



**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**



PERIOD ENDING: JUNE 30, 2017

Private Equity Review

San Mateo County Employees' Retirement Association

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Debt-Related:

HY and leveraged loan issuance up. 1H17 high yield issuance of \$151.5 billion¹ is up 27.3% from 1H16 and leveraged loan volume of \$732 billion¹ is up 92.1% versus 2016. The growth is driven largely by robust refinancing activity.

Spreads tightened across the board. Reflecting a red hot credit market, HY Credit Index tightened by 246 bps or 36.5%² versus the same period last year. BB, B and CCC index tightened by 75 bps, 167 bps and 221 bps respectively, a 20.2%², 27.1%² and 15.0%² decrease versus the same period last year.

LBO debt terms loosen. Total leverage (Debt / EBITDA) for 1H17 at 5.8x³ up 8.5% from last year. Interest coverage (EBITDA / Cash Interest) for the first half of 2017 at 3.07x³ down slightly by 2.2% from the first half of 2016.

Buyouts & PE:

PE dry powder continues its surge. For Q1'17, PE dry powder was at \$1.58 trillion⁴, up 31% from Q1'16. Total buyout dry power was at \$606 billion⁴, up 15.3% from 2016.

PE fundraising is strengthening. During 1H17, US PE firms raised \$129.8 billion⁵, up 32.9% from prior year. US buyout firms across all buyout strategies raised \$83.2 billion⁵, up 27.4% from prior year.

Investment activity is down. During 1H17, PE firms invested in \$138.4 billion⁶ worth of deals, down 9.6% from prior year and closed on 2,009 transactions⁶, down 4.2% from prior year.

LBO price multiples slightly below all time high. As of June 30, 2017, US LBO purchase price multiples (Enterprise Value / EBITDA) are at 10.3x⁷, a 2.3% decrease from the first half of 2016 which was the all-time high.

Exit activity decreased. During 1H17, US PE firms exited 791 companies⁸, representing \$168.3 billion⁸ in total transaction value. This represents a 39.1% decrease in the number of exits and a 38.4% decrease in total transaction value compared to prior year. In number of exits, the decline was led by a 48.5% decline in the total number of exits to strategic buyers, which currently comprise 44.6% of exits, and a 30.9% decline in the total value of exits to financial buyers, which currently comprise 49.6% of exits.

VC:

VC dry powder increasing. VC dry powder for Q1 2017 at \$181.0 billion⁴, up 32.0% from the same period last year.

VC fundraising down. US VC firms raised \$16.9 billion⁵ in 1H17, a 2.4% decrease from the same period last year. 106 funds⁵ closed in 1H17, a 21.8% increase from the same period last year. The average VC fund size decreased by 19.9% at \$159.4 million⁵ versus the same period last year.

Investment activity slowed. US VC firms deployed \$38.5 billion⁹ in capital for 1H17, a 4% decrease from prior year. The decline was consistent with the decrease in number of rounds closed at 4,145⁹, a 2.2% decrease from prior year. The average investment per deal declined also to \$9.5 million⁹, a 1.8% decrease from prior years.

Series C valuations down but all else up Consistent with recent trends, the average pre-money valuation of a Seed Stage, Series A, Series B and Series D investment was up 4.6% at \$6.2 million⁹, 11.8% at \$14.1 million⁹, 2.6% at \$38.6 million⁹ and 25.0% at \$200 million⁹, respectively. However, the average valuation of Series C investments was down 14.6% at \$76.9 million⁹.

Exit activity down. VC exits are down for 1H17 compared to prior year. VC firms exited 433 companies¹⁰ in 1H17, down 20.4% from the same period last year. Similarly, VC firm exits represented \$26.8 billion¹⁰ in transaction value down 17.4% from the same period last year. In total number, the decrease was led by a 26.7% decline in the total exits to strategic buyers, which comprise 72.7% of total exits, and a 11.8% decline in exits by IPO, which comprise 6.9% of total exits.

