Canterbury Consulting

Quarterly Asset Class Report

Private Equity

canterburyconsulting.com

Quarter Ending September 30, 2016

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 that are diversified by sector, geography, and vintage year.

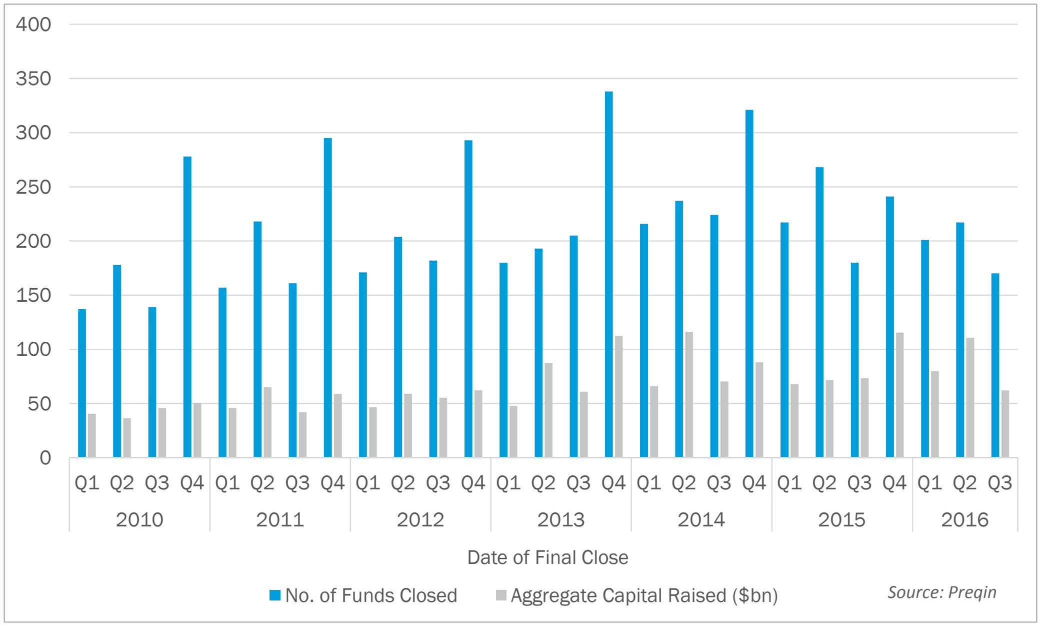
- Strategic: using various market inputs to form a baseline, we create a recommended model portfolio allocation.
- Opportunistic: we combine top-down and bottom-up analysis to achieve excess risk-adjusted returns through market intelligence and superior manager selection.

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

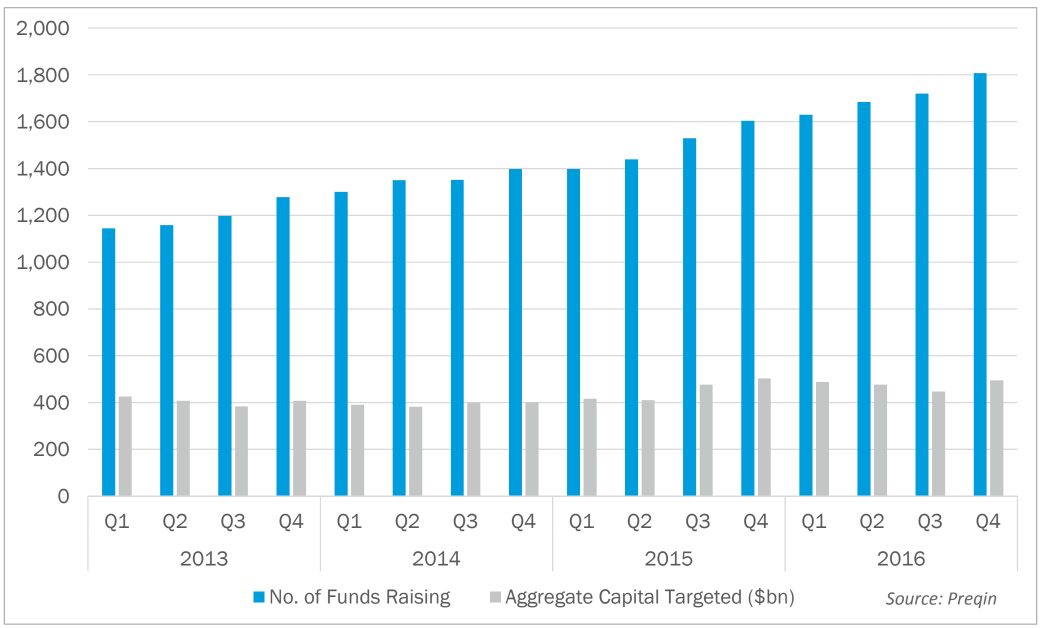
— Over a full market cycle, private equity is expected to generate above-market returns commensurate with risks associated with the asset class (i.e., illiquidity, time horizon, etc.)

