

Canterbury Consulting

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Quarterly Asset Class Report

Private Equity

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Quarter Ending March 31, 2018

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.

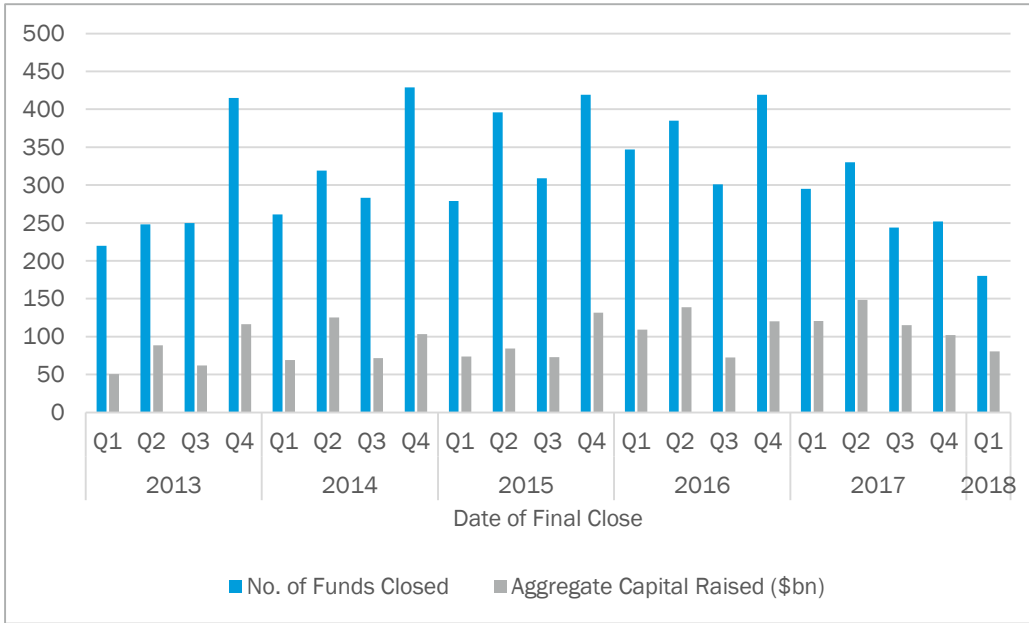
- Canterbury blends strategic and opportunistic approaches to construct private capital portfolios that are diversified by sector, geography, and vintage year.
 - Strategic: using various market inputs to form a baseline, we create a recommended model portfolio allocation.
 - Opportunistic: we combine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

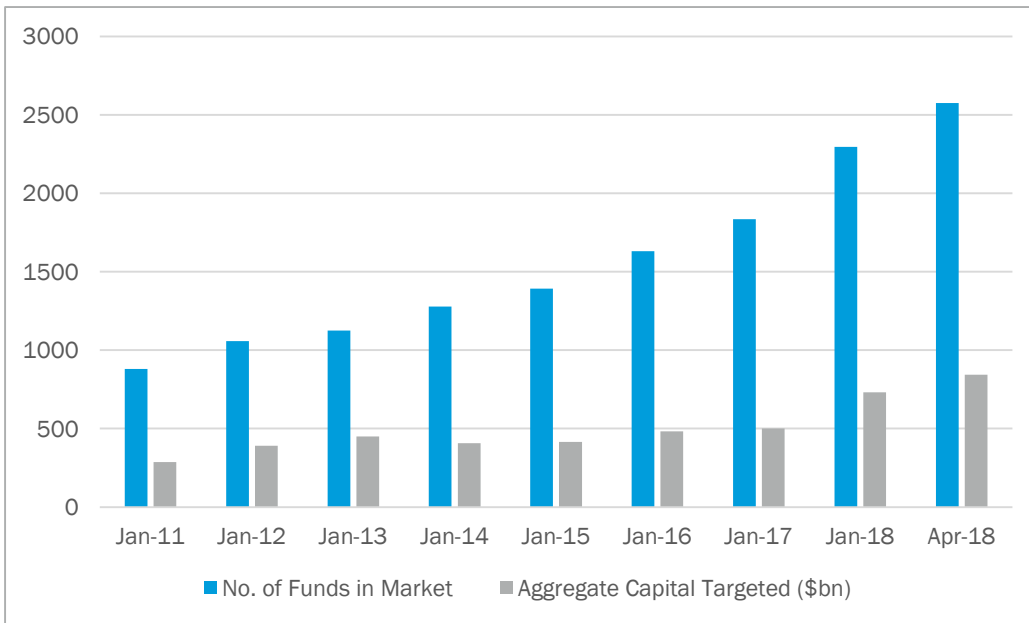
- Over a full market cycle, private equity is expected to generate above-market returns commensurate with risks associated with the asset class (i.e., illiquidity, time horizon, etc.)
- Given the length of the time required to deploy capital and constant evolution of the opportunity set, investors in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