Ex US:

Ex US dry powder grew but less than dry powder in the US. PE dry powder outside the US grew to \$660.5 billion⁴ for Q1'17, a 7.7% increase versus the same period last year. This was led by Europe which grew to \$367.5 billion⁴, a 6.3% increase from prior year. Asian dry powder also increased to \$224.2 billion⁴, a 17% increase from prior year. Dry power in the rest of the world (excluding US, Europe and Asia) declined by 9.2% to \$68.3 billion⁴. Dry powder outside the US is less than dry powder in the US by 28.2%.

Fundraising outside of U.S. is up. For 1H17, Ex US fundraising was up 8.4% to \$80.7 billion⁵ compared to prior year. The increase was led by Asian funds which raised \$31.3 billion⁵, up 222.2% from prior year. The increase was offset by a decrease in funds in Europe which only raised \$44.9 billion⁵, down 26.4% from prior year. Fundraising in the rest of the world was up 22% to \$4.4 billion compared to prior year.

Investments in Asia up significantly. For 2016, Ex-US PE firms transacted on \$56 billion⁶ of aggregate value, up 18.2% from prior year. The largest increase in dollar value was in Asia where firms deployed \$18.0 billion⁶ in deals, a 92.2% increase from prior years. The investment activity level in Europe and the rest of the world were relatively unchanged from prior year.

Global purchase price multiples decrease slightly. As of June 30, 2017, global median purchase price multiples (Enterprise Value / EBITDA) was down at $10.3x^{10}$, a 4.6% decrease from prior year. This was driven by a 2.4% decrease in US purchase multiples at $10.3x^{10}$ offset by a 7.7% increase in purchase price multiples in Europe at $10.03x^{10}$.

Leverage multiples in Europe moved up. European LBO leverage multiples (Debt / EBITDA) have averaged $5.1x^{11}$ in 1H17, an increase of 5.5% from prior year. European LBO Loan volume at \$17.9 billion¹² is up 32.6% versus prior year.

Exit activity weaker in Europe. Similar to the U.S. which recorded \$168.3 billion⁸ in exits for 1H17, a decrease of 39.1% from prior year, exits in Europe amounted to \$85.5 billion¹³, a 48.3% decrease from prior year.

Outlook:

PE allocations likely to increase but by less than in the past. A recent survey of institutional investors conducted on June 30, 2017 indicated that 39%¹⁴ intend to increase their allocation for private equity compared to 56%¹⁴ during the same period last year. A majority or 56%¹⁴ intend to maintain their allocation for private equity compared to 37%¹⁴ 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, 2017, Institutional investors view North America as the most attractive location to invest in the current economic climate with 69%¹⁴ choosing it as their preferred investment destination. This compares favorably versus Europe (50%¹⁴) and Asia (30%¹⁴). In the same survey, 63%¹⁴ 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 33%¹⁴ of institutional investors believing it presented the best opportunities.

1. *Leveraged Loan Monthly Thomson Reuters LPC*
2. *Guggenheim High-Yield Bank Loan Outlook*
3. *LCD's Leveraged Buyout Review*
4. *Preqin Dry powder by Geography (Preqin Website) Dry powder includes Buyout, Distressed PE, Growth, Mezzanine, Other, Real Estate and Venture Strategies. Data as of the latest available date which was March 2017 which was then compared to March 2016.*
5. *Preqin Private Equity Fundraising*
6. *Preqin Private Equity-Backed Buyout Deals and Exits Factsheet*
7. *US LBO Review*
8. *Pitchbook PE Exits and Company Inventory Report*
9. *PitchBook's VC Valuations*
10. *PitchBook's Venture Capital Liquidity Data Sheet*
11. *LCD European Leveraged Buyout Review*
12. *European Leveraged Lending Review*
Ex US Multiples were estimated utilizing a number of sources including Preqin Private Equity-Backed Buyout Deals and Exits Factsheet, LCD's Leveraged Buyout Review, Europe Leverage Lending Review and Leveraged Loan Monthly Thomson Reuters LPC.
13. *Annual US PE Breakdown*
14. *Preqin Investor Outlook: Alternative Assets, 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%	4,022,270		
Buyout (60% +/- 20%)	4.2%	2.8%-5.6%	4.0%	160,447	78,445	238,892
Venture Capital (20%, 0%-30%)	1.4%	0.0%-2.1%	1.7%	69,329	10,048	79,377
Debt-Related/Special Situations (20% +/- 10%)	1.4%	0.7%-2.1%	0.6%	25,827	58,215	84,042
Total Private Equity	7.0%	6%-10%	6.3%	255,603	146,708	402,311

