



**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**



PERIOD ENDING: JUNE 30, 2016

Private Equity Review

San Mateo County Employees' Retirement Association

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Debt-Related:

New issuance slowing down. First half 2016 high yield issuance of \$122.8 billion is down 33.6% from the same period last year and leveraged loan volume of \$129.5 billion¹ is down 10.5% versus the same period last year.

HY spreads weakened but bank debt spreads strengthened. As of June 30, 2016, HY Credit Index widened by 63 bps or 17.3%¹ versus last year. BB-, B+ and B index tightened slightly by 47 bps, 4 bps and 37 bps respectively, a 12.5%¹, 1%¹ and 7.8%¹ decrease versus same period last year.

LBO debt terms appear unchanged. Total leverage (Debt / EBITDA) for the first half of 2016 at 5.5x² same as the first half of 2015. Interest coverage (EBITDA / Cash Interest) for the first half of 2016 at 3.14x² is up slightly by 4.0% from the first half of 2015.

Buyouts & PE:

PE dry powder increasing. During the first half of 2016, PE dry powder was at \$771 billion³, up 8.1% from same period last year. Total buyout dry power was at \$512 billion³, up 7.8% from prior year.

PE Fundraising is slowing, but Buyouts managers have raised more capital. During the first half of 2016, US PE firms raised \$130.4 billion⁴, down 25.1% from prior year. US buyout firms across all buyout strategies raised \$36.6 billion⁴, up 78.3% from prior year.

Investment activity is down. During the first half of 2016, PE firms invested in \$132.4 billion⁵ worth of deals, down 33.6% from prior year and closed on 1,878 transactions, up 3.4% from prior year.

LBO price multiples up slightly, set new record. As of June 30, 2016, US LBO purchase price multiples (Enterprise Value / EBITDA) at all-time high levels are up slightly at 10.5x², a 4.8% increase from prior year. The peak in the previous cycle was 9.9x² which was reached in 2007.

Exit activity decreased. During the first half of 2016, US PE firms exited 459 companies⁶, representing \$113.2 billion⁶ in total transaction value. This represents a 4.0% decrease in the number of exits and a 38.8% decrease in total transaction value compared to prior year. The decline was led by a 17.1% decline in the total value of exits via sale to strategic acquirers, which currently comprise 87.9% of the total transaction value; and a 53.2% decline in the total value of exits via IPO, which currently comprise 9.1% of total transaction value.

VC:

VC dry powder increasing. VC dry powder at \$163.0 billion³, up 13.6% from the same period last year.

VC fundraising up. US VC firms raised \$17.3 billion⁴ in the first half of 2016, a 5.9% increase from the same period last year. 87 funds⁴ closed in the first half of 2016, a 16.3% decrease from the same period last year. The average VC fund size grew 14.1% at \$192.3 million versus the same period last year.

Fewer deals closed but larger. US VC firms deployed \$40.1 billion⁷ in capital for the first half of 2016, a 1% decrease from prior year. The decline was led by a large decrease in number of rounds closed at 4,145, a 23.2% decrease from prior year. This decline was offset by a substantial increase in average investment per deal which grew to \$9.7 million⁷, a 29.4% increase from prior years. The increase in average deal size was driven by US managers preferring later stage investments over early stage investments. Later stage companies generally require larger check sizes versus earlier stage companies.

Late stage valuations up, early stage down. During the first half of 2016, reflecting US manager's preference for late stage investments, the average valuation of a Seed Stage, Series A and Series B investment was down 2.8% at \$5.9 million, 6.2% at \$14.1 million and 9.2% at \$37.6 million⁷, respectively. However, the average valuation of a Series C and Series D+ investment was up 9.0% at \$90 million and 8.7% at \$200 million, respectively.

Exit activity strengthening. VC exits are up during the first half of 2016 compared to prior years. VC firms exited 544 companies⁸ in the first half of 2016, up 42.0% from the same period last year. Similarly, VC firm exits represented \$32.4 billion⁸ in transaction value, up 36.8% from the same period last year. The increase was led by a 41.7% increase in the total value of exits to strategic acquirers, which comprise 87.0% of total transaction value. This more than offset the 50.2% decrease in total value of exits via IPO which comprised only 5.4% of the total transaction value.

