Quarterly Asset Class Report

Private Capital

Canterbury Consulting

canterburyconsulting.com

March 31, 2023

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.

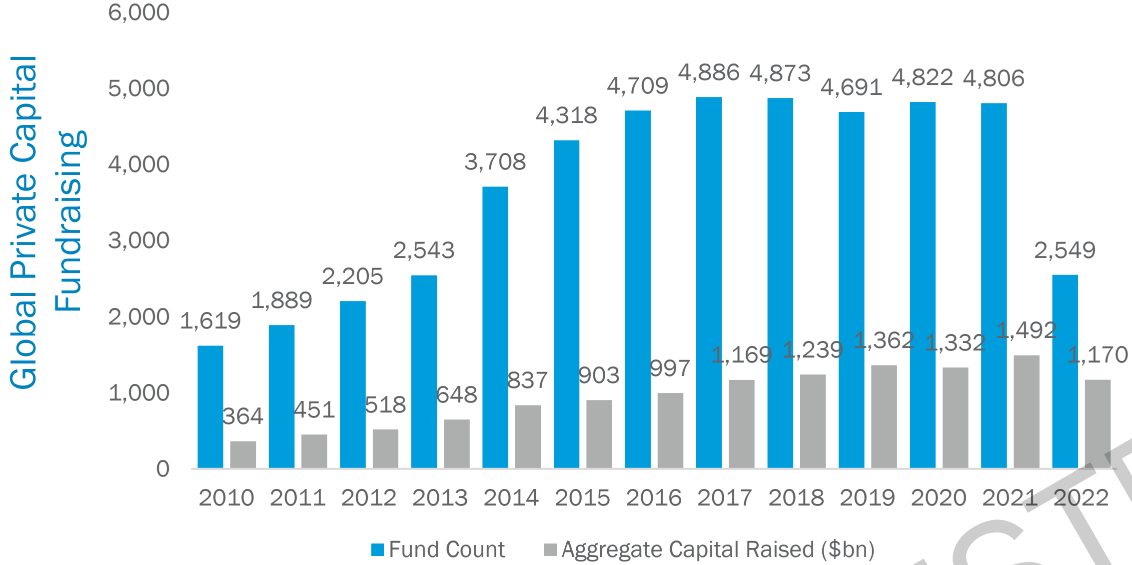
- Strategic: Using various market inputs to form a baseline, we create a recommended portfolio allocation.
- Opportunistic: We combine top-down and bottom-up analysis to target excess risk-adjusted returns through market intelligence and superior manager selection.

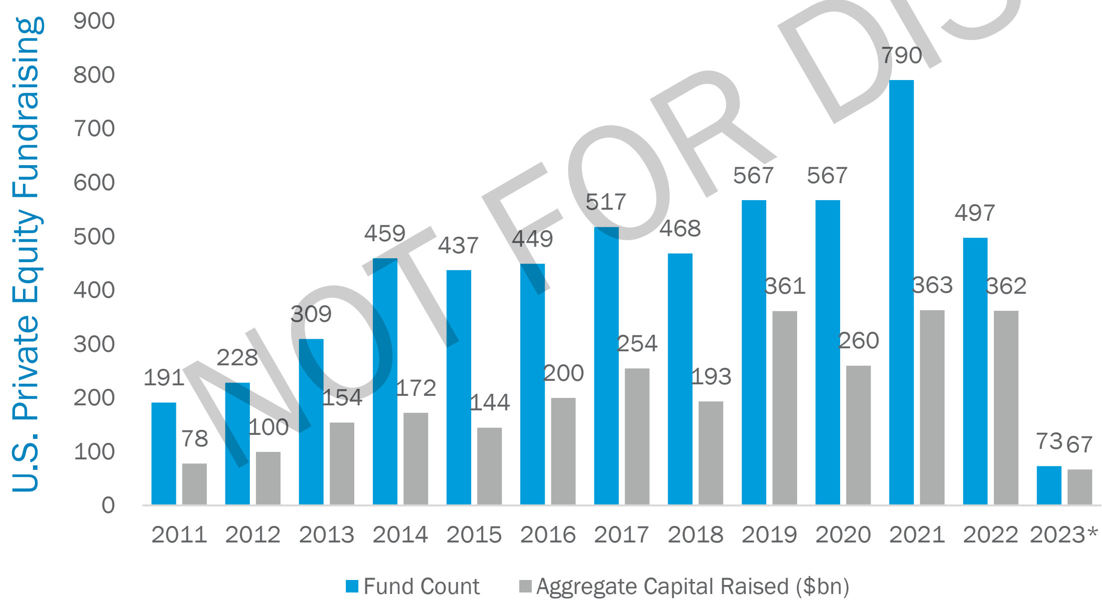
Role	Asset Categories	Risks
Growth	**Public Equity and Private Capital**	**Market Decline**
Capital Preservation	Private Credit, Fixed Income, Hedge Funds	Rising Interest Rates, Highly Correlated Markets
Inflation Protection	Real Assets: Real Estate, Commodities	Deflation

