

Canterbury Consulting

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Quarterly Asset Class Report Private Capital

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June 30, 2022

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.

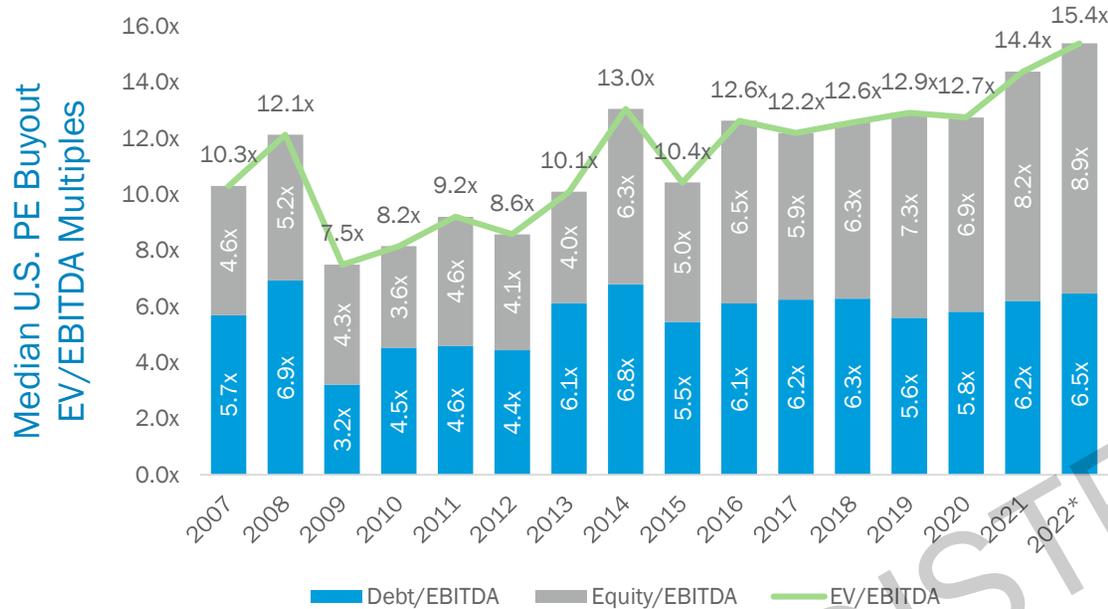
- Canterbury blends strategic and opportunistic approaches to construct private capital portfolios diversified by sector, geography, and vintage year.
 - Strategic: Using various market inputs to form a baseline, we create a recommended portfolio allocation.
 - Opportunistic: We combine top-down and 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 intended 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.

U.S. Private Equity Valuation Overview

Private Capital



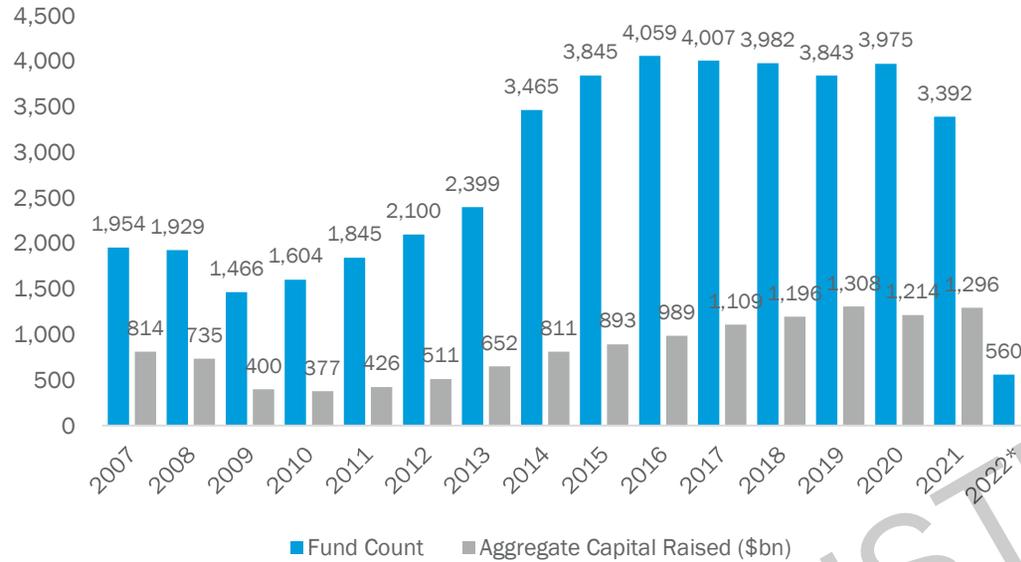
- U.S. PE buyout multiples reached an all-time high during the quarter, driven by a few large technology and healthcare sector deals that were executed in the prior quarter and that closed during Q2.
- The middle market is feeling the effects of rising inflation and higher interest rates. As of Q1 2022, the rolling three-year median PE middle market buyout multiples declined to 11.6x, compared to 12.3x at the end of 2021.
- The share of deals financed by equity continues to increase, as the cost of debt financing has risen sharply. According to LCD, pricing for first-lien term loans used to finance LBOs is regularly hitting 525 to 550 basis points above the secured overnight financing rate (SOFR). All-in yields have come in below 9% in some instances, but the unsecured portions are now regularly hitting double-digit yields.

