



**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**



PERIOD ENDING: JUNE 30, 2018

Private Equity Review

San Mateo County Employees' Retirement Association

Table of Contents



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SAN FRANCISCO 415-362-3484

Market Commentary 3

Significant Events / Material
Exceptions to Policy 13

Private Equity Portfolio
Overview 7

Private Equity Portfolio
Performance 8

Private Equity Portfolio
Diversification 9

- PE Portfolio Diversification by Strategy
- PE Portfolio Diversification by Geography
- PE Portfolio Diversification by Industry
- PE Portfolio Diversification by Vintage Year

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DEBT RELATED

- **HY and leveraged/syndicated loan issuance were down.** During the first half of 2018, US high yield issuance of \$108 billion¹ was down 30% and leveraged loan volume of \$737 billion¹ was down 4.4%, both versus 1H 2017.
- **Spreads tightened across the board except for US HY index.** US HY Credit Index loosened by 7 bps or 2.0%² versus the same period last year. BB, B and CCC index tightened by 22 bps, 27 bps and 221 bps respectively, a 7.4%², 6.0%² and 17.7%² decrease versus the same period last year.
- **Slight decline in LBO debt levels.** US total leverage (Debt / EBITDA) for 1H 2018 at 5.7x³ down 1.7% from the same time last year. Interest coverage ratio (EBITDA / Cash Interest) ended Q2'18 at 2.9x³, down 6.2% from 3.1x³ at the end of 2017.

GLOBAL

- **Investment activity up.** During 1H 2018, PE firms globally invested in \$322.6 billion^{6&13} worth of deals, up 29.9% from the same time prior year and closed on 9,446 transactions^{6&13}, up 15.6% from the first half of 2017.
- **Global purchase price multiples increased slightly.** As of June 30, 2018, global median purchase price multiples (Enterprise Value / EBITDA) was 10.4x¹, a 0.97% increase from the same time last year. This was driven by a 5.1% decrease in US purchase multiples at 9.8x⁷, a 5.3% increase in purchase price multiples in Europe at 10.6x¹¹, and a 12.0% decrease in the rest of the world at 9.5x¹¹.
- **Moderate decrease in dry powder in all regions, offset by significant growth in Asia.** For Q1 2018, global total PE dry powder was at \$1.31 trillion⁴, up slightly (+0.6%) from Q1 2017. Total PE dry powder was: down in the US 10.8% to \$674.6 billion⁴; down in Europe by 5.6% to \$280.8 billion⁴; significantly up in Asia by 58.2% to \$309.1 billion⁴; and down the rest of world by 12.8% to \$44.8 billion⁴.

US BUYOUTS

- **Fundraising down significantly.** In the first 6 months of 2018, US buyout firms raised \$31.5 billion⁵, down by 62.1% from same time prior year. Both the number of funds closed and average fund size decreased from 1H 2017 to 1H 2018, 53⁵ to 42⁵ and \$1.57 billion⁵ to \$0.75 billion⁵, respectively.
- **Decline in LBO price multiples.** As of June 30, 2018, US LBO purchase price multiples (Enterprise Value / EBITDA) were at 9.8x⁷, a 5.2% decrease from the first half of 2017.

- **Investment activity up.** During 1H 2018, US buyout firms invested in \$157.4 billion⁶ worth of deals, up 95.2% from the same time last year and closed on 1,221 transactions⁶, up 13.9% versus the same time in 2017. Envision Healthcare Corporation (\$9.9 billion⁶), BMC Software (\$8.3 billion⁶), Inc. and Cotiviti, LLC (\$4.9 billion⁶) contributed to the increase in capital deployed.
- **Dry powder down slightly.** For Q1 2018, US buyout dry powder was \$348.3 billion⁴, down by 5.4% from the same time in 2017.
- **Exits down marginally, but from larger deals.** During 1H 2018, US buyout firms exited 365 companies⁶, representing \$83.6 billion⁶ in total transaction value. This represented a 0.3% decrease in the number of exits and a 36.1% increase in total transaction value compared to the same time last year.