Portfolio Summary

- As of June 30, 2017, the Private Equity Portfolio had a total market value of \$255.6 million, with \$160.4 million in Buyout, \$69.3 million in Venture Capital, and \$25.8 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 \$235.7 million toward its Private Equity commitments. Unfunded commitments total \$146.7 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 \$7.0 million to ABRY Senior Equity V and \$20.0 million to Great Hill Equity Partners VI in the first quarter of 2017.

PE Performance

Period Ending: June 30, 2017

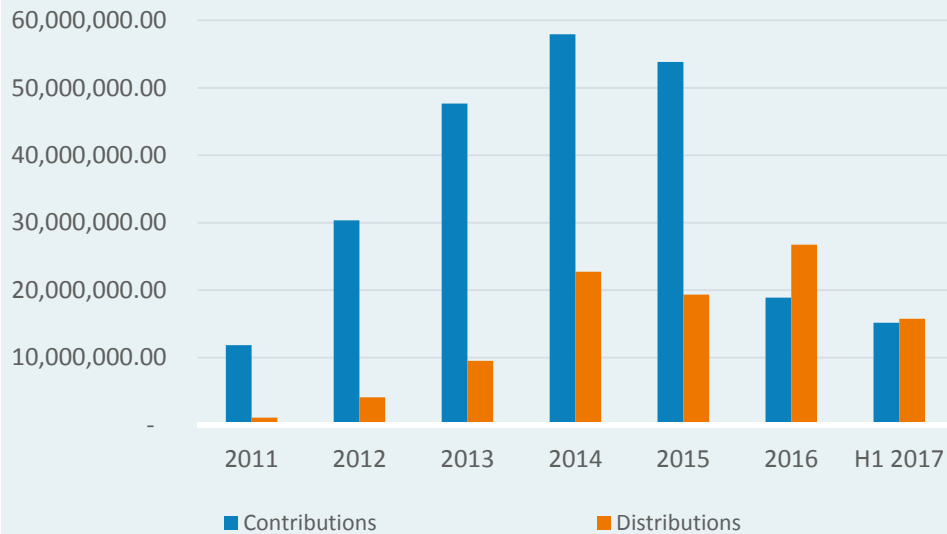
Performance

- The Private Equity portfolio’s performance, as measured by net IRR, is 18.09%. Capital weighted average investment age of the portfolio is 2.94 years.
- The portfolio is currently valued at \$255.6 million. Together with \$99.3 million in realized distributions, the Total Value at \$354.9 million is approximately \$119.2 million above \$235.7 million total capital contributions, resulting in a total value multiple of 1.51x and a distribution multiple of 0.42x.
- Attribution of returns:
 - Buyouts up \$71.17 million / +49.2% versus cost (Sycamore, ABRY VII, Cevian II, and Warburg Pincus XI leading), with 38.3% of called capital