Source: PitchBook Q2 2022 U.S. PE Breakdown
*As of June 30, 2022

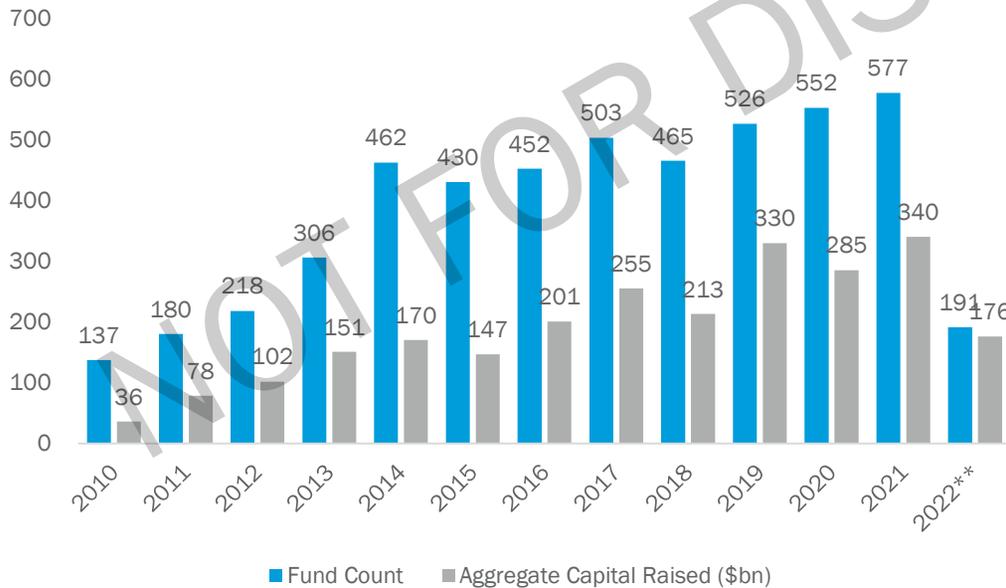
Private Equity Fundraising Activity

Private Capital

Global Private Capital Fundraising



U.S. Private Equity Fundraising



- As of Q1 2022, 560 funds globally raised an aggregate amount of \$293.1 billion. This represents less than one quarter of total 2021 fundraising.
- GPs are continuing to raise larger funds and are coming back to market more often. Those GPs who have had prior funds in a fund family increased the size of their next fund 82.2% of the time in Q1 2022. The median step-up was 60.9%. The median number of years between fund closings was 2.4 years, which is the lowest figure since 2008.
- From a strategy perspective, private equity funds and venture capital funds comprised over 60% of total capital raised in Q1, with each raising approximately \$94 billion globally.
- North America has been gaining share in total global fundraising, largely at the expense of Asia. North America currently comprises 76.2% of total capital raised, compared to 62.3% in the prior year.
- The U.S. fundraising market appears to be crowded through the first half of 2022. A total of 191 funds raised a total of \$176 billion.

Sources: PitchBook Q1 2022 Private Fund Strategies Report and PitchBook Q2 2022 U.S. PE Breakdown.

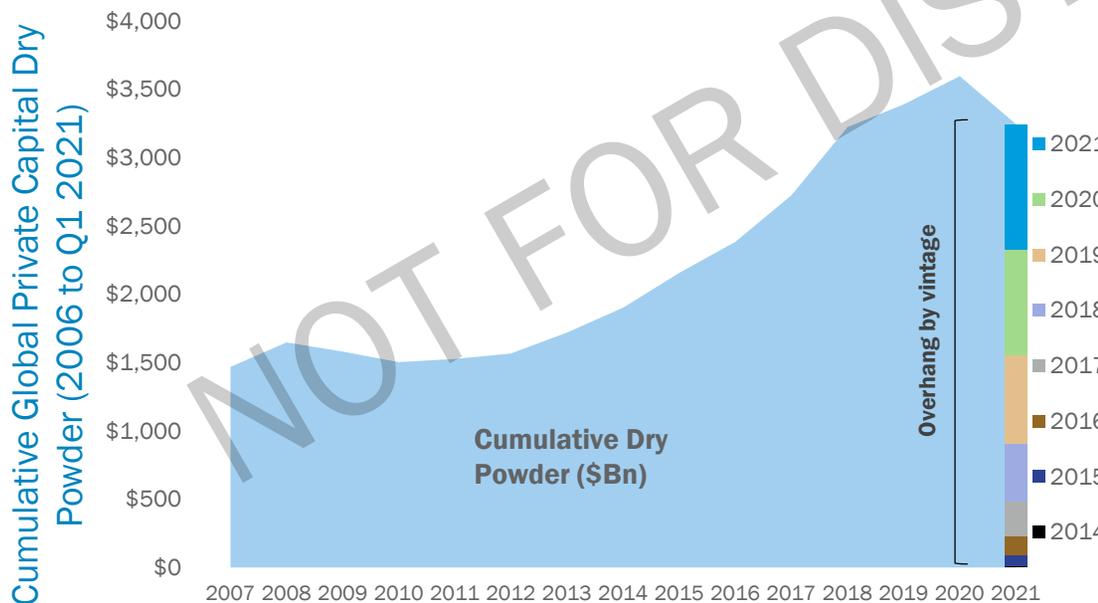
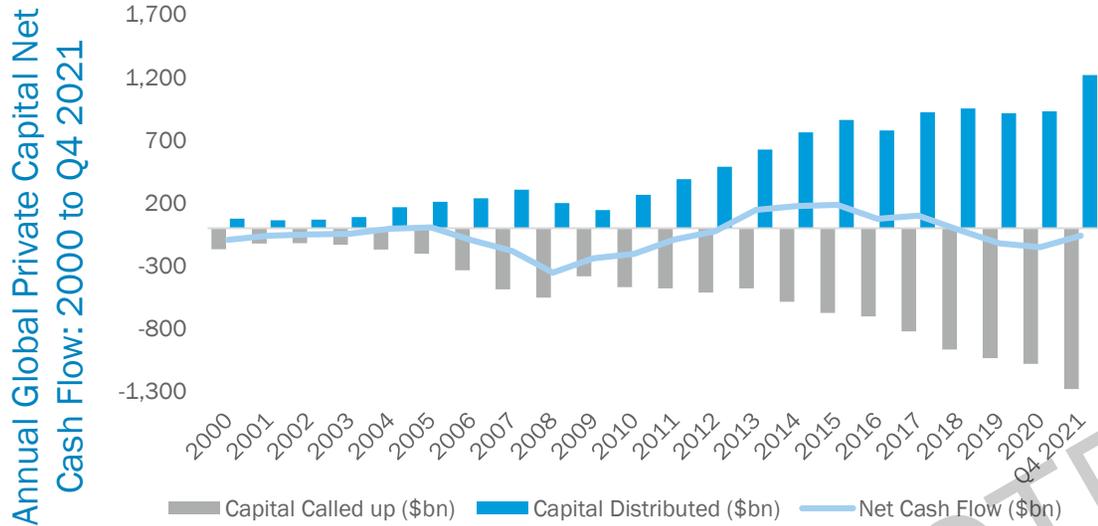
Private equity funds include: buyout, growth/expansion, diversified private equity, mezzanine, secondaries, co-investment, restructuring/turnaround, venture capital, private debt, energy, real estate, and fund of funds.