US VENTURE CAPITAL

- **Dry powder up.** As of Q1 2018, US VC dry powder was at \$81.3 billion⁴, up 10% from the last year.
- **Investment activity up sharply from last year.** US VC firms deployed \$44.1 billion¹² in capital during the first half of 2018, a 32.9% increase from 1H 2017. The number of rounds closed at 2,516¹², a 33.7% increase from the same time last year. The average investment per deal decreased slightly to \$17.5 million¹², a 0.6% decrease from prior year.
- **All stages valuations were up.** Compared to 1H 2017, the average pre-money valuations increased across all stages in the first half of 2018: up 13.5% at \$7.0 million⁸ for Seed stage, 26.6% at \$20.0 million⁸ for Series A, 42.6% at \$55.0 million for Series B, 49.6% at \$115.0 million⁸ for Series C, and 11.2% at \$278.0 million⁸ for Series D. Over the past 3 years, the average pre-money valuations of Seed stage, Series A, Series B, Series C and Series D investments were up 15.3%, 32.8%, 32.9%, 39.4% and 51.1%, respectively⁹.
- **Exits down moderately, but notably larger.** US VC firms exited 292 companies¹² in 1H 2018, down by 9.3% from the same period last year, representing \$39.8 billion¹² in transaction value, up 62.7% from the same period last year.
- **Fundraising slowed.** US VC firms raised \$15.3 billion⁵ during 1H 2018, a 9.5% decrease from the same period last year. 127 funds⁵ closed in 1H 2018, a 19.8% increase from the same period last year. The average US VC fund size decreased by 24.5% at \$120.4 million⁵ versus the same period last year.

EX-US

- **Fundraising up, except in Asia.** For 1H 2018, Ex-US fundraising was up 19.7% to \$96.6 billion⁵ compared to same time prior year. The increase was led by European funds which raised \$63.8 billion⁵, up 41.9% from same time last year. The increase was offset by a decrease in funds in Asia which raised \$26.5 billion⁵, down 15.4% from 1H 2017. Fundraising in the rest of the world was up 44.3% to \$6.3 billion⁵ compared to 1H 2017.
- **Ex-US dry powder grew, but less than dry powder in the US.** PE dry powder outside the US grew to \$636.6 billion⁴ for Q1 2018, a 16.3% increase versus last year. However, dry powder outside the US was still slightly less than dry powder in the US (\$674.6 billion⁴) by 5.6%.
 - **Dry powder of buyout, VC and growth equity in Asia increased significantly.** At the end of Q1 2018, Asia buyout dry power was \$81.0 billion⁴, up by 41.4% from last year. VC dry powder in Asia increased to \$83.5 billion⁴, up by 50.5% from prior year. Growth equity dry powder grew to \$123.2 billion⁴, a 115.0% increase from 2017.
 - **Europe buyout and VC dry powders up.** For Q1 2018, Europe buyout dry power was \$189.1 billion⁴, up marginally by 2.1% from last year. Same time, VC dry powder in Europe grew to \$26.4 billion⁴, a 14.3% increase from prior year.
- **Investments up in all key sectors and geographies, except for Asia buyout.** Number of deals and aggregate deal volume increased in the first half of 2018 in European buyout and venture capital and Asia venture capital.
 - **Europe buyout and VC investments increased.** In 1H 2018, Europe buyout firms transacted on \$57.9 billion⁶ in aggregate value, up by 63.7% from 1H 2017. VC investment activity was up from \$8.0 billion during 1H 2017 to \$11.3 billion¹² during the first half of 2018, an increase of 40.9%.
 - **Asia buyout activity was down, while VC investment activities was up.** During 1H 2018, Asia VC investment activity was \$60.8 billion¹², up from \$31.5 billion during 1H 2017, an increase of 92.3%. Buyout firms closed on \$14.3 billion⁶ in aggregate value, down by 20.5% from the same time of last year's \$18.0 billion⁶.
- **Leverage multiples in Europe moved up.** European LBO leverage multiples (Debt / EBITDA) have averaged $5.4x^{10}$ during 1H 2018, an increase of 7.1% from the same time last year and a 11.1% decrease from the peak ($6.1x^{11}$) in 2007. European LBO Loan volume at \$46.6 billion¹¹ is up 19.7% versus 1H 2017, a decrease of 56.6% versus the peak of \$107.26 billion¹¹ in the first half of 2007.
- **Exit activity stronger in Europe and Asia.** During the first half of 2018, Europe PE firms aggregate exit value amounted to \$66.3 billion^{6&12}, a 89.7% increase from the same time last year, while Asia PE firms' exits were up 329.0% from 1H 2017 to \$48.0^{6&12} billion in the same time.