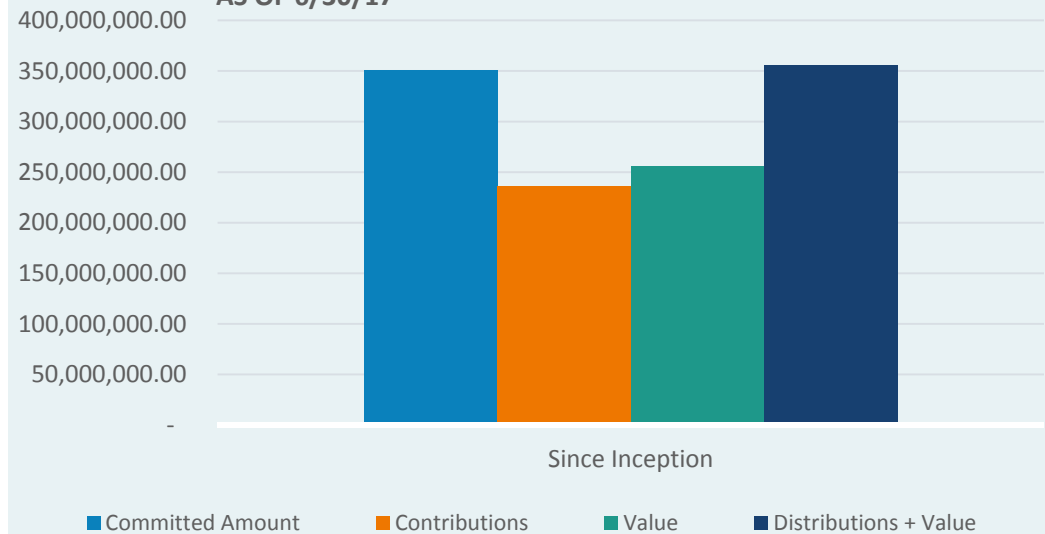
realized and distributed;

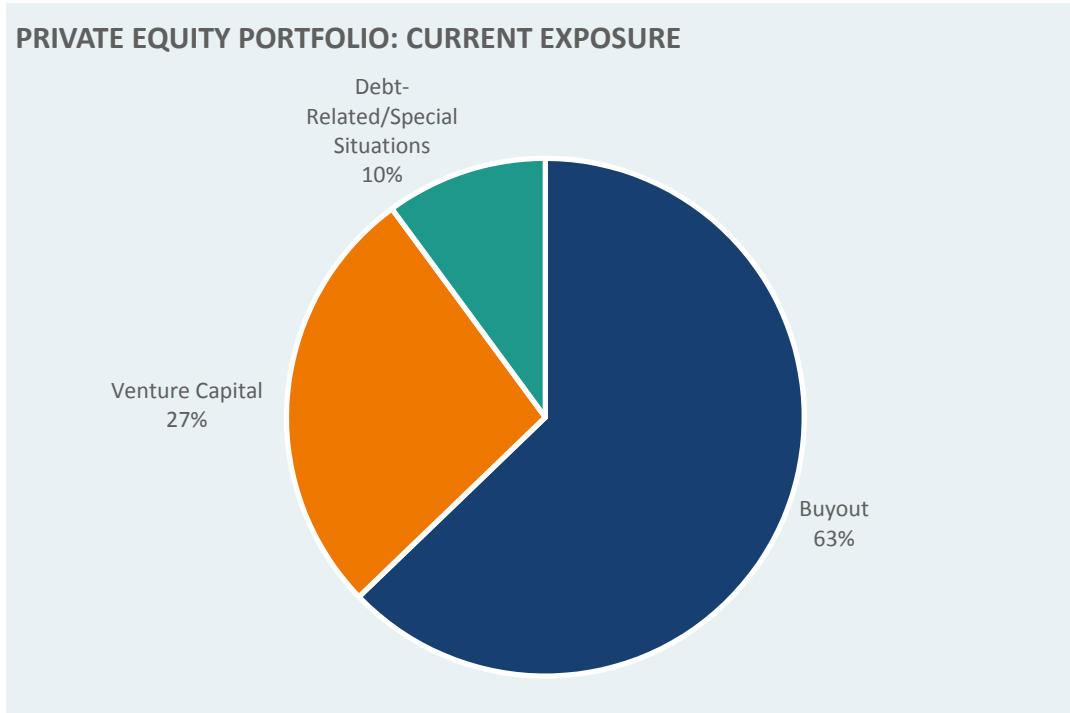
- Venture Capital up \$32.27 million / +73.3% versus cost (General Catalyst VI, NEA 14, Emergence Capital III, NEA 14, and Third Rock III leading), with 15.8% of called capital realized and distributed; and
- Debt-related/Special Situations up \$15.76 million / +33.5% versus cost (ABRY Advanced Securities II and III leading), with 78.6% of called capital realized and distributed.
- Within Private Equity, the current allocation of invested capital is 62.8% to Buyout, 27.1% to Venture Capital, and 10.1% to Debt-Related/Special Situations.