*Global Private Capital Fundraising as of March 31, 2022

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

Global Private Capital: Performance and Dry Powder

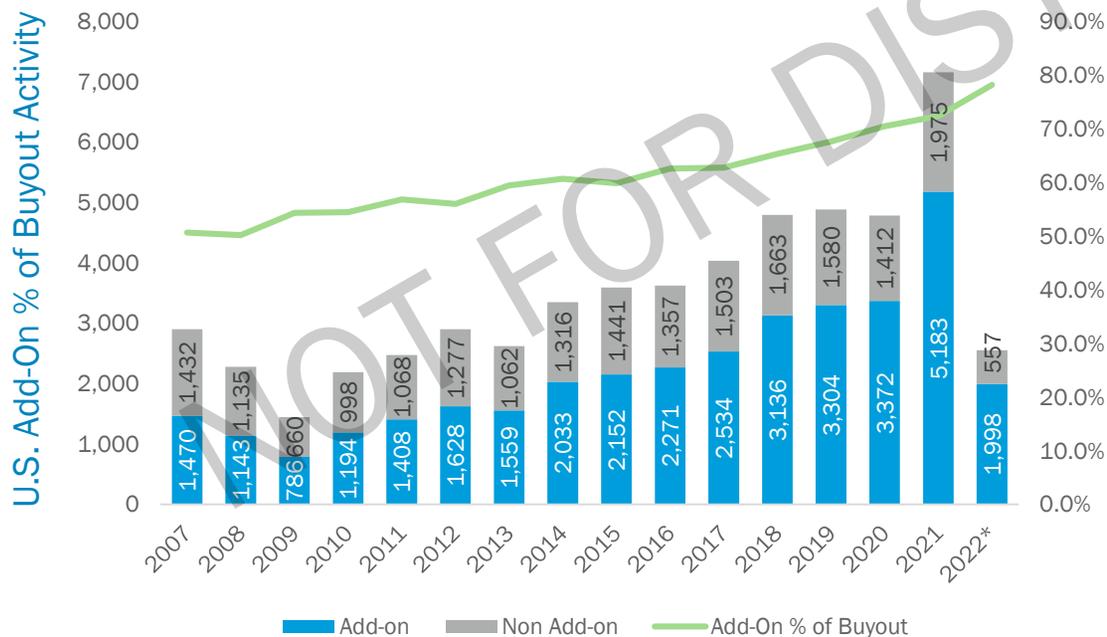
Private Capital



- 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.
- With the exception of private equity, fund of funds, and secondaries, all private capital strategies experienced a net cash outflow. Private debt funds experienced the largest net cash outflow to date of \$38.4 billion. Private debt funds have been a preferred substitute to traditional high yield fixed income among investors looking for increased yield in their portfolios.
- As of Q4 2021, global private capital dry powder stood at over \$3.2 trillion, a 9.7% decrease from the nearly \$3.6 trillion at the end of 2020.

Sources: PitchBook Q1 2022 Global Fund Performance Report, data as of December 31, 2021; PitchBook Q2 2022 U.S. PE Breakdown; PitchBook Q1 2022 Private Fund Strategies Report, Note: Dry powder data As of December 31, 2021

U.S. Private Equity Deal Activity

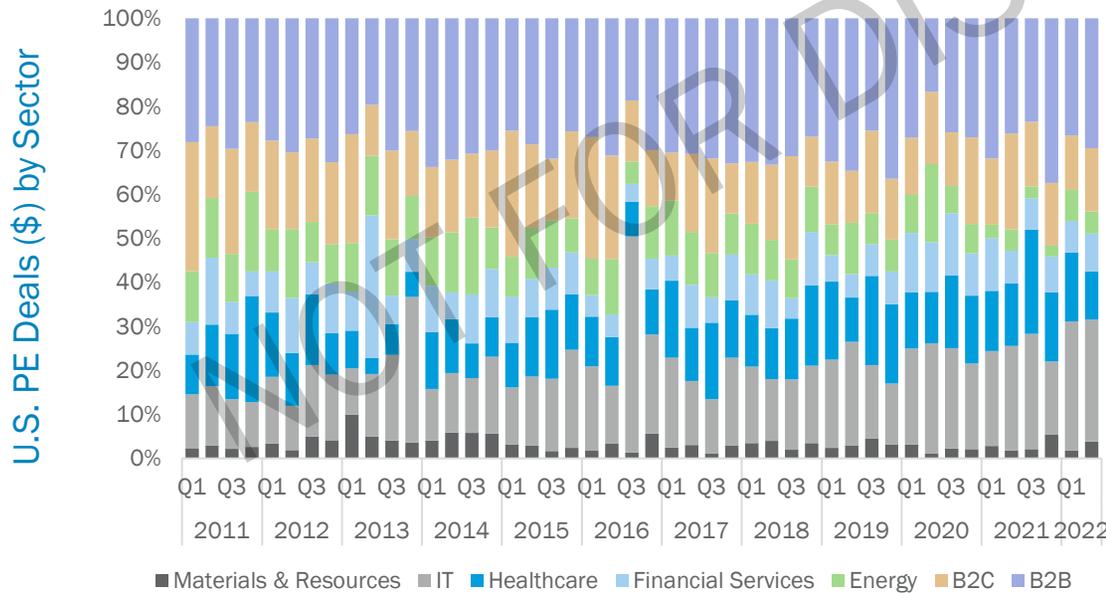
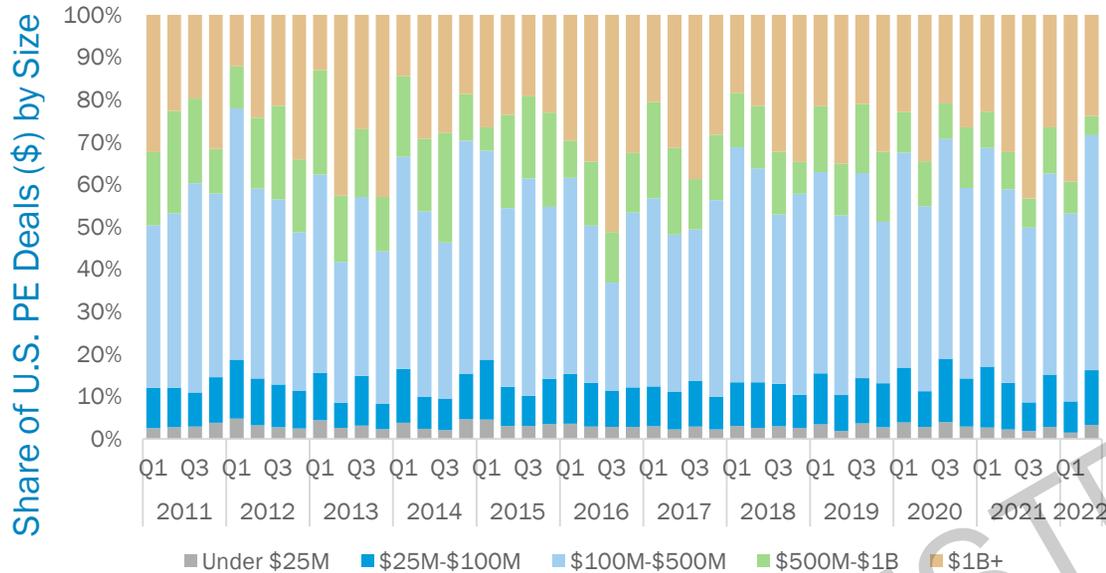