Outlook

- **PE allocations likely to increase slightly.** A recent survey of institutional investors conducted on June 30, 2018 indicated that 29%¹³ intend to increase their allocation for private equity compared to 39%¹³ during the same period last year. 57%¹³ intend to maintain their allocation for private equity compared to 56%¹³ during the same period last year. 77%¹³ plan to commit to a private equity fund in the second half of 2018, and 16%¹³ expect to commit to a private equity fund in 2019.
- **Institutional investors most interested in investing in North America and like small- to mid-market buyouts.** Based on the survey conducted on June 30, 2018, Institutional investors view North America as the most attractive location to invest in the current economic climate with 55%¹³ choosing it as their preferred investment destination. This compares favorably versus Europe (35%¹³) and Asia (23%¹³). In the same survey, 44%¹³ of institutional investors also cited the small to mid-market buyout strategy as presenting the best opportunities in the current financial climate. venture capital strategy was mentioned next with 25%¹³ of institutional investors believing it presented the best opportunities.

Notes

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, Co-investments, Balanced, and Venture Strategies.*
5. *Preqin Private Equity Fundraising*
6. *Preqin Private Equity-Backed Buyout Deals and Exits*
7. *US LBO Review*
8. *PitchBook-NVCA Venture Monitor*
9. *PitchBook's VC Valuations*
10. *LCD European Leveraged Buyout Review*
11. *European Leveraged Lending Review*
 - a. *Ex US Multiples were estimated utilizing a number of sources including Preqin Private Equity-Backed Buyout Deals and Exits Factsheet, LCD's Leveraged*
 - b. *Buyout Review, Europe Leverage Lending Review and Leveraged Loan Monthly Thomson Reuters LPC.*
12. *Preqin Venture Capital Deals and Exits*
13. *Preqin Investor Outlook: Alternative Assets*

| Investment Type | Policy Target | Policy Range | Market Value % | Market Value \$(000) | Unfunded Commitment \$(000) | Market Value + Unfunded \$(000) |
|---|---------------|---------------|----------------|----------------------|-----------------------------|---------------------------------|
| SamCERA - Total Plan | | | 100.0% | 4,347,472 | | |
| Buyout (60% +/- 20%) | 4.2% | 2.8%-5.6% | 4.1% | 180,297 | 108,728 | 289,025 |
| Venture Capital (20%, 0%-30%) | 1.4% | 0.0%-2.1% | 1.7% | 72,871 | 9,885 | 82,756 |
| Debt-Related/Special Situations (20% +/- 10%) | 1.4% | 0.7%-2.1% | 0.6% | 25,117 | 53,961 | 79,078 |
| Total Private Equity* | 7.0% | 6%-10% | 6.4% | 278,285 | 172,574 | 450,859 |

* The Private Equity Policy Target of 7.0% will be reduced to 6.0% effective 10/1/2018.

Portfolio Summary

- As of June 30, 2018, the Private Equity Portfolio had a total market value of \$278.3 million, with \$180.3 million in Buyout, \$72.9 million in Venture Capital, and \$25.1 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 \$270.0 million toward its Private Equity commitments. Unfunded commitments total \$172.6 million.
- The portfolio exposure at 6.4% is at the lower end of its target range. All sub-asset classes, except Debt-Related/Special Situations which is below its target range, are within the policy range while commitments continue to be made to new managers at a slower pace.

Portfolio Activity

- SamCERA committed \$20.0 million to Sycamore Partners III and €20.0 million (approximately \$23.3 million) to CapVest Equity Partners IV in the first half of 2018.