— 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





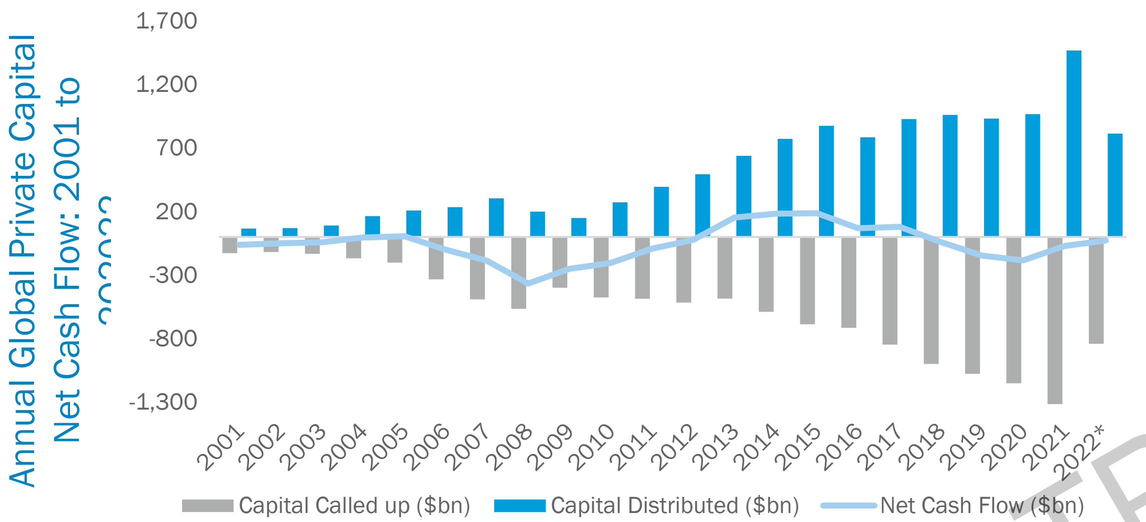
- Through the end of 2022, global private capital funds raised just shy of $1.2 billion across 2,549 private capital funds. This is the lowest fundraising total since 2017.
- The composition of the fundraising environment can be broken down between more established, name brand GPs (those with more than three fund vintages) and emerging GPs. In 2011, emerging managers took in 39.6% of capital, but that share significantly dropped to 17.7% in 2022.
- Regionally, North America accounted for over three-fourths of total fundraising. Europe experienced a YoY drop of 55.6% in funds raised during 2022.
- By strategy, global venture capital raised $252.6 billion across 1,371 funds, an 11.4% drop from 2021. Private real estate raised $85.6 billion across 232 funds in 2022, a ten-year low. Private debt continues to serve as a bright spot in the global fundraising environment, raising over $200 billion for the third consecutive year.
- Thus far in the U.S., a total of $67 billion was raised across 73 private equity funds. While still early, U.S.-based GPs are expecting to extend fundraises in response to LPs reaching allocations or needing to cut back allocations in response to the “denominator effect”.

