



Canterbury Consulting

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## Quarterly Asset Class Report

### Private Equity

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March 31, 2016

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

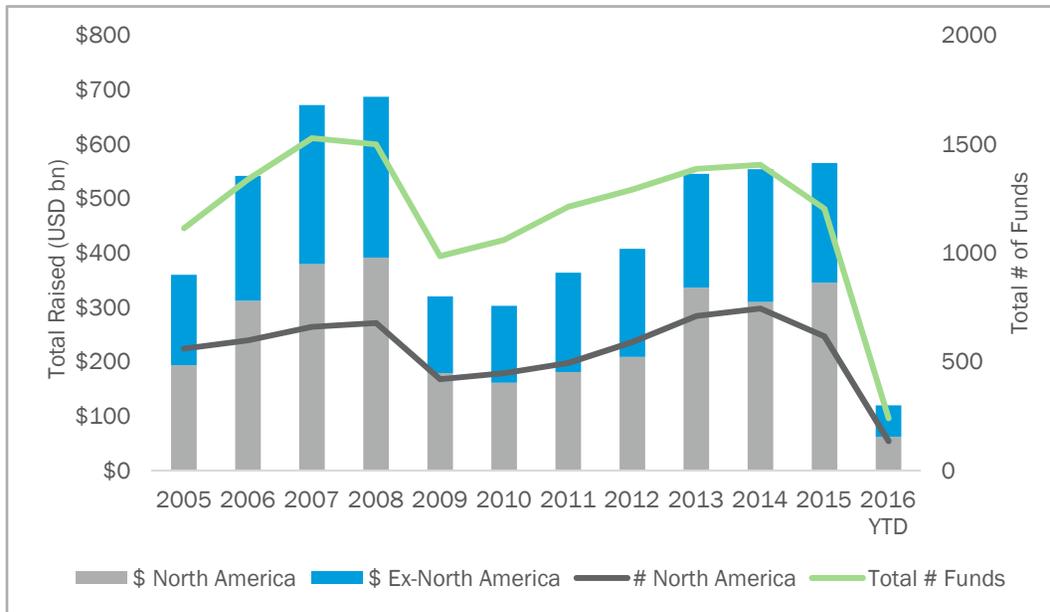
Role	Asset Categories	Risks
Growth	Public and Private Equity	Market Decline
Capital Preservation	Fixed Income, Hedge Funds	Rising Interest Rates, Highly Correlated Markets
Inflation Protection	Real Assets: Real Estate, Commodities	Deflation

