by the presence of club deals, or buyouts with more than one sponsor. These types of deals represent 39.4% of U.S. non-add-on leveraged buyouts valued at $1 billion+.

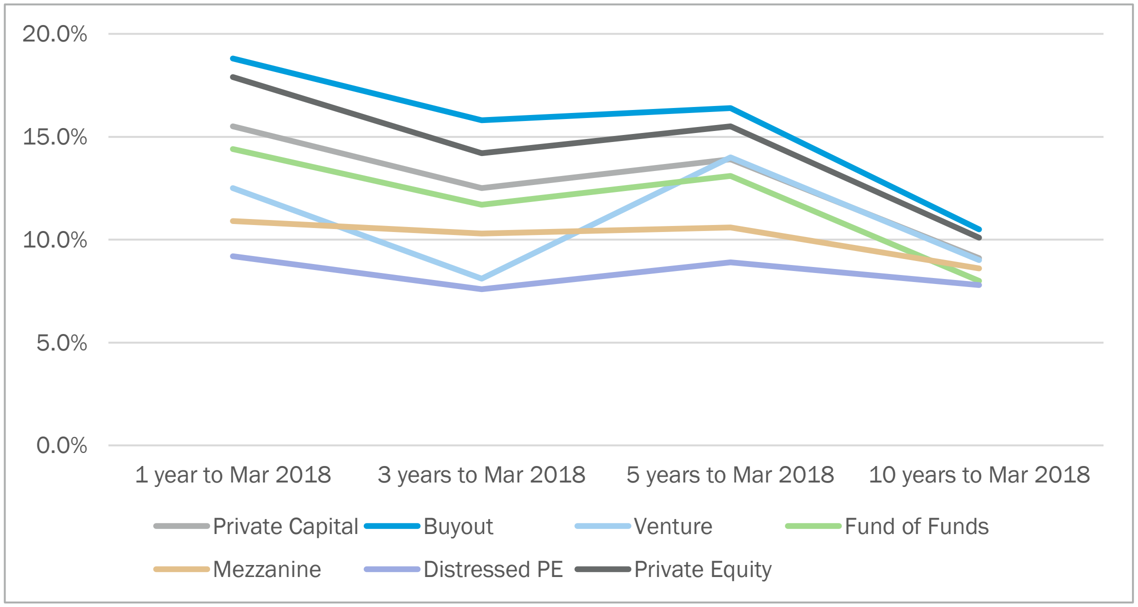
- The B2B and B2C sectors continue to be attractive sectors to invest in among PE firms, as can be seen through the 56% of total PE deal volume (in dollar terms) being allocated to these sectors. As the U.S. economy continues to grow, demand for business services and consumer goods should remain robust, and PE capital should continue to flow into these sectors.

Source: PitchBook PE Breakdown 3Q 2018
**2018 figures are through 9/30/2018*

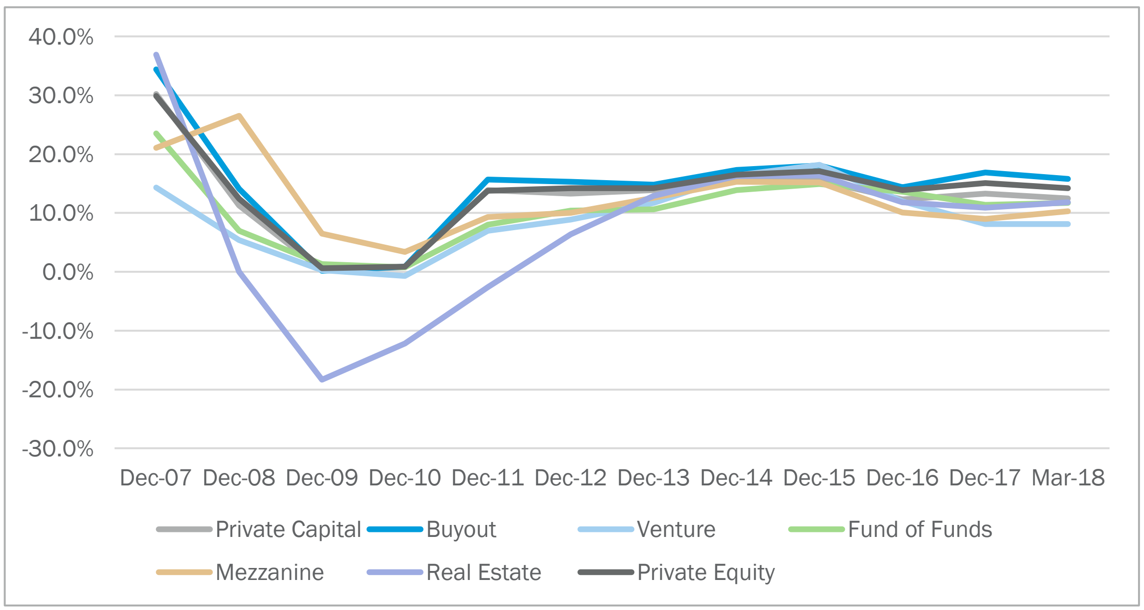
Horizon Performance

Private Equity

Horizon IRRs



Three-Year Rolling Returns



- Three-year rolling returns have remained fairly flat in recent years
- The performance of distressed and mezzanine strategies continues to lag that of other private equity strategies. The generally favorable economic environment has favored buyout strategies for more attractive risk/return profiles compared to other PE strategies.
- Please note the following:
  - **Private Capital (All):** Defined as all private closed-end funds, including private equity, private debt, private real estate, infrastructure, and natural resources
  - **Private Equity (All):** Defined as balanced, buyout, direct secondaries, growth, PE fund of funds, PE secondaries, turnaround, and venture capital

Source: Preqin, June 2018