- PE deal activity remains at a healthy pace. As of Q2, there were a total of 4,337 deals completed with a combined \$411 billion (including estimated) of deal value. Deal volume and value are noticeably lower compared to this same point a year ago, likely driven by PE sponsors' hesitancy to transact during a period of relative uncertainty around valuations and the market. However, we do note that deal activity is still outpacing all years prior to 2021.
- Capital continued to flow into the tech sector, with 256 deals closed during Q2 at an aggregate value of \$24.7 billion. While both deal volume and value dropped for a second consecutive quarter, the IT sector still accounted for 27.7% of PE deal activity for the quarter.
- Add-ons continue to dominate the PE market, and are approaching 80% of total U.S. buyout activity. PE sponsors are employing a dual approach to value creation, utilizing a team of experienced operating professionals to grow portfolio companies organically and also tapping into the M&A market to accelerate company growth and take advantage of cost synergies as a result.

Source: PitchBook Q2 2022 U.S. PE Breakdown
*As of June 30, 2022

U.S. Private Equity Deal Activity

Private Capital

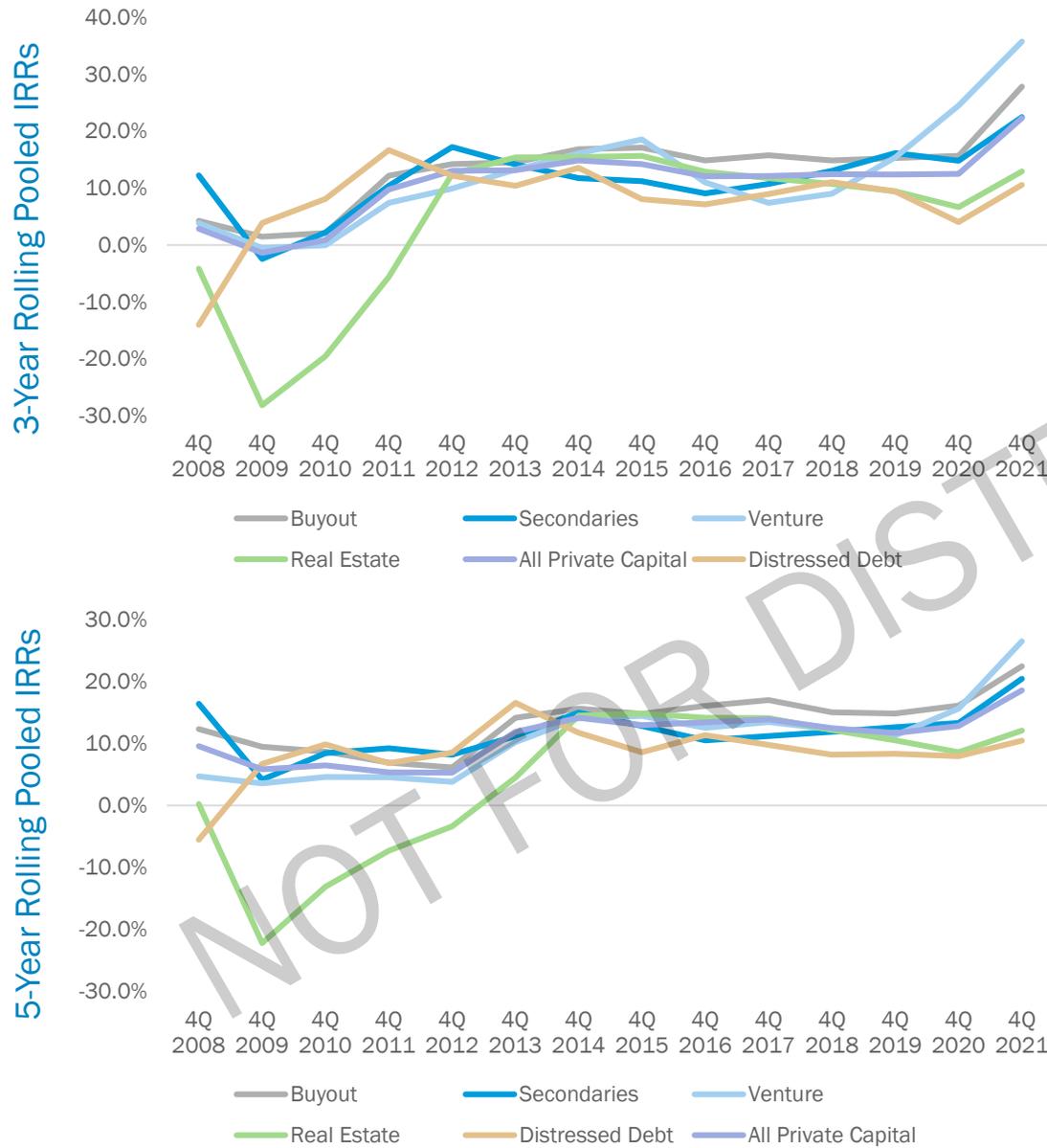