— 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.

Global PE Fundraising

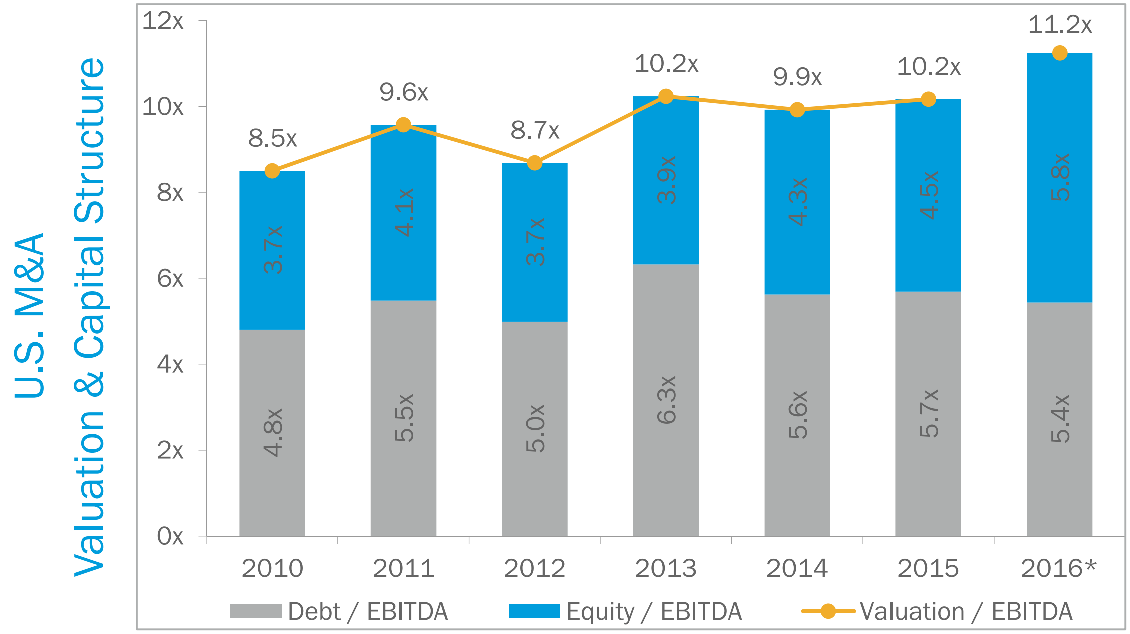


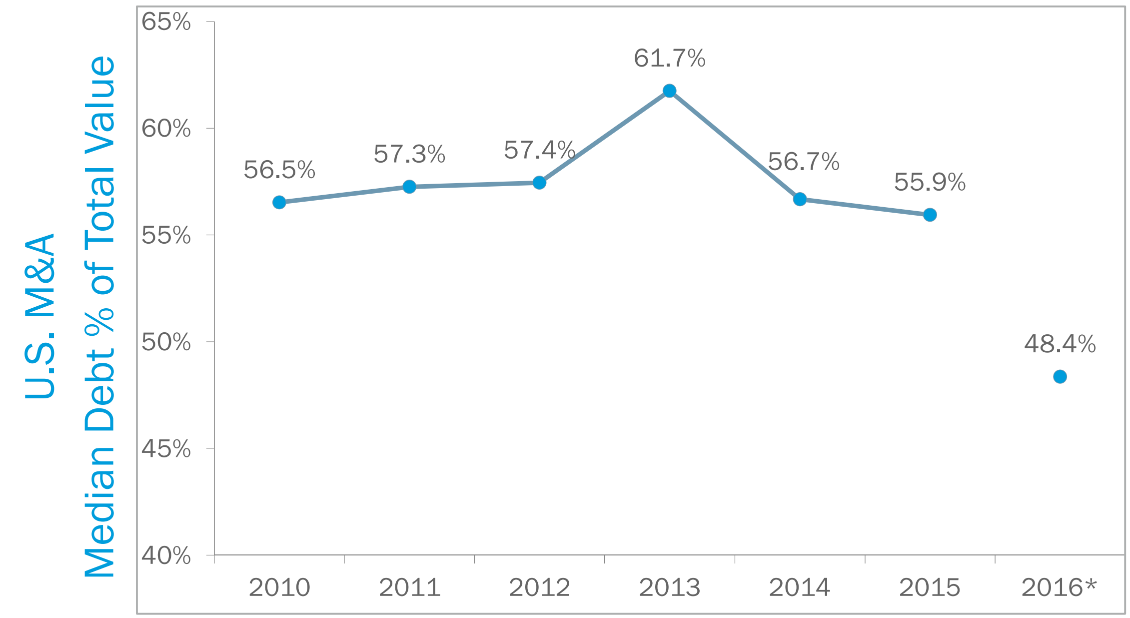
Global PE Funds in Market



- Private equity fundraising was relatively weak in Q3 2016. 170 funds held final closes on $62 billion, down significantly from the previous quarter. Despite a weak quarter, year-to-date fundraising is currently on track to keep pace with 2015.
- The five largest funds closed during the quarter were all buyouts funds. Together, these funds closed on $22.2 billion. The largest fund to hold a final close was Thoma Bravo Fund XII, which raised $7.6 billion to invest in software and technology companies.
- Buyouts funds represented 81% of capital raised during the quarter, the highest percentage since 2006. LPs have recently shown a preference for fewer but larger funds.
- Funds in market reached a new high at the beginning of Q4, though the total amount of capital targeted was just shy of the record $447B seen in Q4 2015.