- 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

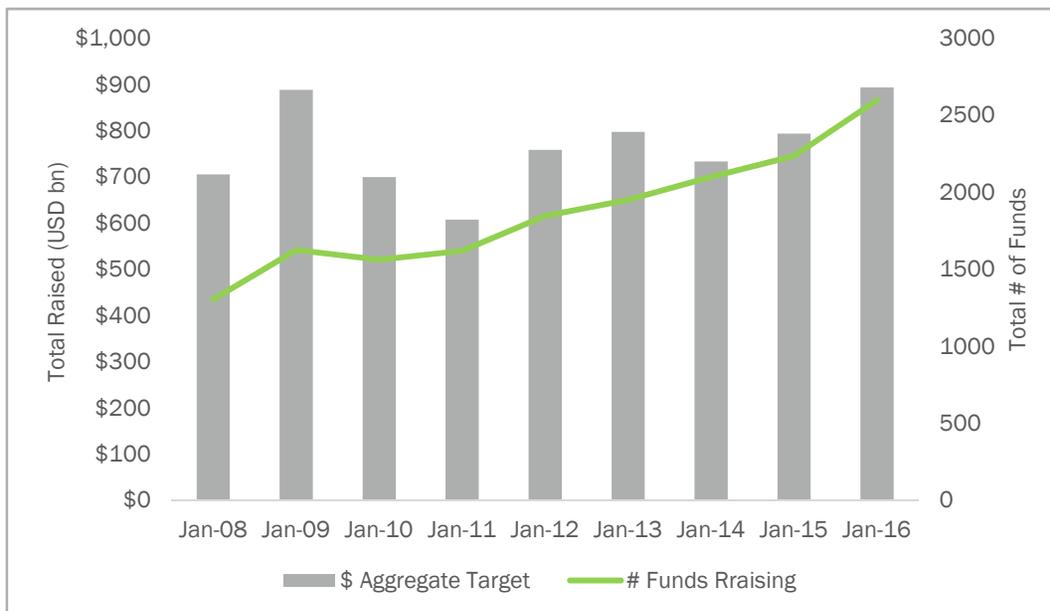
# Fundraising Overview

## Private Equity

### Global Fundraising



### Funds in Market



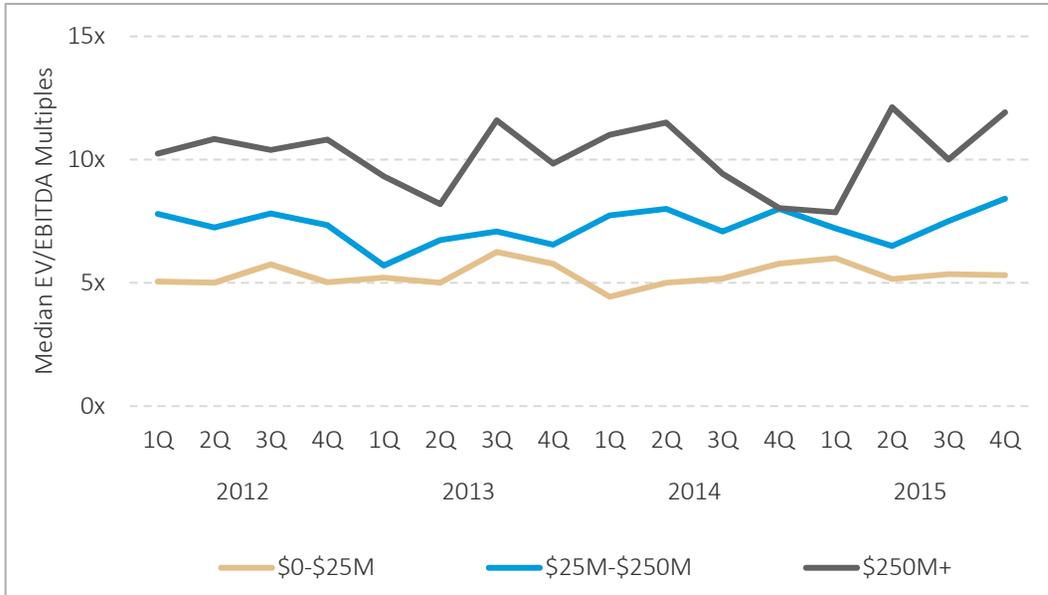
- Global fundraising levels dropped off in FY 2015 relative to recent years
- As discussed in previous quarters, the trend of fewer funds raising larger amounts of capital persists
  - In 2015, the average fund size based on global fundraising totals was US\$523 million, vs. US\$4 million in 2014
  - This represents the highest average fund size in the past 15 years
- Based on the elevated number of funds in the market, fundraising by the best managers will likely remain competitive for limited partners through mid-2016