- The share of deals valued at \$1 billion+ stood at 24%, which is a noticeable drop compared to the 39% share in Q1 2022. Deals valued at \$100 million to \$500 million comprised 55% of PE deals during the quarter, the highest since Q1 2018.
- 44% of deals in the U.S. have been within the business services sector. The share of deal value from the IT sector decreased slightly from the prior quarter and comprises nearly 28% of deal value.
- The healthcare sector, which typically comprises between 15% and 20% of deal value, saw a lower share of deal value at 11%. Despite the lower share in Q2, there was a noticeable exit by Pritzker Private Capital and Vesey Street Capital, which sold their respective stakes in PathGroup during the quarter to GTCR for \$1.2 billion. This represented the largest sponsor-to-sponsor exit of the quarter.

Source: PitchBook Q2 2022 U.S. PE Breakdown

Horizon Performance

Private Capital



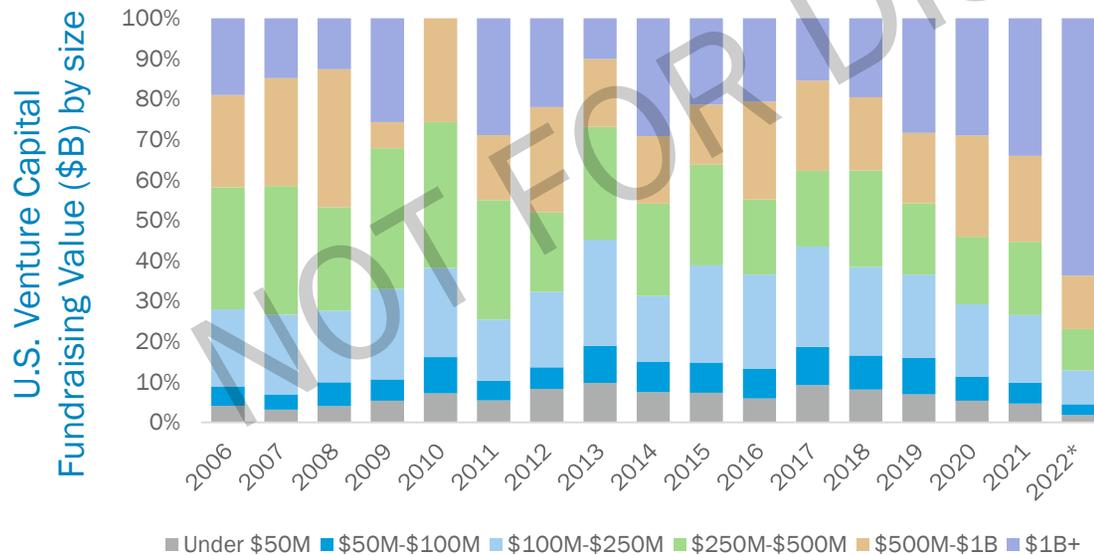
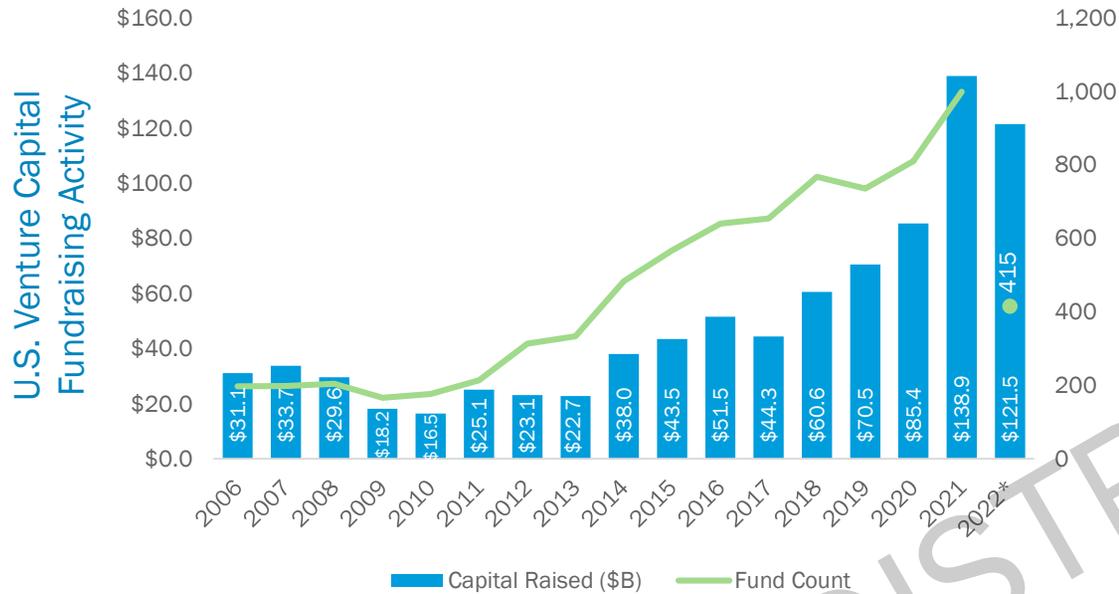
- Through Q4 2021, all private capital strategies experienced upticks in performance, led by venture capital and buyout. We do, however, expect that most strategies to be flat or down, depending on sector exposure and strategy type, in the first half of 2022.
- Over a five-year rolling basis, venture 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 all other strategies, given the larger disparity between top quartile performance and bottom quartile performance.