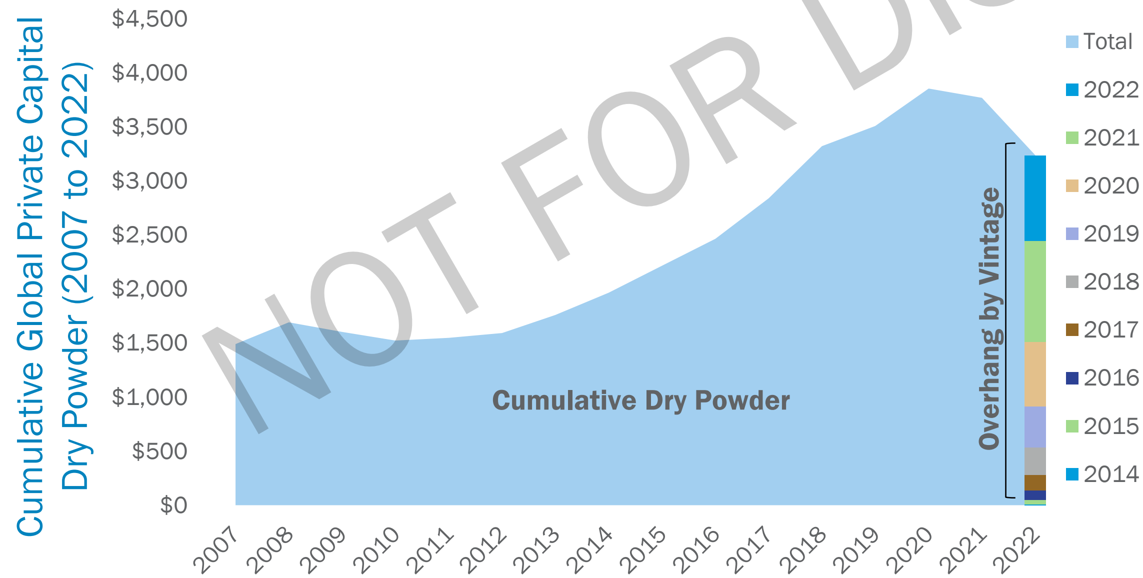
Sources: PitchBook 2022 Global Private Markets Fundraising Report; PitchBook Q1 2023 U.S. PE Breakdown.

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

**U.S. Private Equity Fundraising as of March 31, 2023*

Global Private Capital: Performance and Dry Powder





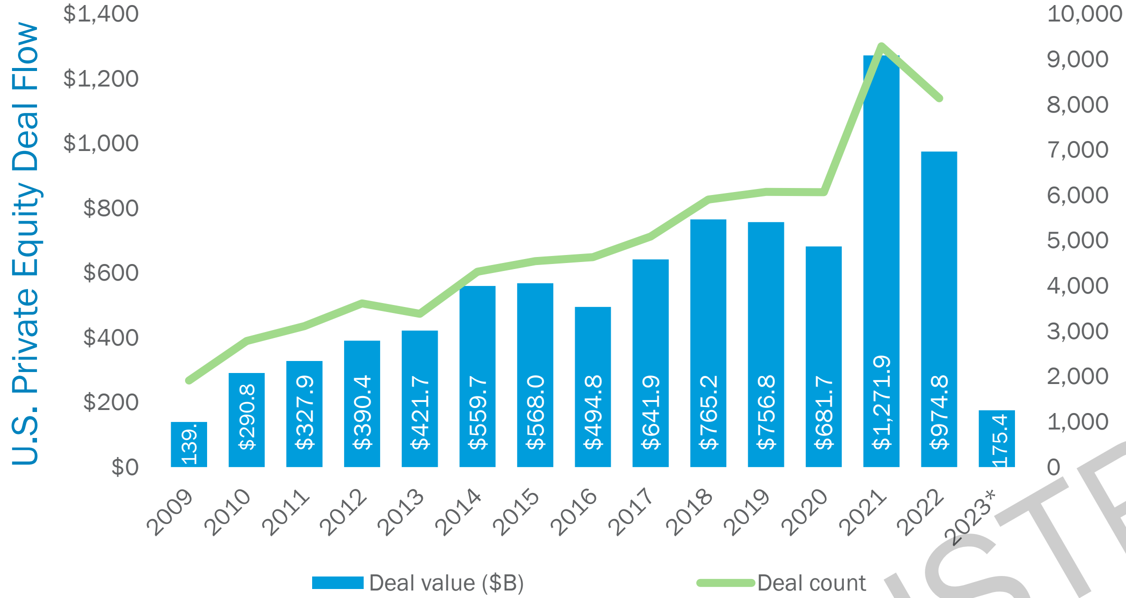
- Through the first half of 2022, private capital net cash flows remained in negative territory, which has been consistent since 2018.
- The primary drivers behind the negative LP cash flows has been within venture capital and private debt. Venture capital has experienced a challenging exit environment with fewer public market exits. Private debt experienced a negative $23.7 billion net cash flow through Q2 2022, which reflects the higher level of contributions to this strategy relative to distributions as more LPs are funneling capital into private debt.
- As of the end of 2022, global private capital dry powder stood at over $3.2 trillion, a 13% decrease from the $3.7 trillion at the end of 2020. GPs have been deploying more capital relative to the fund commitments being raised.