Source: Preqin, reported as of April 2016

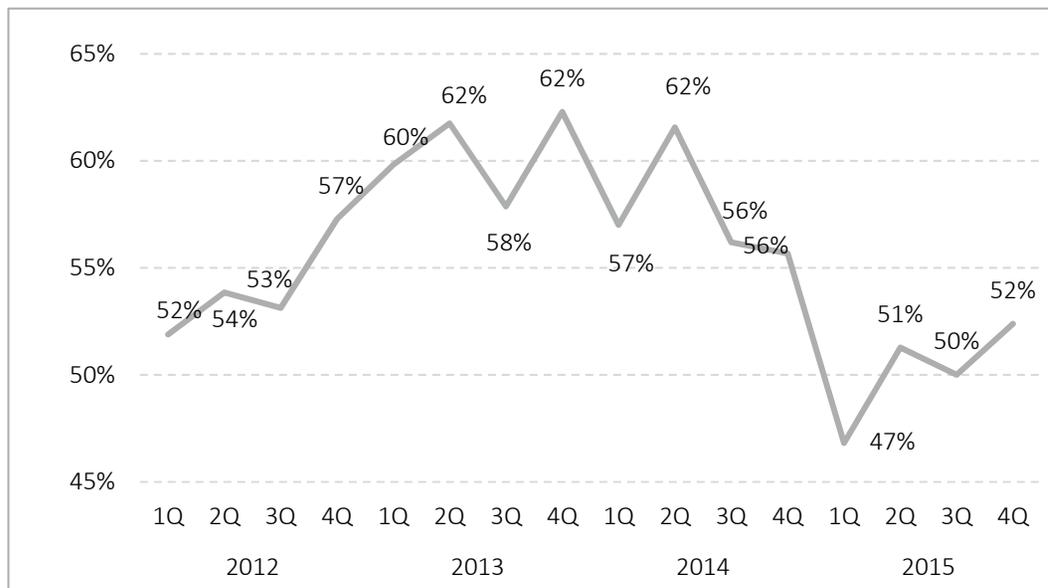
# Deal Activity

# Private Equity

Median EBITDA Multiples by EV



Median Debt % of Total Value



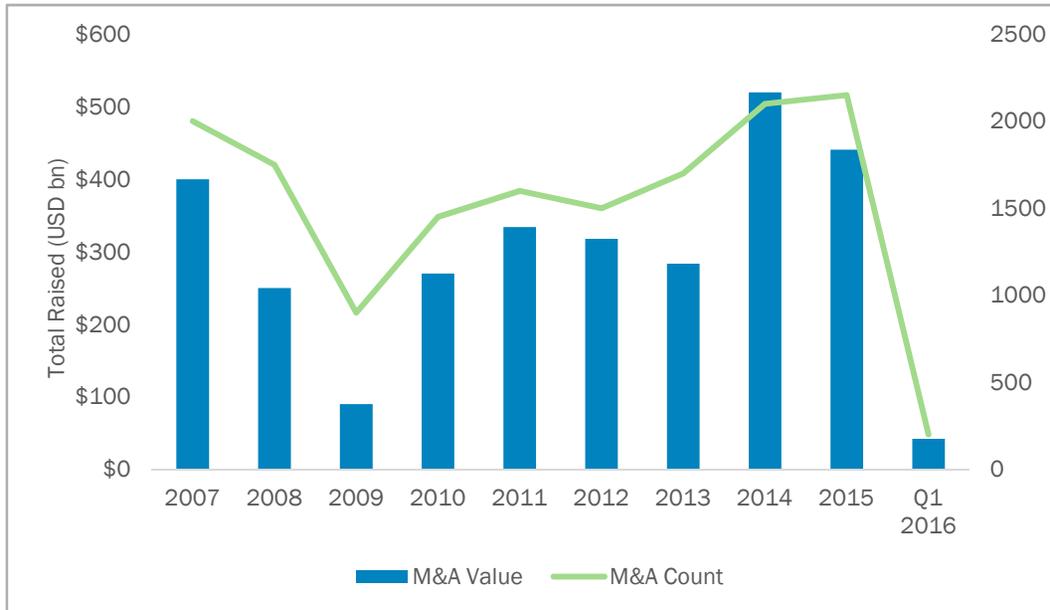
- A review of deal activity through 4Q 2015 indicates a slight upward trend in valuation multiple. This is surprising but can potentially be attributed to year-end timing for transactions involving high quality assets
- Commensurate with deal multiples, median debt as a percentage of total transaction value ticked upward slightly in 4Q 2015
- Not apparent in the numbers are the deals that did not transact in 2015 and were pushed out into the following year. This, coupled with volatility in early Q1 2016, will likely drive valuation and leverage multiples downward this year

