



Canterbury Consulting

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## Quarterly Asset Class Report

### Private Equity

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Quarter Ending June 30, 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.

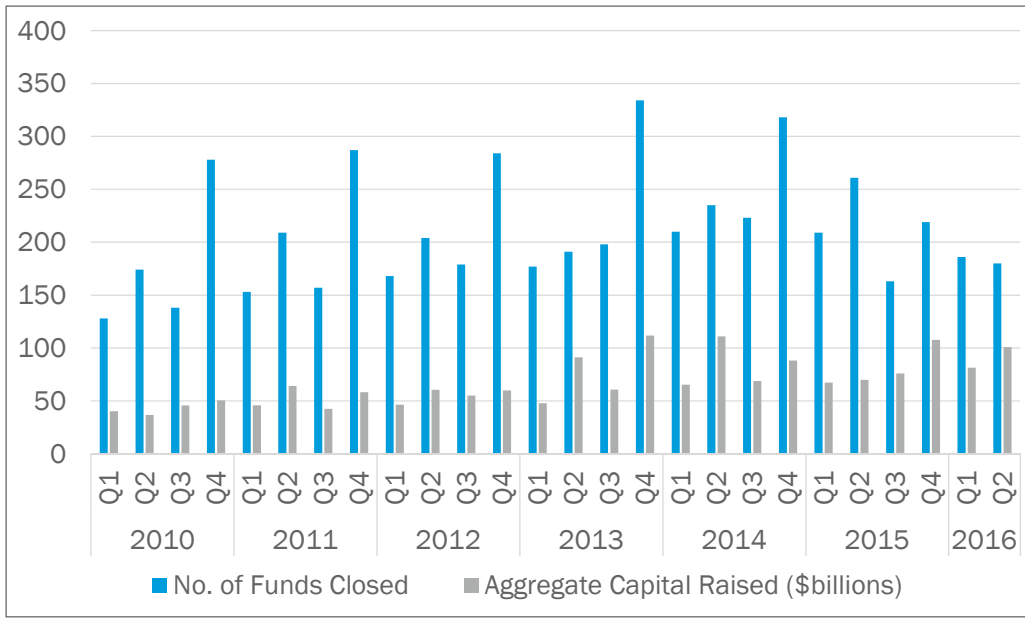
- Canterbury blends strategic and opportunistic approaches to construct private capital portfolios that are diversified by sector, geography, and vintage year.
  - Strategic: using various market inputs to form a baseline, we create a recommended model portfolio allocation.
  - Opportunistic: we combine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

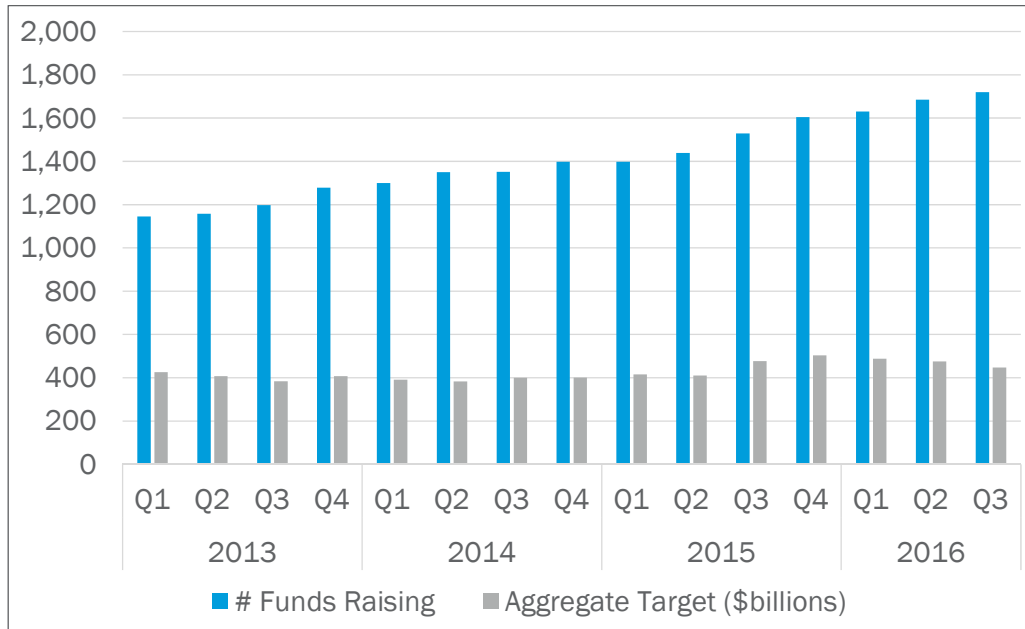
- Over a full market cycle, private equity is expected to generate above-market returns commensurate with risks associated with the asset class (i.e., illiquidity, time horizon, etc.)
- Given the length of the time required to deploy capital and constant evolution of the opportunity set, investors in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