Source: PitchBook, as of December 31, 2021

Note: Real estate consists of value-add and opportunistic funds only.

Quarterly Spotlight: U.S. Venture Capital

Private Equity

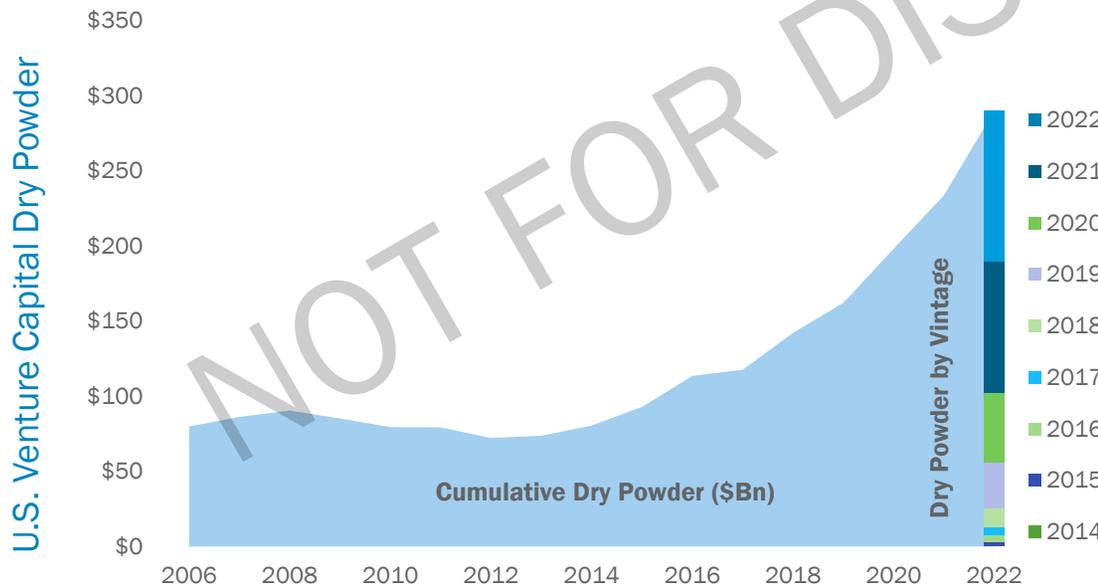
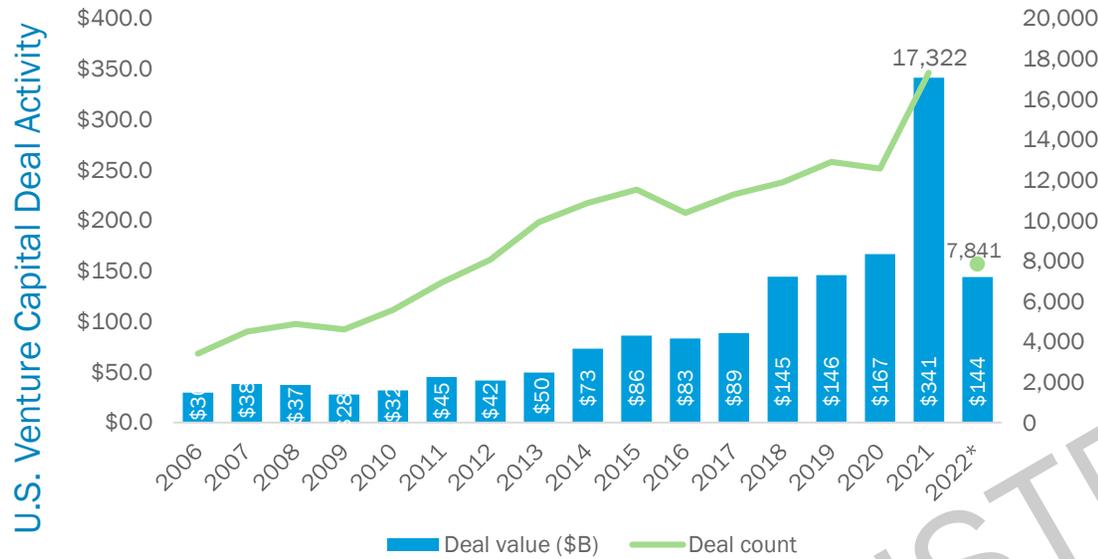


- U.S. venture capital fundraising has remained strong, with venture capital GPs raising \$121.5 billion through the end of Q2 2022. A total of 415 funds raised capital, which is less than half of the number of funds that raised capital in all of 2021. Capital raised is on pace to break 2021's record of nearly \$140 billion, albeit with fewer funds.
- Fundraising was dominated by funds who raised \$1 billion or greater. These funds raised a total of \$77.4 billion through the first half of 2022. This accounted for approximately 64% of total funds raised.

Source: PitchBook Q2 2022 NVCA Venture Monitor
*As of June 30, 2022

Quarterly Spotlight: U.S. Venture Capital

Private Equity



- Through the end of Q2 2022, U.S. venture capital deal activity remained resilient, but has slowed considerably versus this same time period a year ago.
- Early stage venture capital deal value during the quarter was roughly \$16 billion across 1,340 deals, which is well below the record quarterly levels seen in 2021. However, deal activity in this segment is still ahead of pre-COVID levels. The early stage's resilience was likely due to outsized focus on earlier stage deals to weather the volatile public market exit conditions.
- After a record Q1, late stage venture capital deal volume declined by 10%. The median deal size at the late stage fell to \$14 million, the only stage to see a downward change in deal size.
- Mega financing rounds, of which non-traditional investors have been a major part of, are being completed at a much slower pace as growth investors take a more cautious approach due to public market volatility. What is keeping deal volume high among the non-traditional investor category are corporate venture capitalists who comprise over one-quarter of all U.S. venture capital deal volume.
- U.S. venture capital dry powder currently stands at \$290 billion, driven primarily by large mega-fund venture capital managers that are raising or have raised \$1 billion+ funds.