CASH FLOWS ON ANNUAL BASIS



CUMULATIVE CASH FLOWS AND VALUATION AS OF 6/30/17

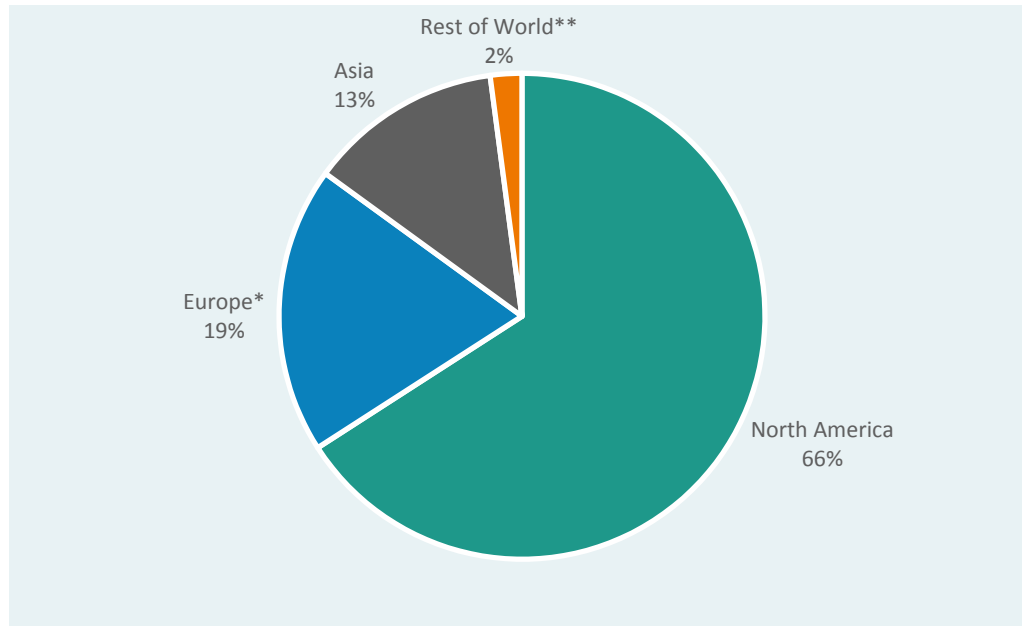




Geography

Portfolio Diversification

Period Ending: June 30, 2017



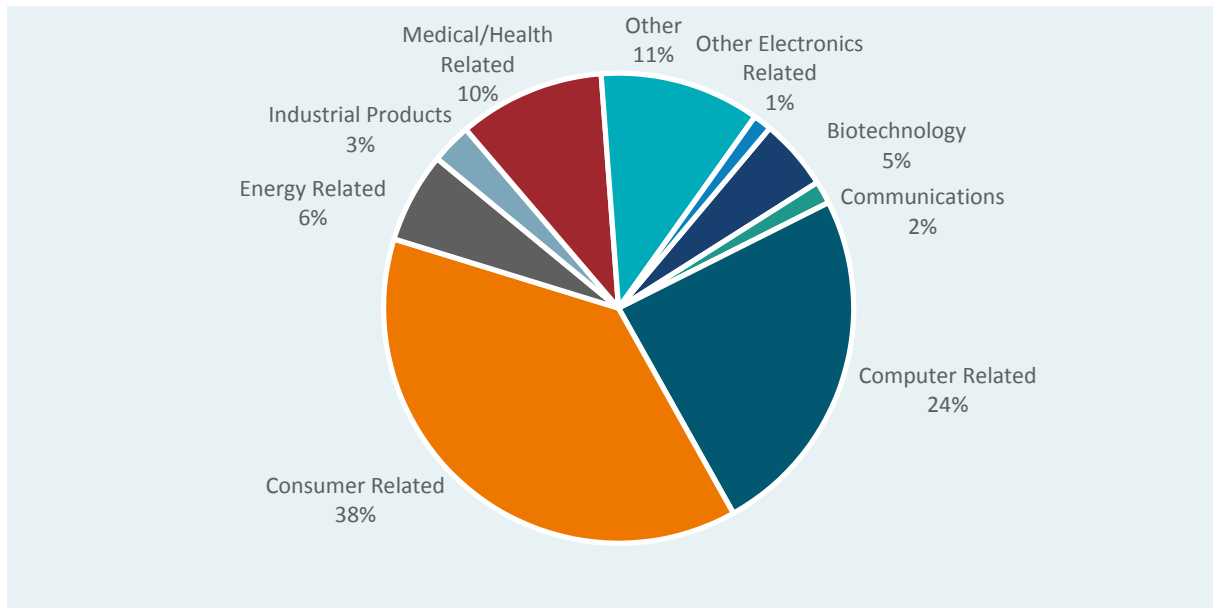
* Europe includes 100% market value from Cevian II.