Ex US:

Ex US dry powder flat, and below the dry powder in the U.S. PE dry powder outside the US stayed relatively flat at \$536.7 billion⁹ for 2015 compared to \$534.8 billion for 2014. As of October 2016, dry powder outside the US is less than dry powder in the US by 35.1%.

Fundraising outside of U.S. up. For the first half of 2016, Ex US fundraising was up 9.7% to \$74.4 billion¹⁰ compared to prior year. The increase was led by European funds which raised \$61.0 billion, up 40% from prior year. The increase was offset by a decrease in Asian funds which only raised \$9.7 billion, down 39.0% from prior year.

Investments outside of U.S. down significantly. For the first half of 2016, Ex-US PE firms transacted on \$47.3 billion¹¹ of aggregate value, down 45.8% from prior year. The largest decline in dollar value was in Europe where firms only invested in \$35.3 billion¹¹ worth of deals, a 40.0% decrease from prior years. Asia also invested in \$9.4 billion worth of deals (-33.4% from prior year). The rest of the world only invested in \$2.7 billion worth of deals (-81.6% from prior year).

Market Commentary

Entry valuations increase on new investments outside the U.S. As of June 30, 2016, global median purchase price multiples (Enterprise Value / EBITDA) was up at 8.9x¹², a 3.1% increase from prior year. However, this was driven by a 4.8%² increase in U.S. purchase multiples at 10.5x. Ex-U.S., purchase multiples increased by less than the U.S. led by Europe which at 9.9x was up 4.1%¹³ versus prior year.

Leverage multiples in Europe stayed flat. European LBO leverage multiples (Debt / EBITDA) have averaged 4.8x¹³ through the first half of 2016, a decrease of less than 1% from prior year. European LBO financing at \$30.2 billion¹⁴ is down 20.9% versus prior year.

Exit activity is strengthening outside the U.S.. In contrast to the U.S. which recorded \$113.2 billion¹⁵ in exits for the first half of 2016, a decrease of 38.8% from prior year, exits outside the US amounted to \$159.9 billion¹⁵, a 12.6% increase from prior year.

Outlook:

PE allocations likely to increase. A recent survey of institutional investors conducted on June 30, 2016 indicated that 56%¹⁶ intend to increase their allocation for private equity. This is an increase of 32.8% from the survey taken during the same period last year.

Institutional investors most interested in investing in North America and like small- to mid-market buyouts. Based on the survey conducted on June 30, 2016, Institutional investors view North America as the most attractive location to invest in the current economic climate with 60% choosing it as their preferred investment destination. This compares favorably versus Europe (35%¹⁶) and Asia (26%¹⁶). In the same survey, 50%¹⁶ of institutional investors also cited the small to mid-market buyout strategy as presenting the best opportunities in the current financial climate. Venture capital was mentioned next with 36%¹⁶ of institutional investors believing it presented the best opportunities.

Market Commentary

- (1) *UBS' US Leveraged Capital Markets Weekly Update – July 8, 2016*
- (2) *LCD's Leveraged Buyout Review – 2Q15*
- (3) *Preqin Quarterly Update – Q2 2016; PE Dry powder is the aggregation of Buyout, VC and Growth strategies.*
- (4) *Preqin Q2 2016 Private Equity Fundraising and Preqin Q1 2016 Private Equity Fundraising*
- (5) *Preqin Q2 2016 Private Equity-Backed Buyout Deals and Exits Factsheet and Preqin Q1 2016 Private Equity-Backed Buyout Deals and Exits Factsheet*
- (6) *PitchBook's 1H 2016 Global PE Exits & Company Inventory Report*
- (7) *PitchBook's Venture Capital Valuations + Trends Data Sheet (1H 2016)*
- (8) *PitchBook's Venture Capital Liquidity Data Sheet (1H 2016)*
- (9) *Preqin Dry powder by Geography (Preqin Website) Year-end and October 2016 data was used as Preqin did not have bi-annual data available. Dry powder includes Buyout, Distressed PE, Growth, Mezzanine, Other, Real Estate and Venture Strategies.*
- (10) *Preqin Q2 2016 Private Equity Fundraising*
- (11) *Preqin Q2 2016 Private Equity-Backed Buyout Deals and Exits Factsheet - July 2016*
- (12) *PitchBook 2016 2Q M&A Report*
- (13) *LCD European Leveraged Buyout Review (1H 2016)*
- (14) *LCD European Leveraged Lending Review (1H 2016)*
- (15) *PitchBook's 1H 2016 Global PE Exits & Company Inventory Report*
- (16) *Preqin Investor Outlook: Alternative Assets, H2 2016 Data Pack*