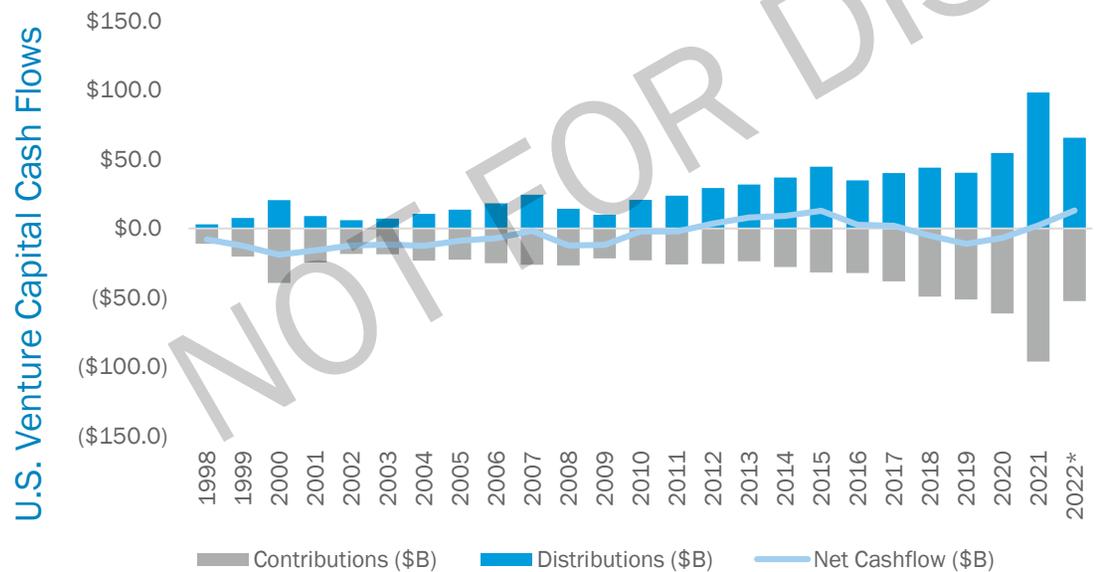
Source: PitchBook Q2 2022 NVCA Venture Monitor

*Note: All data as of June 30, 2022

(1) Non-traditional investors are characterized as: corporate strategic investors, private equity investors, asset managers, government/sovereign wealth funds, and other tourist investors

Quarterly Spotlight: U.S. Venture Capital

Private Equity



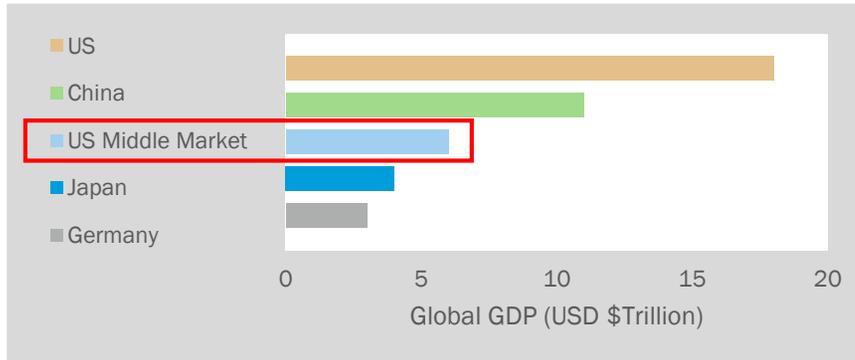
- To date, the total U.S. venture capital exit value stands at \$49 billion, which is on pace for a significant annual decline from 2021 levels.
- IPO markets continue to be essentially nonexistent for VC-backed businesses so far in 2022, with only 22 IPOs closing through the first half of the year, versus 183 in 2021 and 108 in 2020. During the quarter, a total of eight IPOs were completed, which is a 13-year quarterly low.
- Special Purpose Acquisition Companies (SPACs) continue to struggle in the wake of the public market dislocation, and many expected SPAC mergers were abandoned or canceled altogether in the wake of the reset in valuation multiples.
- The level of LP contributions and overall distributions remain the highest on record through the first half of 2022. Overall distributions have outpaced contributions, resulting in \$13 billion in net cash inflows. However, this trend may reverse as the recent public market volatility has forced many late stage VCs to hold off public market exits and maintain a more cautionary stance until there is clearer visibility on valuations.