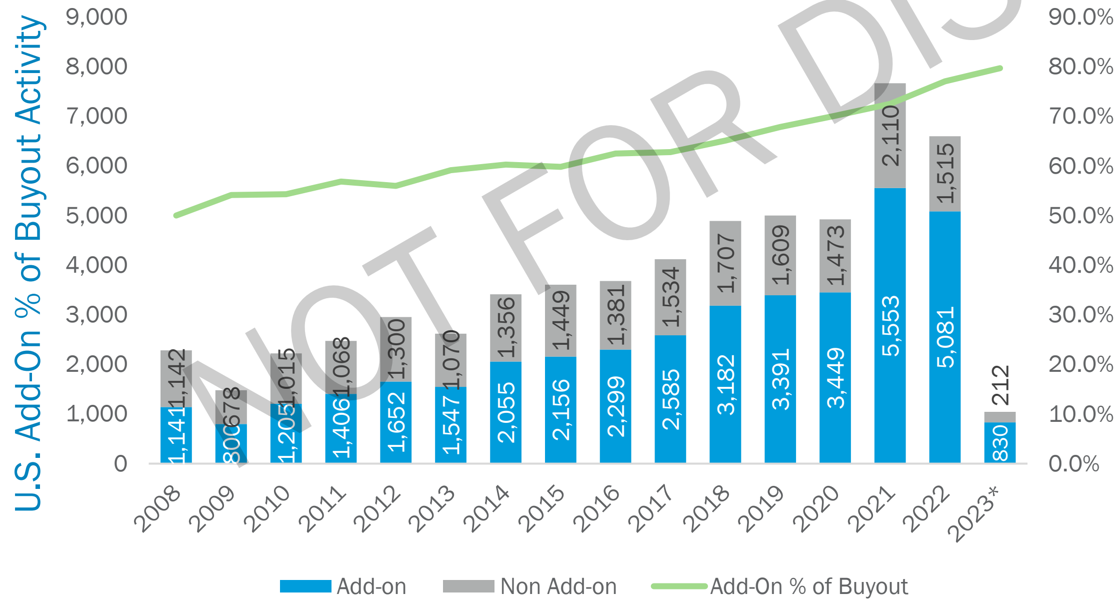
Sources: PitchBook 2022 Global Fund Performance Report; PitchBook 2022 Global Private Market Fundraising Report