** Rest of World includes Chile and Australia.

Based on the value of portfolio companies as of June 30, 2017, 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, 2017

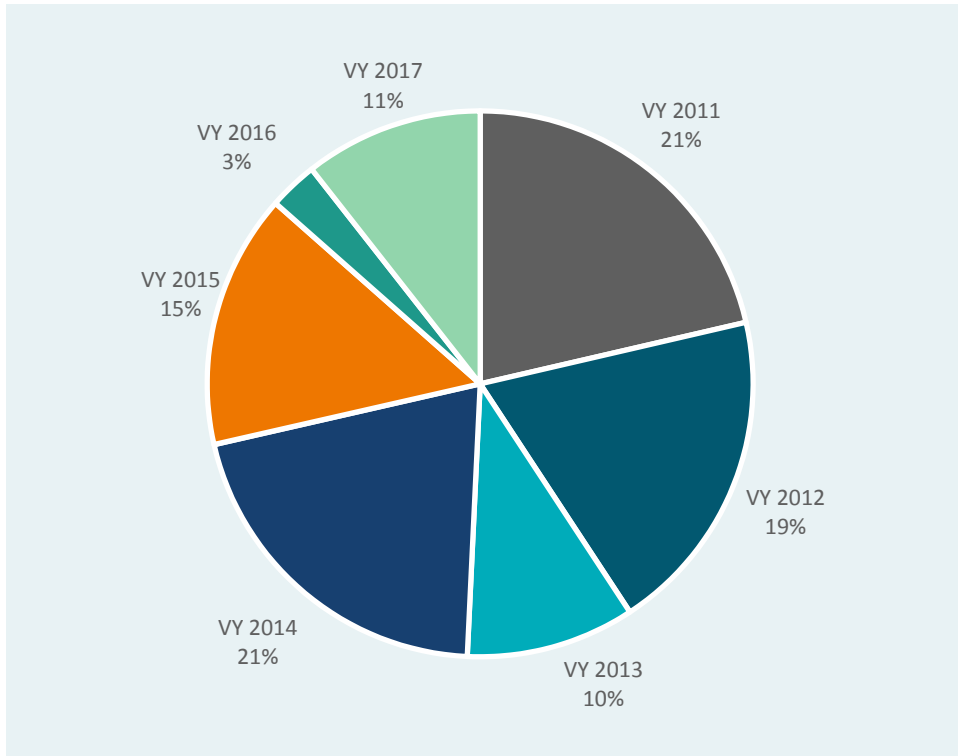


* Please note the industry names have been reclassified to Burgiss' standard, which uses Thomson Reuters' Venture Economic Industry Codes.

Based on the value of portfolio companies as of June 30, 2017, 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

Period Ending: June 30, 2017



- **As of June 30, 2017, the Private Equity Portfolio is slightly below the lower range of its target allocation, with exposures within target diversification bands.**