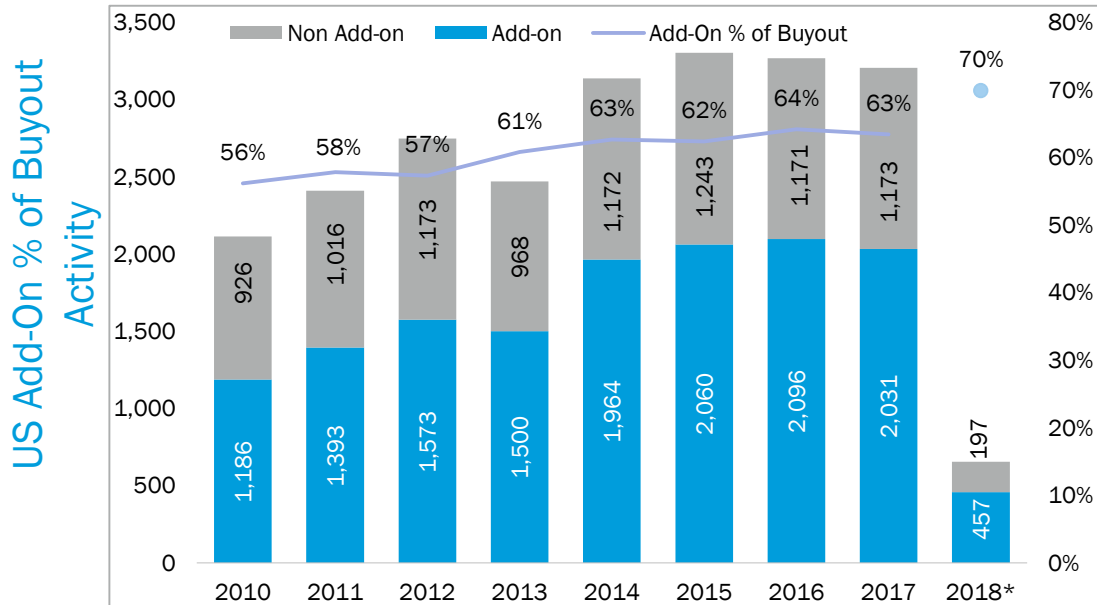
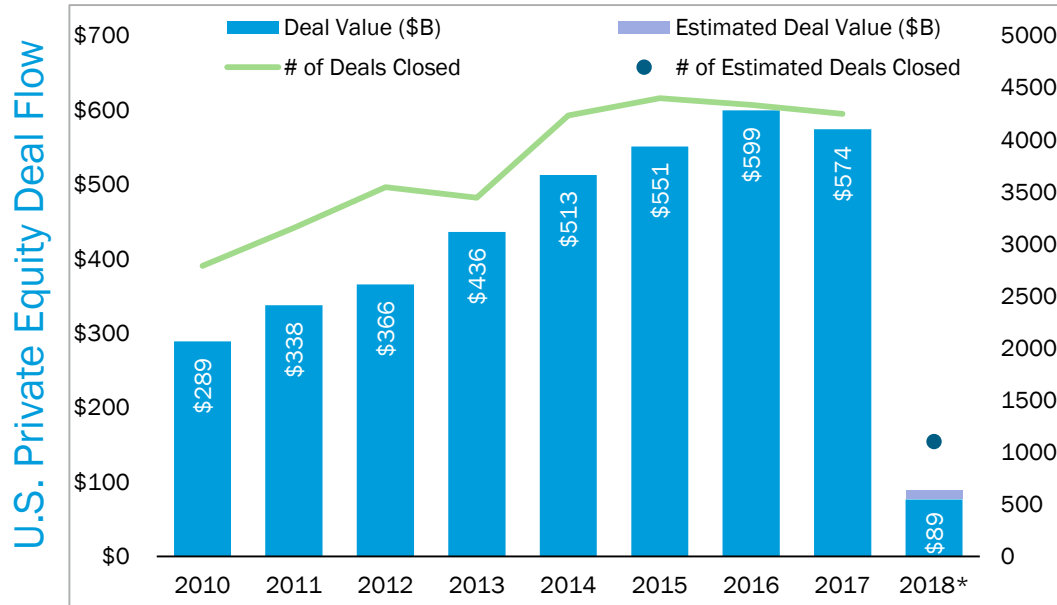