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

**As of June 30, 2022*

U.S. Private Equity Deal Activity



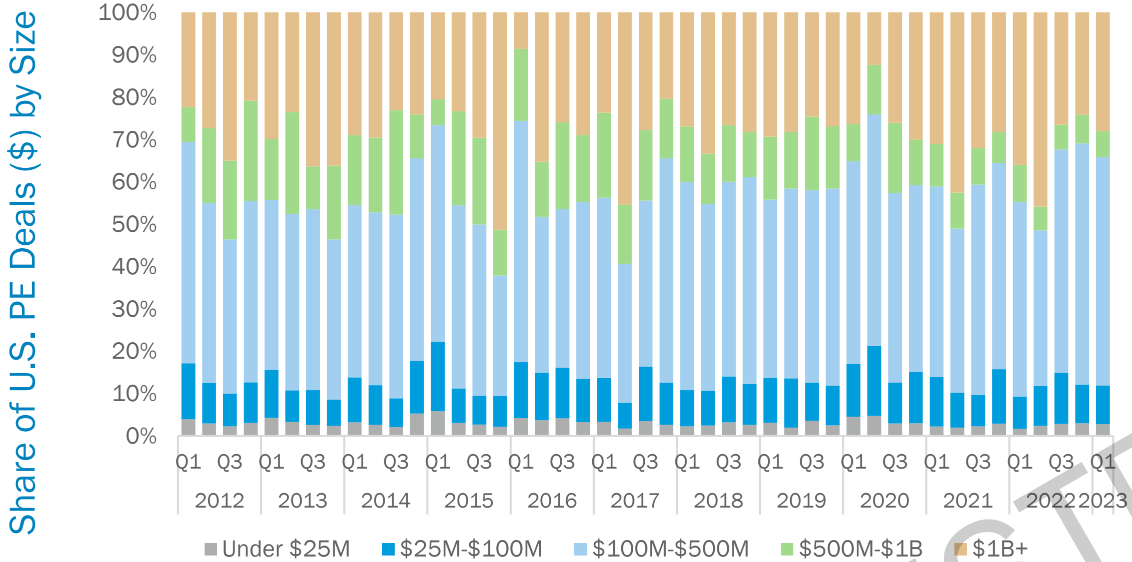


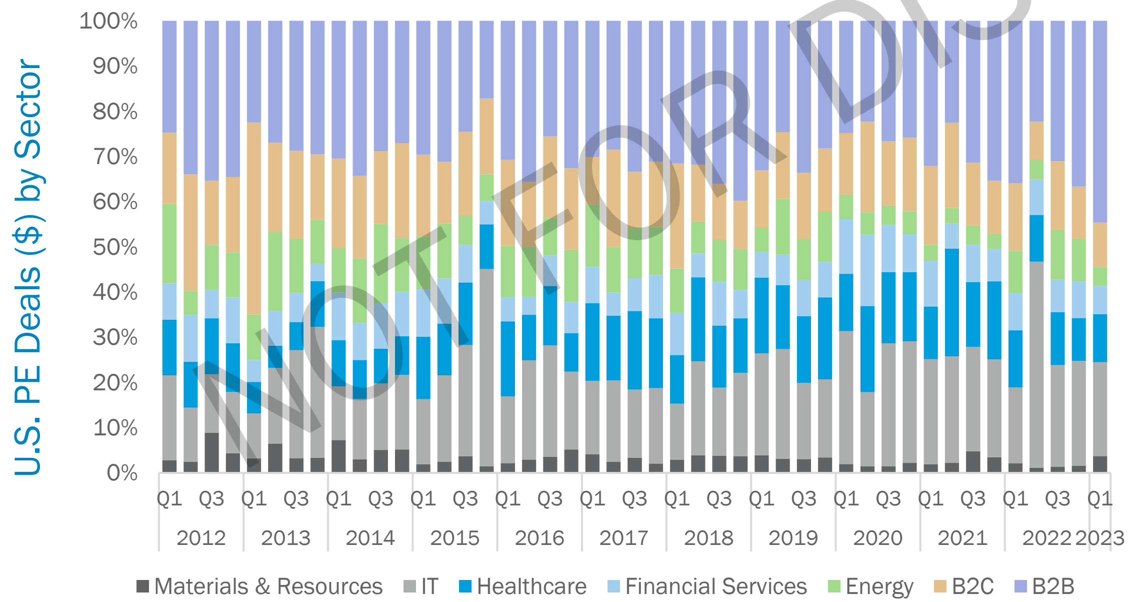
- Through the first quarter of 2023, $175.4 billion was transacted on across 1,340 deals. When compared to the prior quarter, this represented a 9.3% drop in deal count and an 11.4% increase in deal value.
- As a percentage of total deal volume, add-on transactions accounted for 62% of total private equity deal count. PE growth/expansion transactions accounted for more than 22% versus 18% historically.
- Through the first quarter, there were 12 deals that were valued at $1 billion or greater which significantly lags the historical trend. Sponsors are hampered by the higher cost of debt which is making it difficult for larger deals to be financed without additional equity from sponsors.
- Carveout deals have become increasingly important among sponsors looking to purchase more attractively valued assets. Add-on deals accounted for 78.6% of all carveouts where sponsors fold these assets into platform companies to drive synergies.
- Add-on activity continues to be a key driver of buyout activity as PE firms see add-ons as a way to accelerate value creation and bring down overall purchase price multiples. Add-on acquisitions now comprise 80% of total U.S. buyout activity, versus 63% in 2017.