Source: Preqin, reported as of October 2016

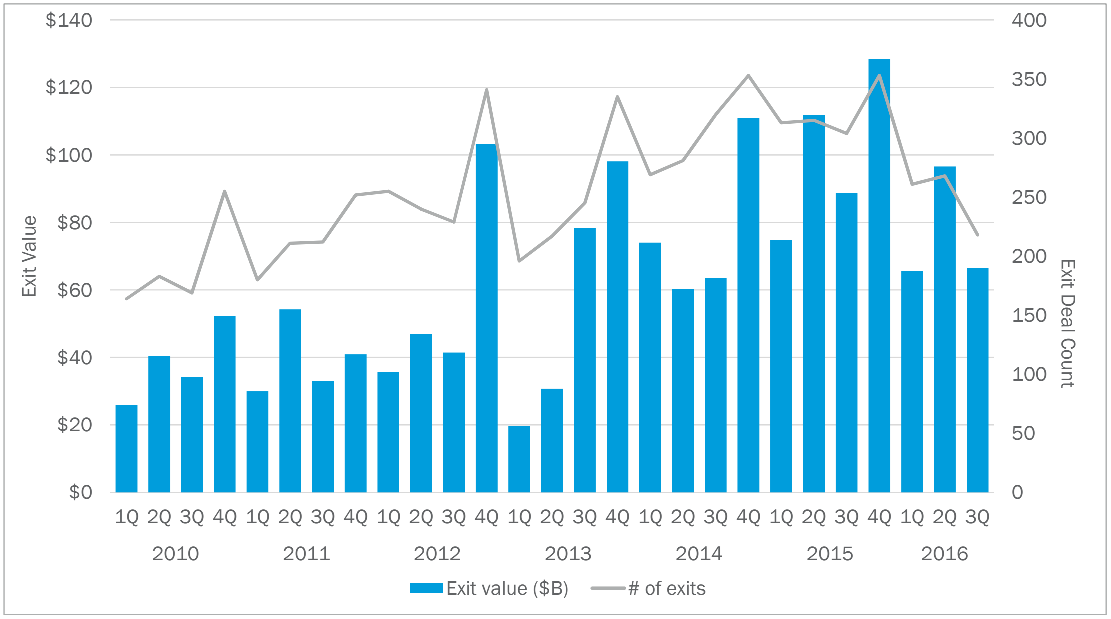




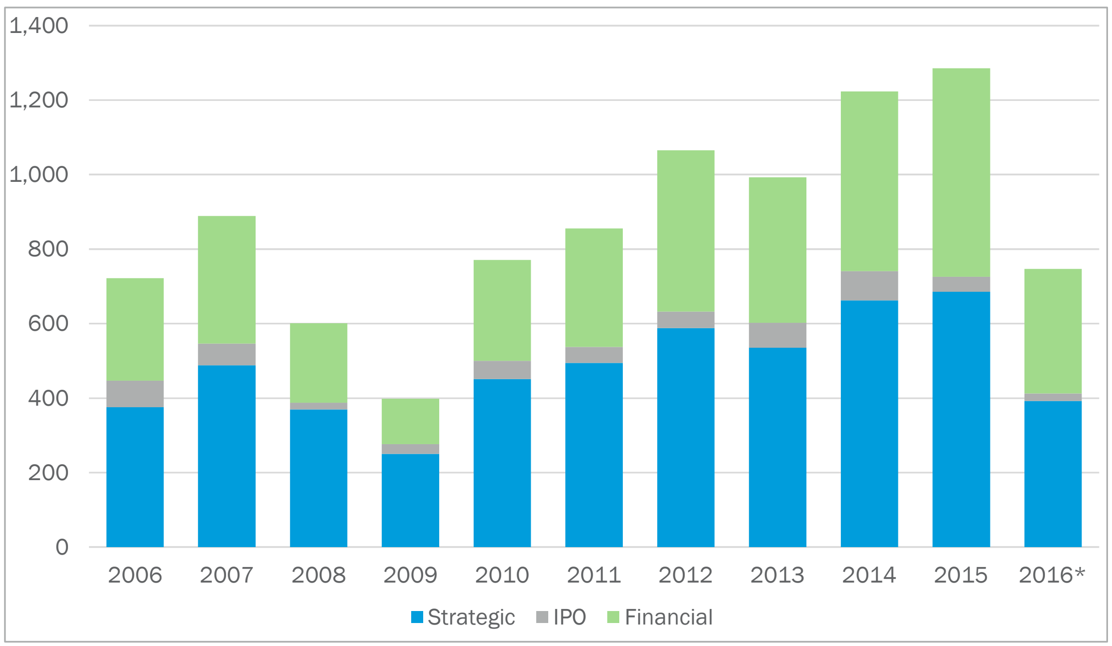
- Valuation multiples continued to climb to record highs in Q3, exceeding the levels experience at the peak of the last private equity cycle in 2007.
- 2016 has seen an increase in healthcare and IT deals, which typically have higher valuations due to higher growth. Record dry powder has also placed upward pressure on valuations.
- S&P 500 companies held $1.46 trillion in cash at the end of July 2016, the highest level in more than a decade. Limited organic growth prospects for these companies and ample cash reserves have led to a strong strategic acquisition market, helping support historically high valuations.
- Debt use has remained relatively fixed while purchase prices have increased. This dynamic has led to debt decreasing as a total proportion of deal value since 2013.