| Investment Type | Policy Target | Policy Range | Market Value % | Market Value \$(000) | Unfunded Commitment \$(000) | Market Value + Unfunded \$(000) |
|---|---------------|---------------|----------------|----------------------|-----------------------------|---------------------------------|
| SamCERA - Total Plan | | | 100.0% | 3,516,247 | | |
| Buyout (60% +/- 20%) | 4.2% | 3.2%-6.4% | 3.7% | 130,988 | 64,122 | 195,110 |
| Venture Capital (20%, 0%-30%) | 1.4% | 0.0%-2.4% | 1.7% | 60,445 | 15,600 | 76,045 |
| Debt-Related/Special Situations (20% +/- 10%) | 1.4% | 0.8%-2.4% | 0.9% | 30,273 | 52,791 | 83,064 |
| Total Private Equity | 7.0% | 6%-10% | 6.3% | 221,706 | 132,513 | 354,219 |

Portfolio Summary

- As of June 30, 2016, the Private Equity Portfolio had a total market value of \$221.7 million, with \$131.0 million in Buyout, \$60.4 million in Venture Capital, and \$30.3 million in Debt-Related/Special Situations. Total market value is the current reported value of investments, excluding the remaining amount of unfunded commitments.
- SamCERA has contributed \$210.9 million toward its Private Equity commitments. Unfunded commitments total \$132.5 million.
- All sub-asset classes are within the policy range while commitments continue to be made to new managers at a slower pace.

Portfolio Activity

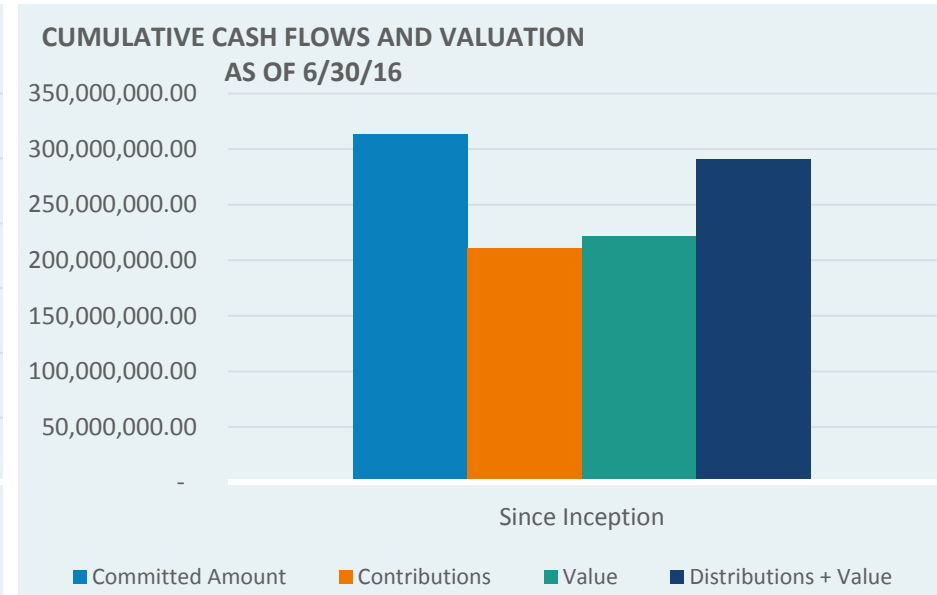
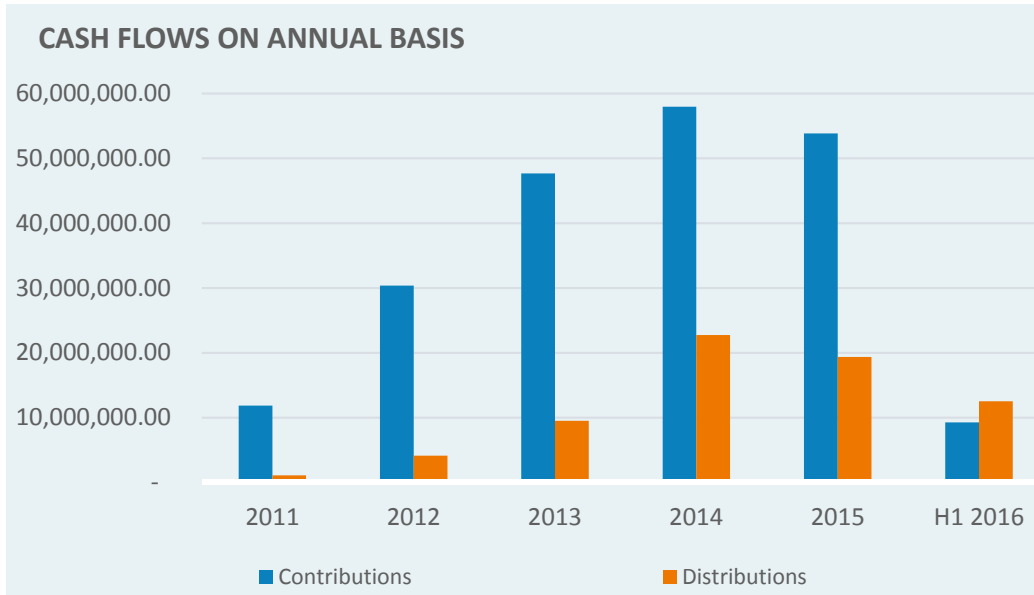
- SamCERA committed \$10.0 million to OHA Strategic Credit Fund II in the first half of 2016. The portfolio committed \$10.0 million to Angeles Equity Partners I in the third quarter of 2016.