Source: PitchBook Q1 2023 U.S. PE Breakdown

**As of March 31, 2023*

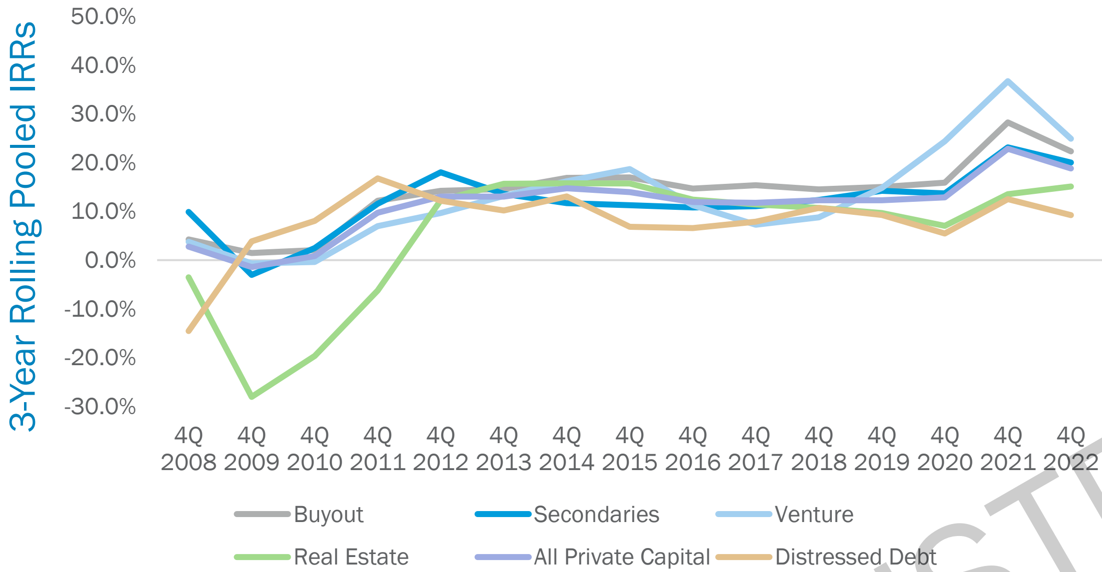
U.S. Private Equity Deal Activity

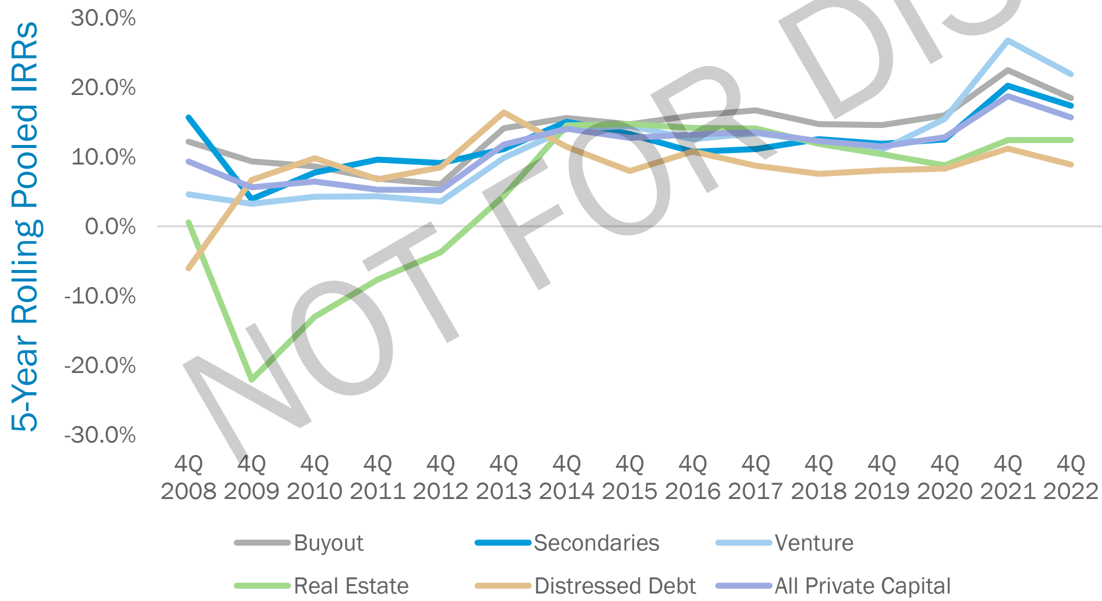




- The share of deals valued at $1 billion+ stood at 28% through Q1 2023, consistent with the past two quarters. Deals valued at $100 million to $500 million comprised 54% of PE deals over the quarter. This has remained consistent since the end of 2021.
- To date, 54.4% of deal value in the U.S. has been within the business services sector. This is the highest share of total deal value within this sector on record. The share of deal value from the IT sector is 21%, which is consistent over the last 10 years.
- 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.