- 180 private equity funds globally closed on over \$80 billion during Q1 2018, well below the \$120 billion raised from 295 funds in Q1 a year earlier.
- The slowdown is largely due to a decrease in North America-focused fundraising: \$32 billion versus \$68 billion in Q1 2017.
- Despite the sharp decline in North America, 38 Europe-focused funds secured \$43 billion in capital—a record Q1 for Europe.
- Funds in market reached a new all-time high at the end of Q1 2018, with 2,575. The total amount of capital targeted is also at an all-time high of \$844 billion.
- Europe was the most sought after region for LP dollars during Q1. Approximately 53% of targeted PE dollars are for European funds, while North America represents approximately 40% and Asia 6%.

Source: Preqin, reported as of April 2018

Deal Activity

Private Equity



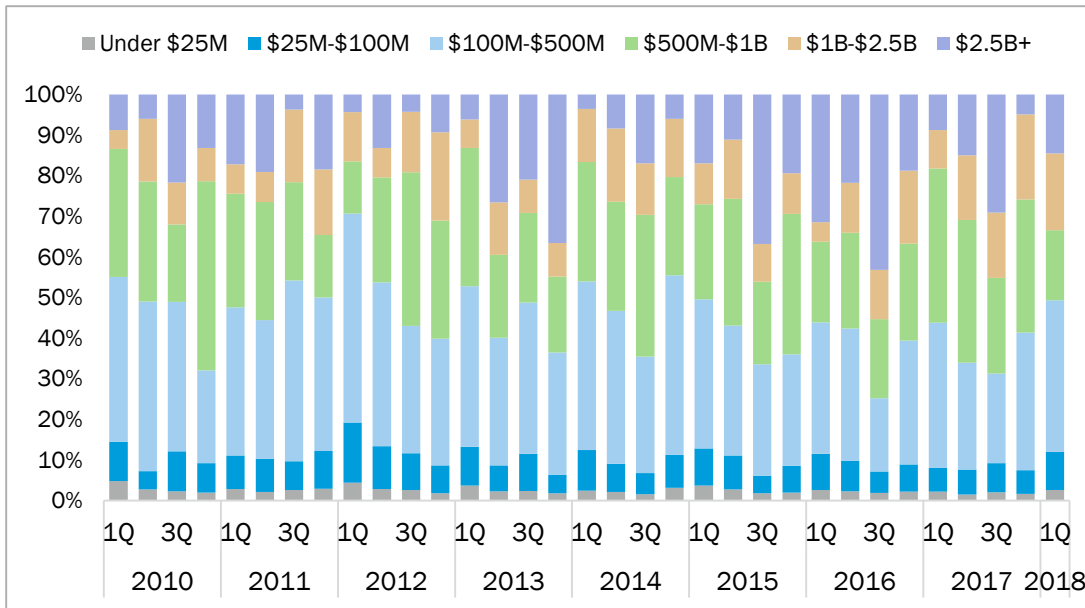
- U.S. private equity activity remained robust, but deal value took a hit through the first quarter of the year, with approximately 1,100 completed transactions totaling \$89 billion, which are both down from Q1 2017.
- Deal flow is expected to increase in the coming months due in part to the 124 deals valued at \$94.3 billion that have yet to be closed in 2018.
- Add-ons accounted for 70% of all buyout activity in Q1 2018 with nearly one-third of PE-backed companies now undertaking at least one add-on acquisition, compared to only 20% in the early 2000s.
- 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 1Q 2018
 *2018 figures are through 3/31/2018