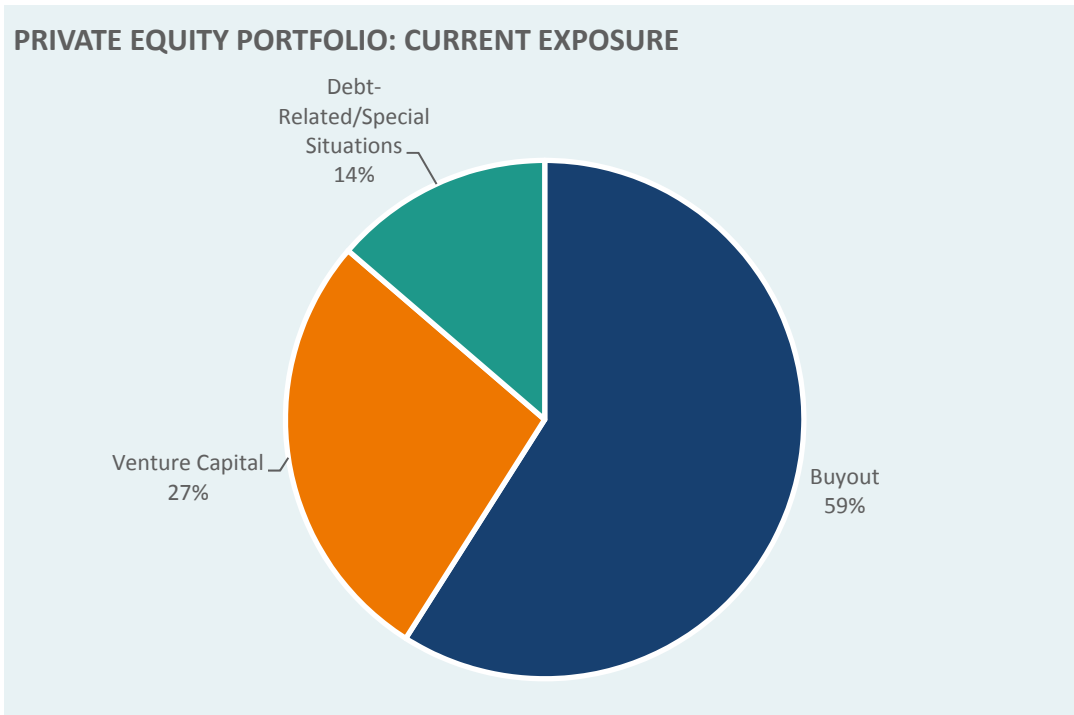
Performance

- The Private Equity portfolio’s performance, as measured by net IRR, is 18.13%. Capital weighted average investment age of the portfolio is 2.24 years.
- The portfolio is currently valued at \$221.7 million. Together with \$69.3 million in realized distributions, the Total Value at \$291.0 million is approximately \$80.1 million above \$210.9 million total capital contributions, resulting in a total value multiple of 1.38x and a distribution multiple of 0.33x.
- Attribution of returns:
 - Buyouts up \$45.4 million / +35.5% versus cost (Sycamore, ABRY VII, and Warburg Pincus XI leading), with 33.2% of Total Value of portfolio

distributed;