Source: PitchBook PE Breakdown 2Q 2016
**2016 figures are through 9/30/2016*

PE-Backed Buyout Deals



Exit Deal by Buyer Type

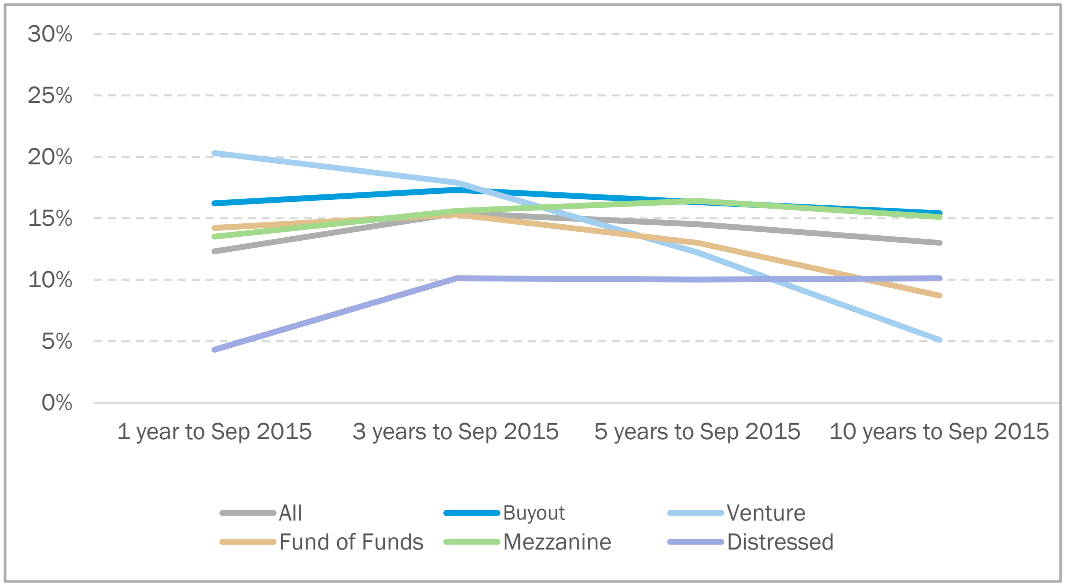


- Following a strong second quarter, PE exit volume by value fell 31% during the third quarter of 2016; year-to-date exit pace at the end of Q3 was 25% behind that of 2015.
- Only 20 PE-backed companies were taken public in 2016 through the end of Q3, compared to 34 for the same period a year prior.
- Despite the declining figures, demand for large, high-quality targets has remained robust. The percentage of total exit value comprised of companies with enterprise values of more than $2.5 billion has risen in each of the last two years. These deals made up more than half of the total exit deal value in Q3.

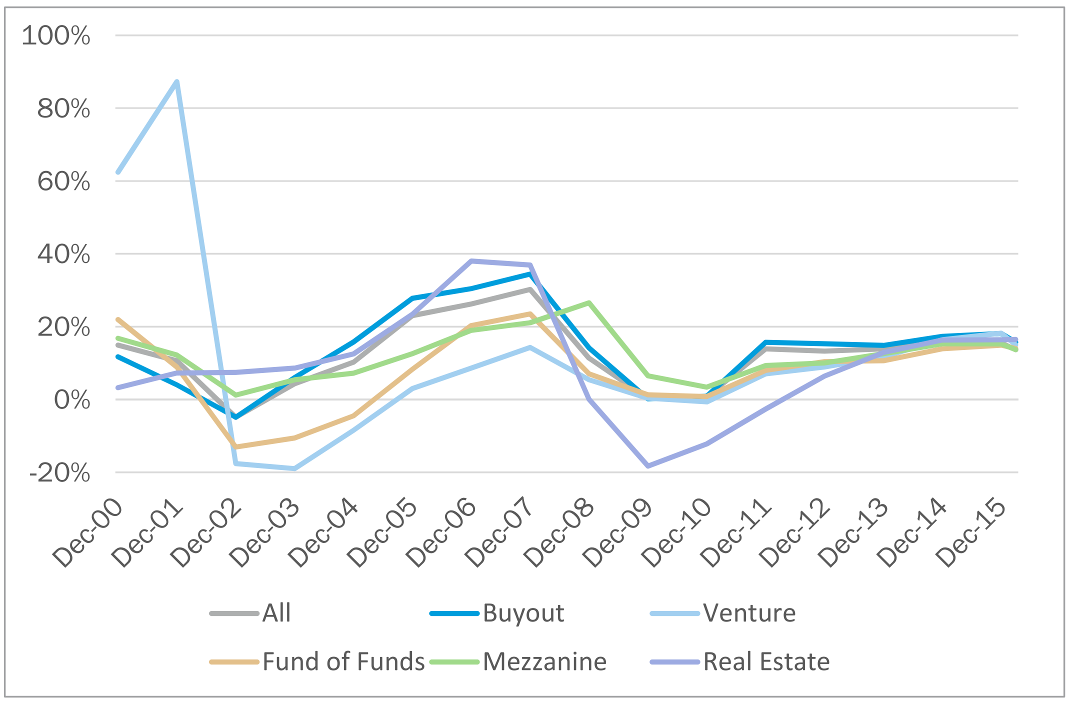
Source: PitchBook PE Breakdown 3Q 2016
**2016 figures are through 9/30/2016*

Horizon Performance

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 strategies has lagged 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.

Source: Preqin, October 2016