Source: PitchBook Q1 2023 U.S. PE Breakdown

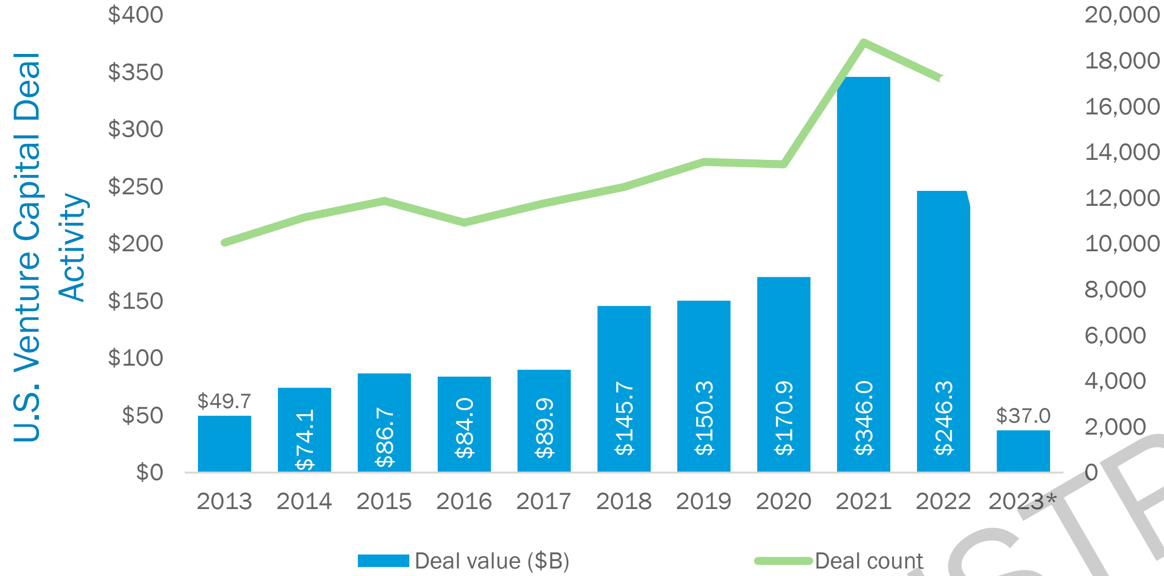


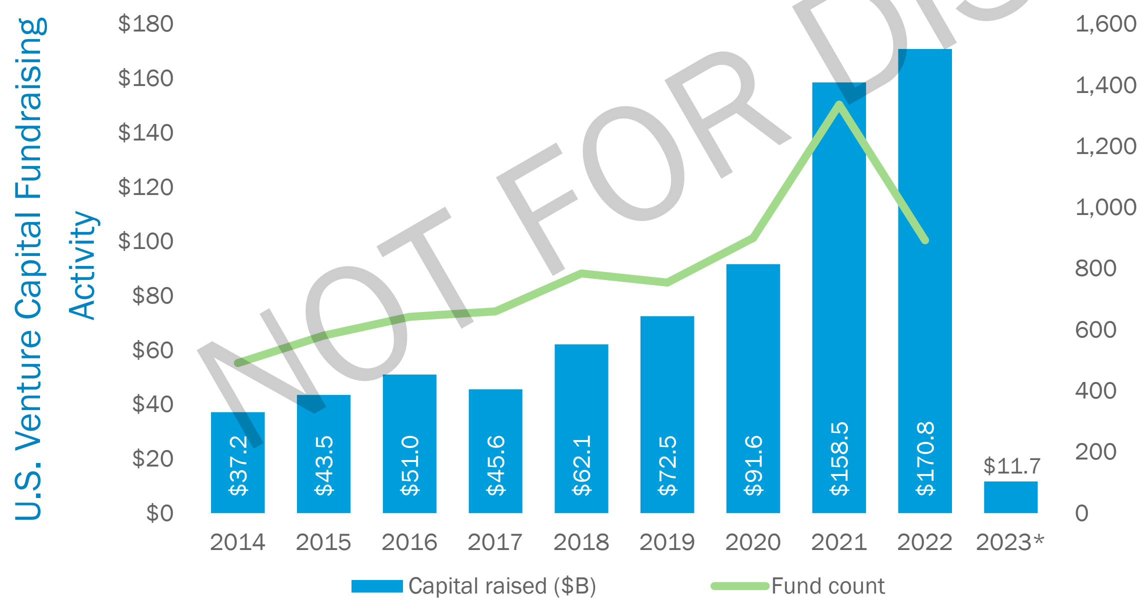


- From Q4 2021 to Q4 2022, all private capital strategies, except for Real Estate, experienced downward performance on a three-year and five-year rolling return basis.
- Venture Capital, which is heavily weighted towards the technology sector, experienced the sharpest decline in rolling performance over the past year. Public technology firms, whose appeal tends to be centered around sizeable profits in the future, sold off markedly in light of higher inflation levels, increased interest rates, and expectations of a slowdown in the economy.
- While real estate has not historically outperformed relative to the other private capital strategies, performance within this strategy did not succumb to the effects of the public market drawdown given the strategy's inflation-protection characteristics and strong sector fundamentals within industrial and residential real estate.

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

Quarterly Spotlight: U.S. Venture Capital Activity





- U.S. venture capital deal activity has slowed down dramatically to start the year. As of Q1 2023, there was $37 billion in total deal value across 2,856 total transactions. This is on pace to be the lowest deal activity since 2018. Higher interest rates, poor macroeconomic indicators, and several high-profile bank failures contributed to this reduction in deal activity.
- From a stage perspective, venture capital deal activity in the U.S. dropped across all stages and sectors to start the year. It was more pronounced in the angel and seed stages where activity among these stages currently make up the smallest share of venture investment in the past decade.
- Venture capital fundraising is off to a challenging start with just $11.7 billion raised in the first quarter. This is on pace to be the lowest fundraising year since 2015. Like private equity, LPs are gravitating to more established managers that have a demonstrated track record of performance and have invested across multiple market cycles.

Source: PitchBook Q1 2023 NVCA Venture Monitor
**As of March 31, 2023*