# Private Equity Fundraising Overview

Global Fundraising



Funds in Market



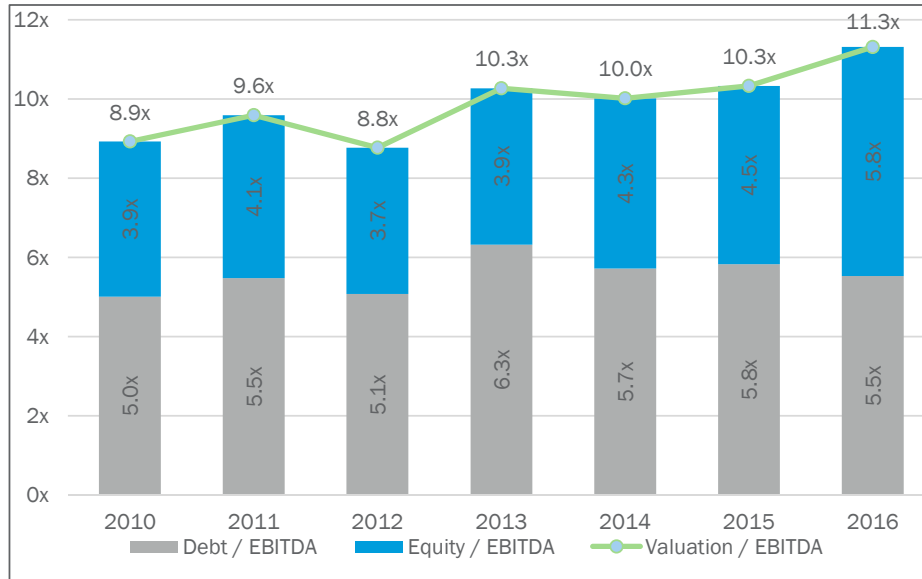
- Private equity fundraising had a strong second quarter in terms of dollars raised, driven mainly by North American managers.
- Global private equity capital raised during the quarter hit the \$100 billion mark, something that has only happened in four quarters since Q4 2008.
- Buyouts, VC, growth, and distressed managers had a robust fundraising quarter while infrastructure and natural resources managers struggled comparatively.
- Funds in market reached a new high at the end of Q2, though the total amount of capital targeted has steadily decreased from its high of \$447B in Q4 2015.
- At the end of Q2, North American funds represented approximately half of the funds in market and 45% of targeted capital.