- Venture Capital up \$25.1 million / +65.3% versus cost (General Catalyst VI, Third Rock III, Emergence Capital III, and NEA 14 leading), with 8.2% of Total Value of portfolio distributed; and
 - Debt-related/Special Situations up \$9.6 million / +21.5% versus cost (ABRY Advanced Securities II leading), with 53.4% of Total Value of portfolio distributed.
- Within Private Equity, the current allocation of invested capital is 59.0% to Buyout, 27.3% to Venture Capital, and 13.7% to Debt-Related/Special Situations.

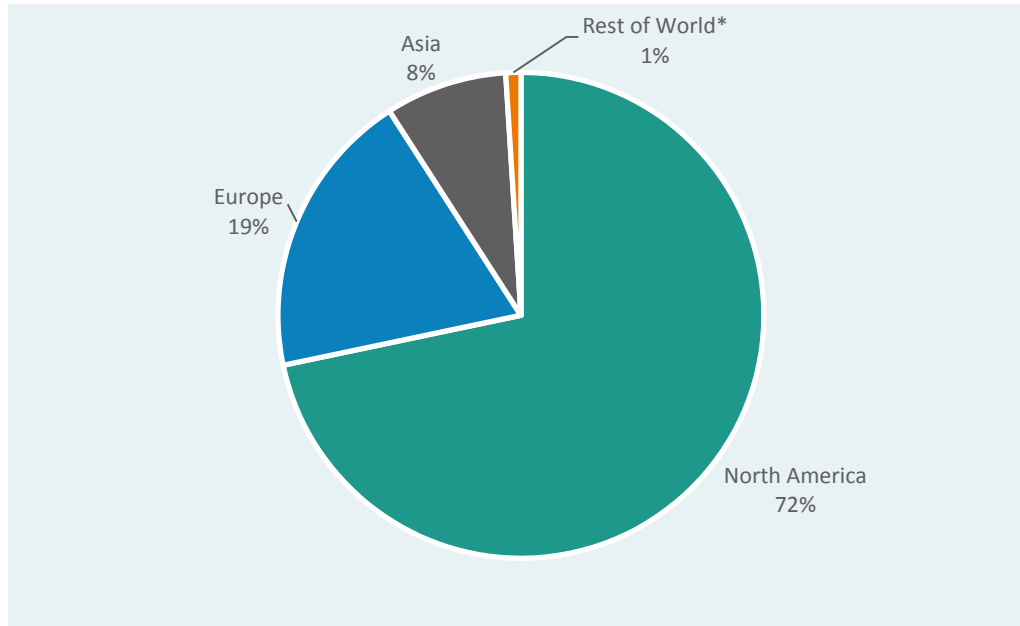




Geography

Portfolio Diversification

Period Ending: June 30, 2016

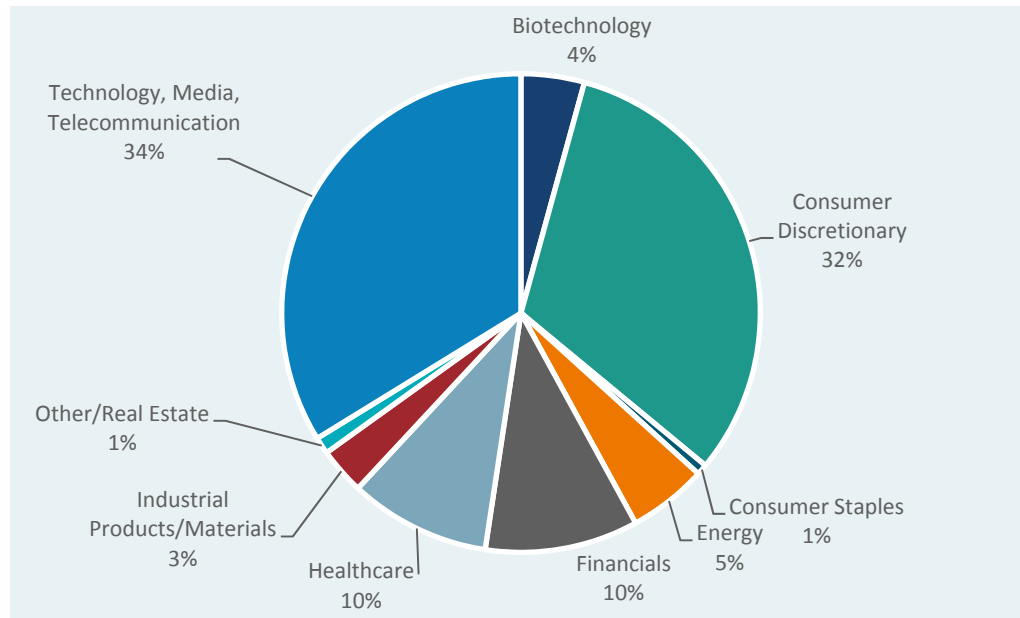


* Rest of World includes Kenya, Cayman Islands, United Arab Emirates, and Brazil.