Sources: PitchBook Q2 2022 NVCA Venture Monitor
*As of June 30, 2022

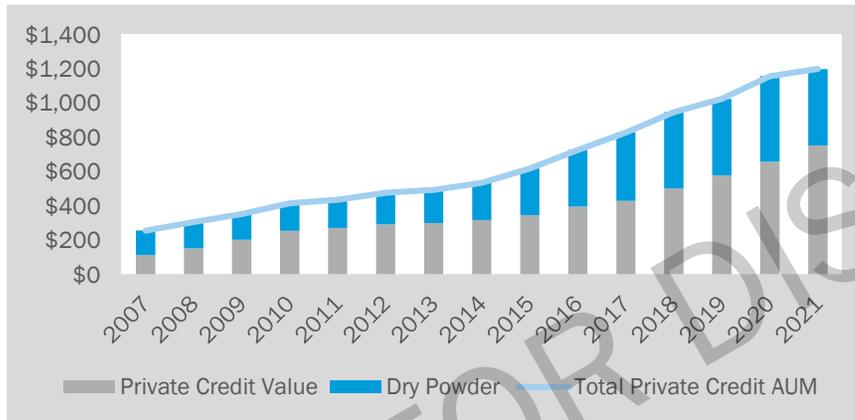
The Private Credit Opportunity

Private Credit

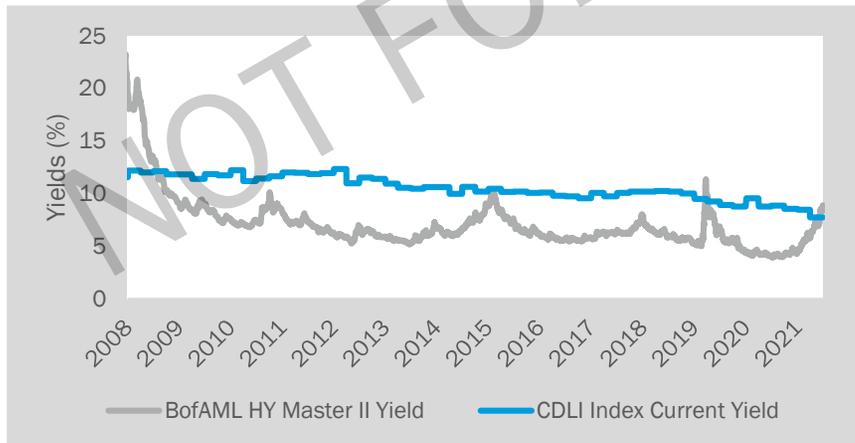
Size of Global Economies (GDP)



Size of Market (\$B)



Yields (High Yield vs. Middle Market Debt)



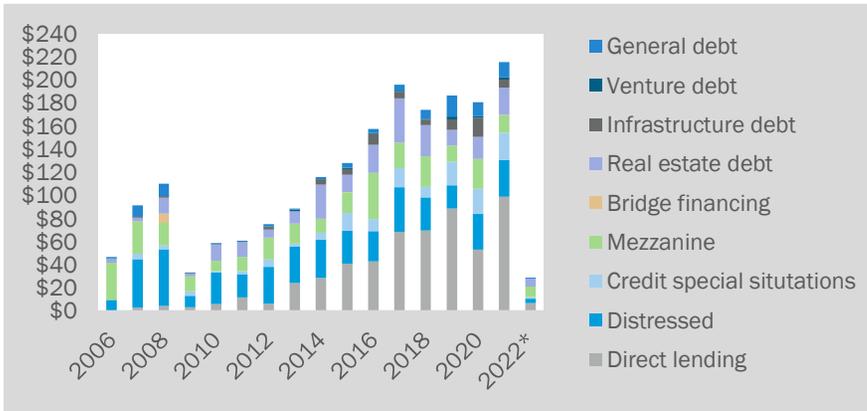
- From a GDP perspective, the U.S. middle market segment is the third largest economy in the world.
- 200,000 businesses categorized in the middle market equate to a combined one-third of private sector GDP.
- The private credit asset class has grown immensely since the Global Financial Crisis. Over the last several years, dry powder has ranged between \$400-\$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) comprises public and private Business Development Companies (BDCs), which invest in middle market loans.
- The CDLI yielded 7.72% while the BofAML HY Index yielded 8.88% at the end of the second quarter.

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

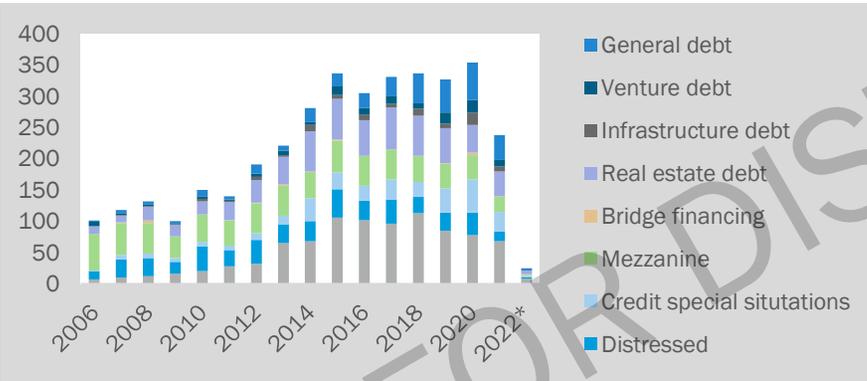
Private Credit Activity

Private Credit

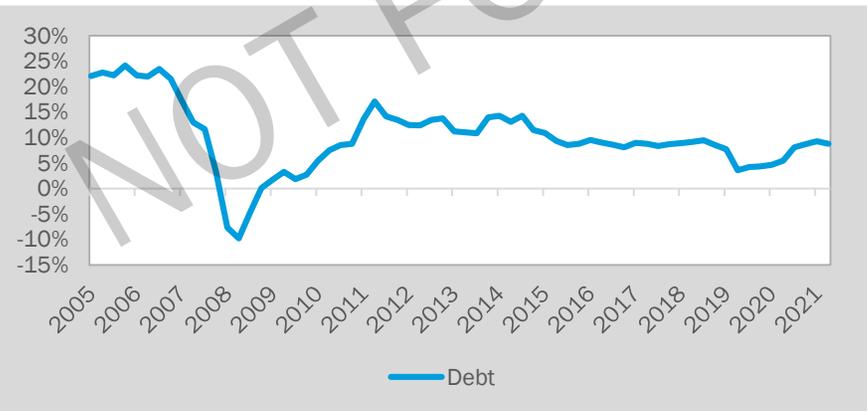
Fundraising by Strategy (\$B)



of Funds Launched by Strategy



Rolling 3-Year Pooled IRR (%)



- As of end of the second quarter, overall fundraising levels were lower relative to one year ago. Mezzanine strategies have led most of the fundraising activity this year followed by direct lending.
- Although mezzanine fundraising activity has led, there have been more direct lending funds launched relative to other strategies in the private credit market year-to-date.
- Rolling 3-year private debt IRRs moderated between 5-10% over the last several years as the asset class matured.

Source: Pitchbook
 AUM and fund count data as of 3/31/2022. Rolling 3-Year IRR data as of 3/31/2022