Source: Preqin, reported as of July 2016

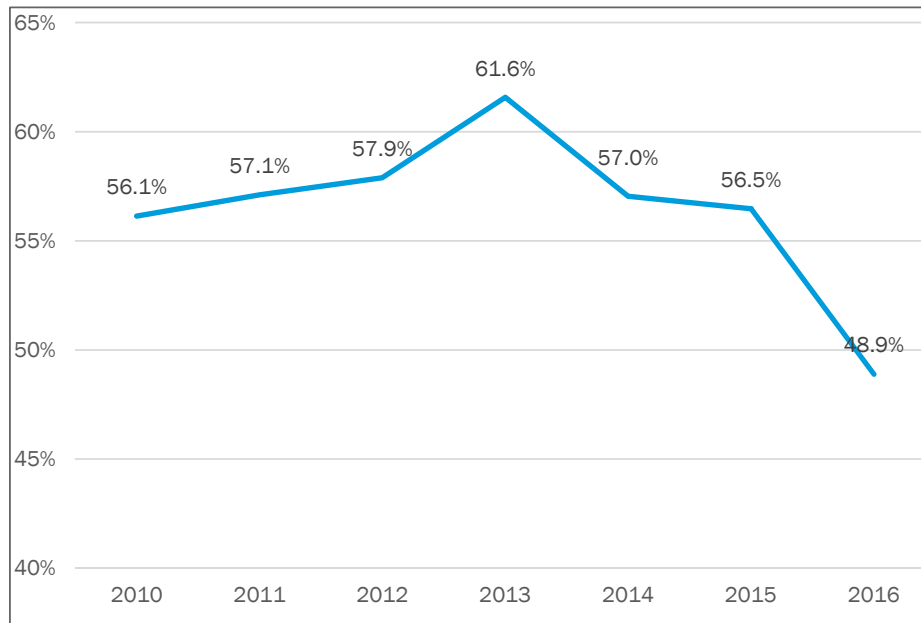
# Deal Activity

# Private Equity

## U.S. M&A Valuation & Capital Structure



## U.S. M&A Median Debt % of Total Value



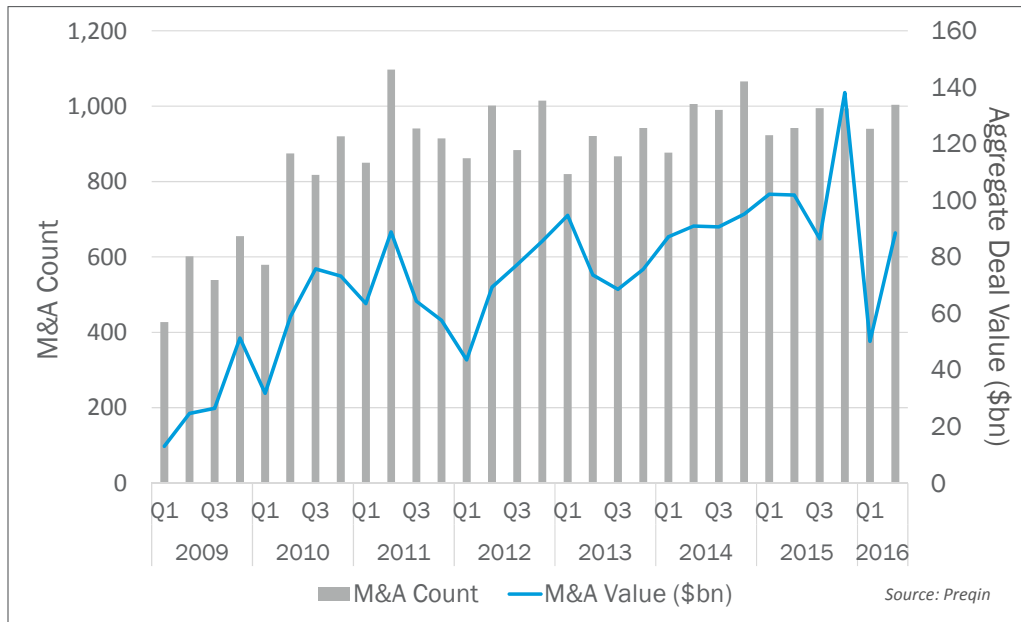
- Valuation multiples continued to climb to record highs in Q2, exceeding the levels seen at the peak of the last private equity cycle in 2007.
- Record dry powder and a limited supply of target companies are driving the demand that has led to double digit private company valuations.
- Leverage multiples have remained fairly steady in recent years after rising earlier in the economic recovery. Total debt % used in deals has declined since its peak in 2013.
- Small and mid market deal flow has been more stable than mega deal activity, which is more susceptible to stock market fluctuations and public market sentiment.
- \$25M-\$100M deals made up 25% of all deal activity in the first half of 2016, the highest proportion since 2012.