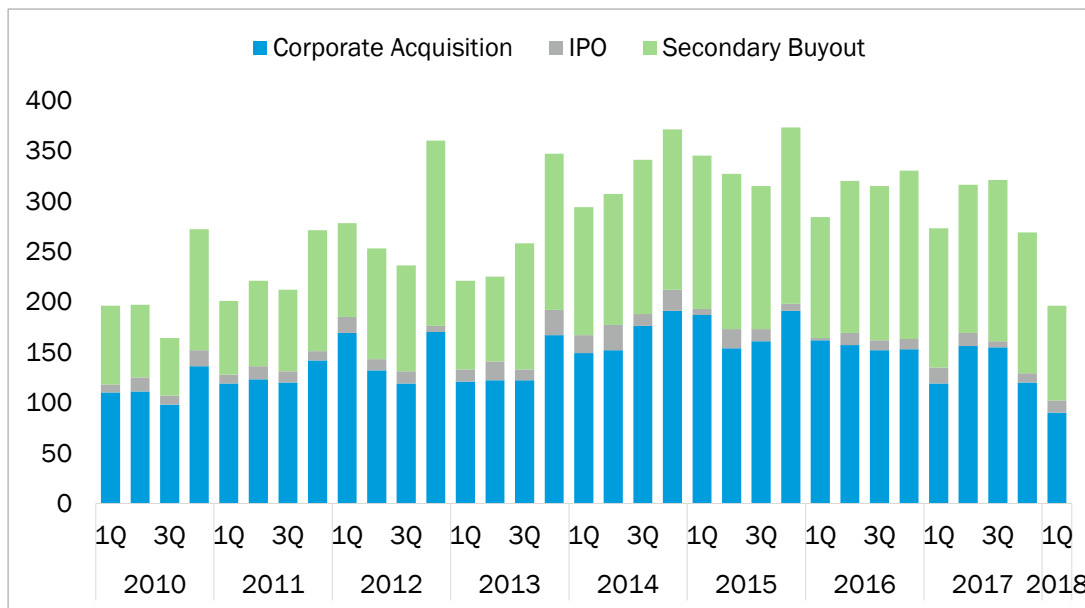
Deal Activity

Private Equity

U.S. PE Deals by Size



Exit Deal by Buyer Type



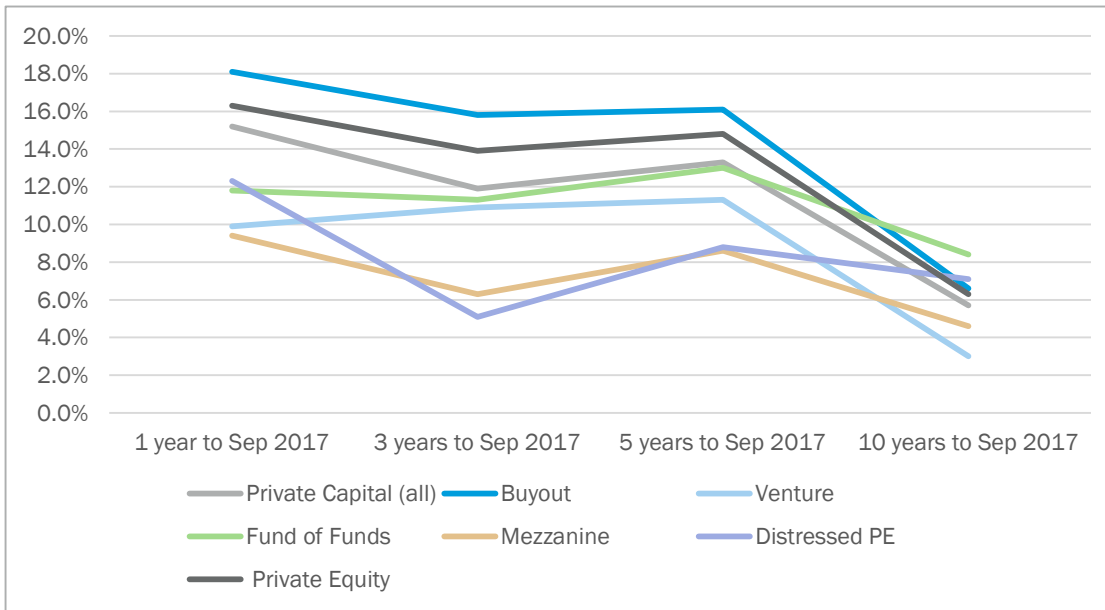
- During Q1 2018, the lower middle market (\$100M-\$500M) continues to be a significant source of deal activity as this market comprised 37% of overall deal activity this quarter.
- US PE firms are consistently tapping into the lower middle market in hopes of finding relief from the high-valuation environment and to take advantage of greater investment opportunities.
- After a strong last half of 2017, PE exit activity slowed a bit during Q1 2018, with less than 