Based on the value of portfolio companies as of June 30, 2016, if provided by the partnerships. Differences between reported value and the total portfolio valuation is due to temporary cash funds, fees, other expenses, and holdings with undisclosed geography breakdown.

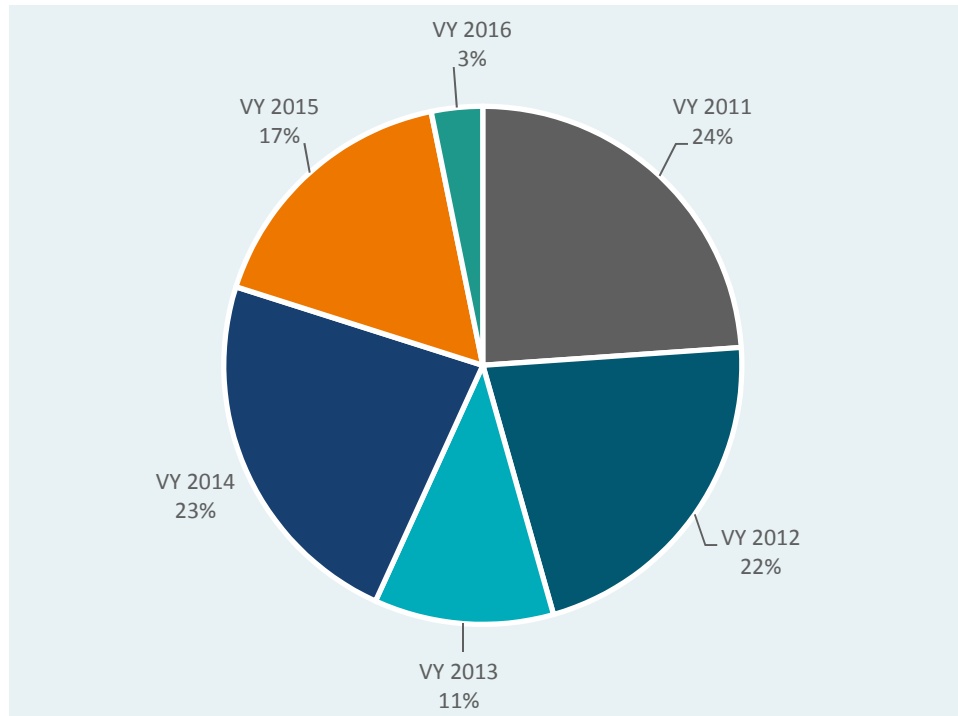
Industry Portfolio Diversification

Period Ending: June 30, 2016



Based on the value of portfolio companies as of June 30, 2016, if provided by the partnerships. Differences between reported value and the total portfolio valuation is due to temporary cash funds, fees, other expenses, and holdings with undisclosed geography breakdown.

Vintage Year Portfolio Diversification



Material Exceptions to Policy Significant Events

- **As of June 30, 2016, the Private Equity Portfolio is slightly below the lower range of its target allocation, with exposures within target diversification bands.**