Source: PitchBook PE Breakdown 2Q 2016

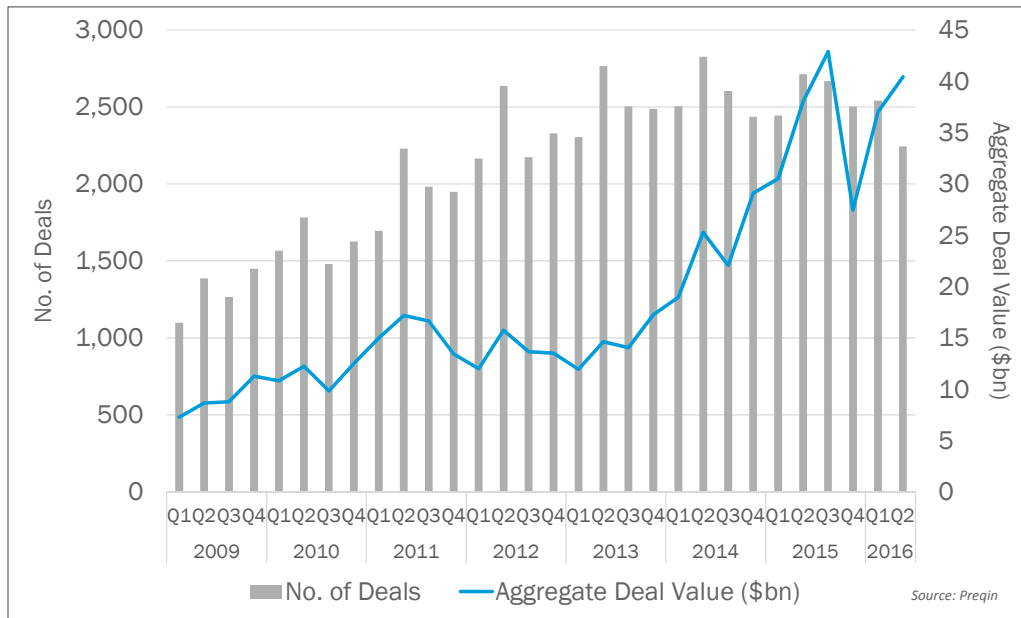
# Exit Activity

## Private Equity

Private Equity-Backed Buyout Deals



Global Venture Deals



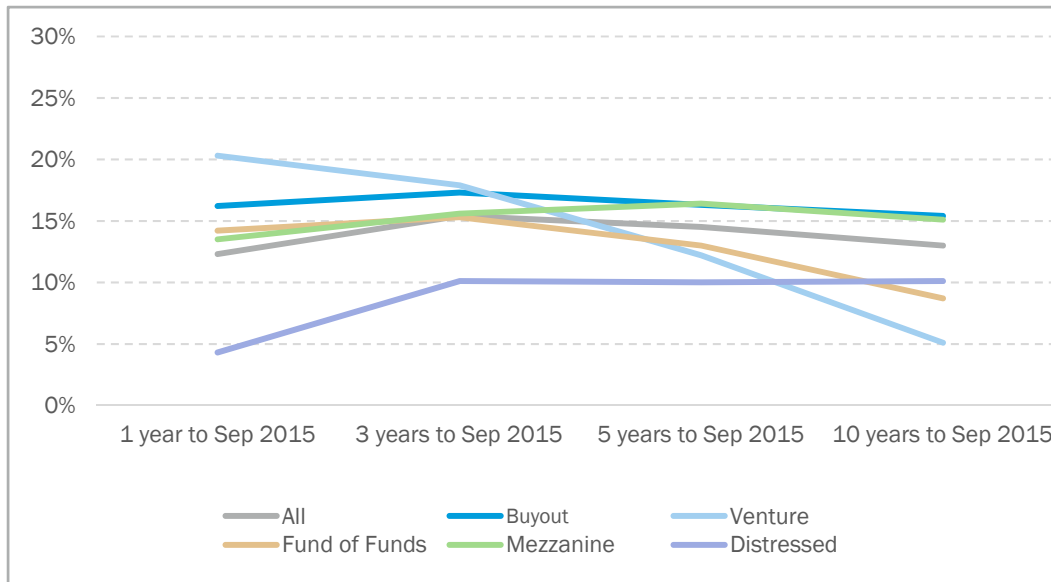
- Private equity M&A and IPO volume rebounded in Q2 following an unusually sluggish Q1. 2015 by comparison was a record year for M&A activity.
- IPO volume still remains fairly muted as private equity managers opt to sell portfolio companies to strategic buyers and financial sponsors rather than to the public. High