200 exits taking place, which was split primarily between corporate acquisitions and secondary buyouts.
- After a relatively tepid IPO market during the last half of 2017, there were a total of 12 PE-backed companies who went public during Q1 2018, despite market volatility.

Source: PitchBook PE Breakdown 1Q 2018
 *2018 figures are through 3/31/2018

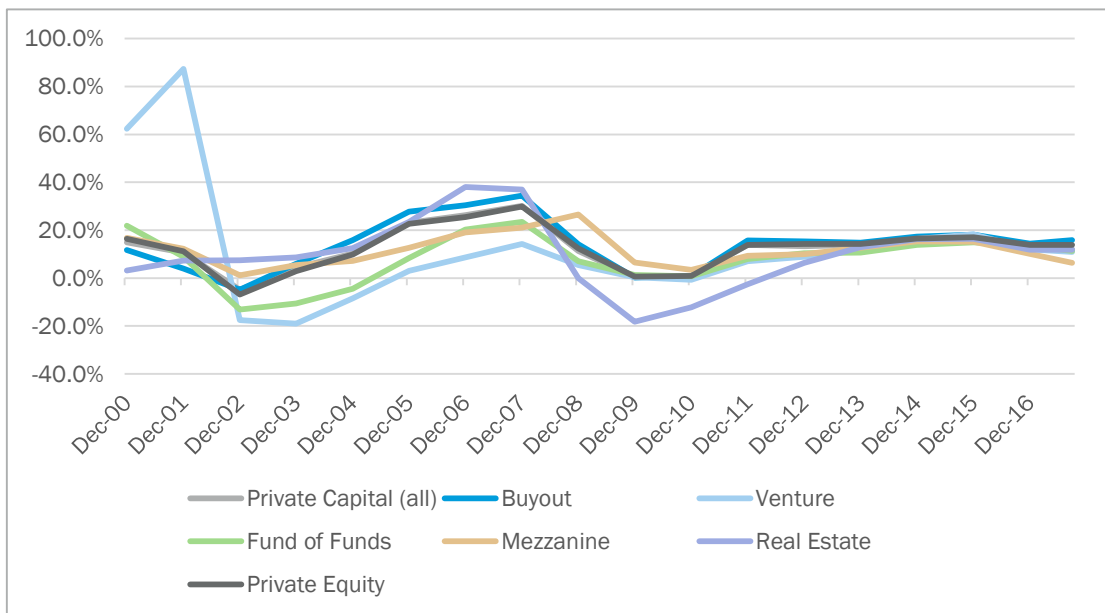
Horizon Performance

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 and mezzanine strategies continues to lag 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.
- 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, April 2018