Source: Pitchbook 2015 Annual PE Deal Report

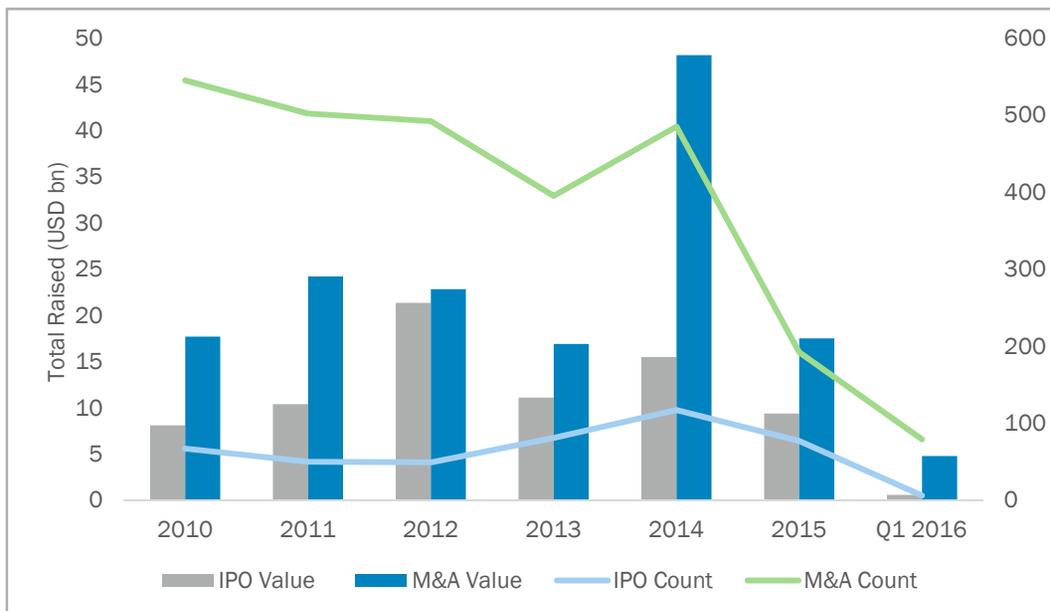
# Exit Activity

## Private Equity

### Private Equity-Backed



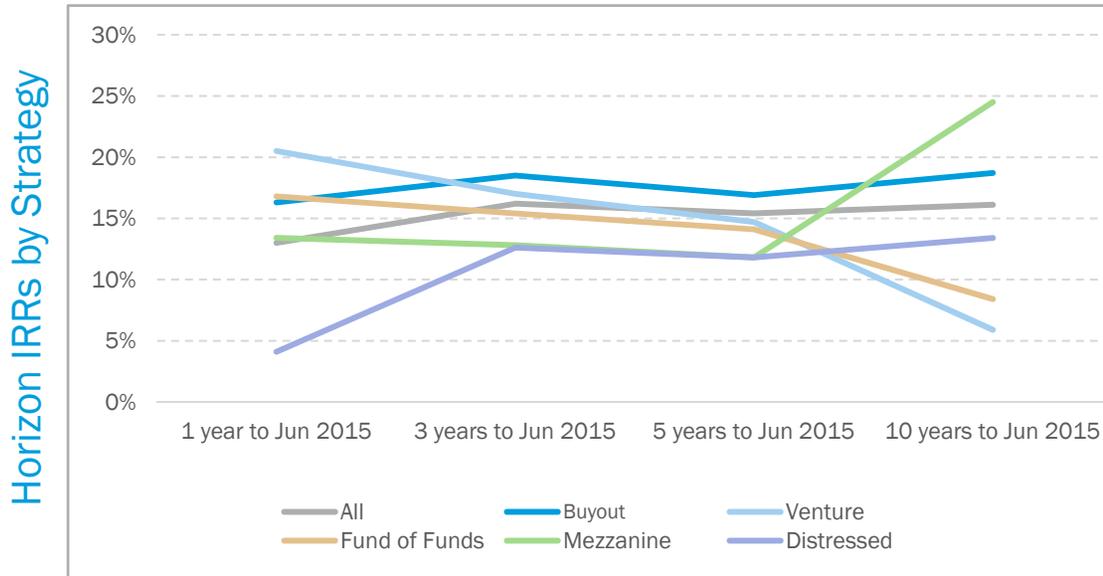
### Venture-Backed



- After a banner year in 2014, global private equity-backed M&A exit values have declined in 2015 (although deal count has remained flat)
- M&A and IPO volumes for venture-backed companies through FY 2015 have declined to the lowest levels in the past five years
  - 1Q 2016 IPO activity was particularly sluggish, with six venture-backed IPOs (all of which were biotech companies)
- While the increase in volatility and uncertainty will impact future exit activity, it may also result in the ability to deploy capital in attractive opportunities

Source: NVCA, MergerMarket (based on disclosed M&A values)

## Horizon Performance



## Private Equity

- Although short-term performance is not meaningful in private equity, it is evident all strategies benefited from the “rising tide” of valuations seen over the past year
  - Buyout performance has been strong over the long term, while venture has benefited from the current valuation environment
  - Given market strength of the past few years, distressed strategies have underperformed on a relative basis in the short-term

Source: Preqin, reported as of April 2016