private market valuations and quicker transaction times are the main catalysts for this trend.
- In the buyouts space, corporate acquisitions made up 56% of exit activity in the first half of 2016. Secondary buyouts represented 42% of the deal flow with the remaining 2% attributable to IPOs.

Source: PitchBook PE Breakdown 2Q 2016

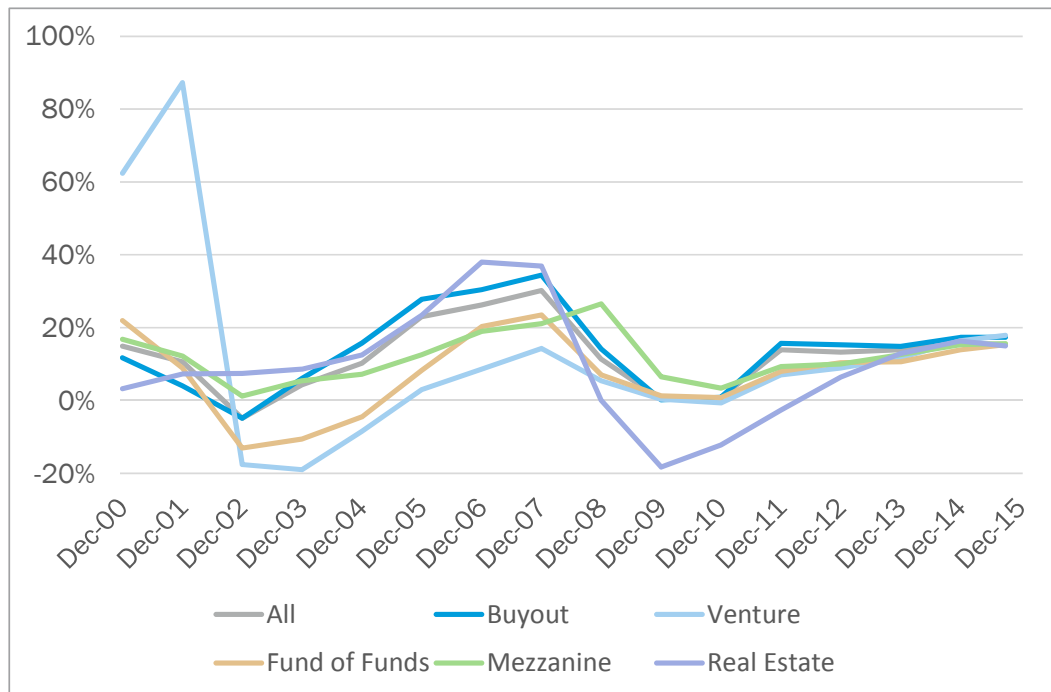
# Horizon Performance

## Private Equity

Horizon IRRs



Three-Year Rolling Returns



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

Source: Preqin, July 2016