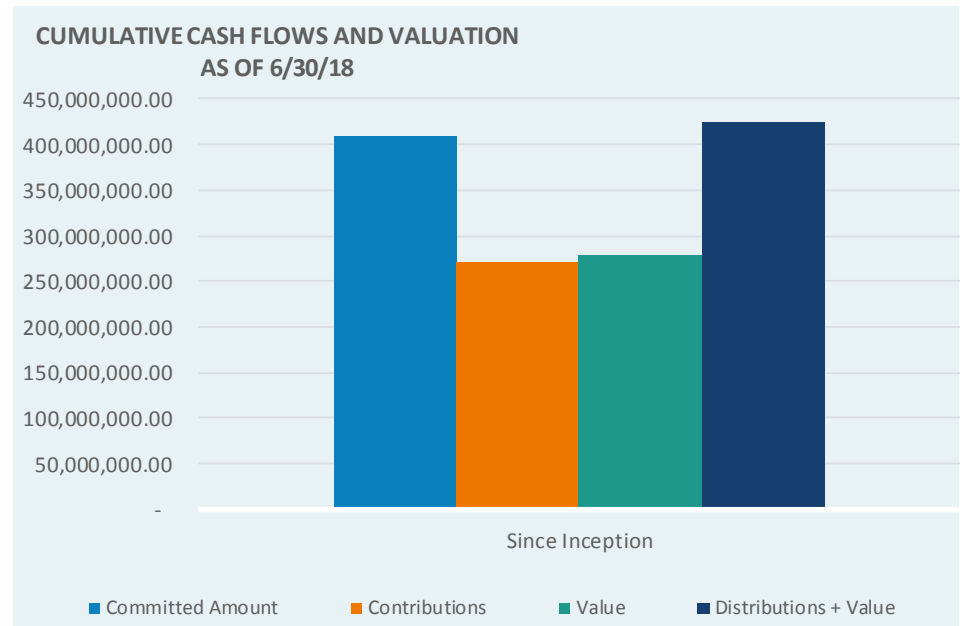
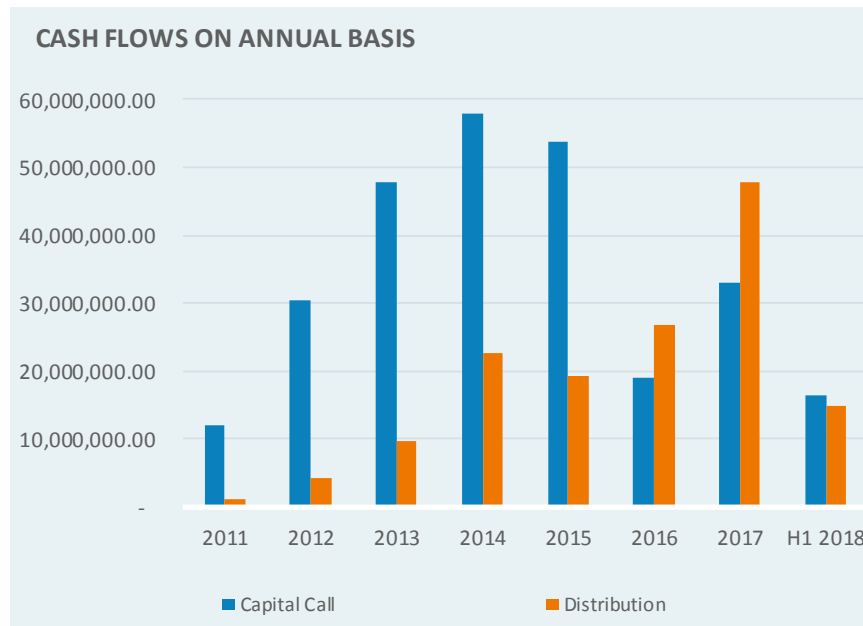
PE Performance

Period Ending: June 30, 2018

Performance

- The Private Equity portfolio’s performance, as measured by net IRR, is 17.33%, 416 bps above the same cash flow invested in Russell 3000 TR index of 13.17% and 116 bps above Russell 3000 + 3% SamCERA PE benchmark. Capital weighted average investment age of the portfolio is 3.6 years.
- The portfolio is currently valued at \$278.3 million. Together with \$146.1 million in realized distributions, the Total Value at \$424.4 million is approximately \$154.4 million above \$270.0 million total capital contributions, resulting in a total value multiple of 1.57x and a distribution multiple of 0.54x.
- Distributions surpassed contributions in 2016 and 2017 by a ratio of (1.4:1.0) in aggregate, but lagged with a ratio of (0.9:1.0) in 1H’18.

- Attribution of returns:
 - Buyouts up \$92.64 million / +55.6% versus cost (Sycamore and ABRY VII leading), with 47.4% of called capital realized and distributed;
 - Venture Capital up \$47.39 million / +97.8% versus cost (General Catalyst VI, Emergence Capital III, NEA 14, and Third Rock III leading), with 47.4% of called capital realized and distributed; and
 - Debt-related/Special Situations up \$17.61 million / +34.1% versus cost (ABRY Advanced Securities II and III leading), with 85.5% of called capital realized and distributed.
- Within Private Equity, the current allocation of invested capital is 64.8% to Buyout, 26.2% to Venture Capital, and 9.0% to Debt-Related/Special Situations.

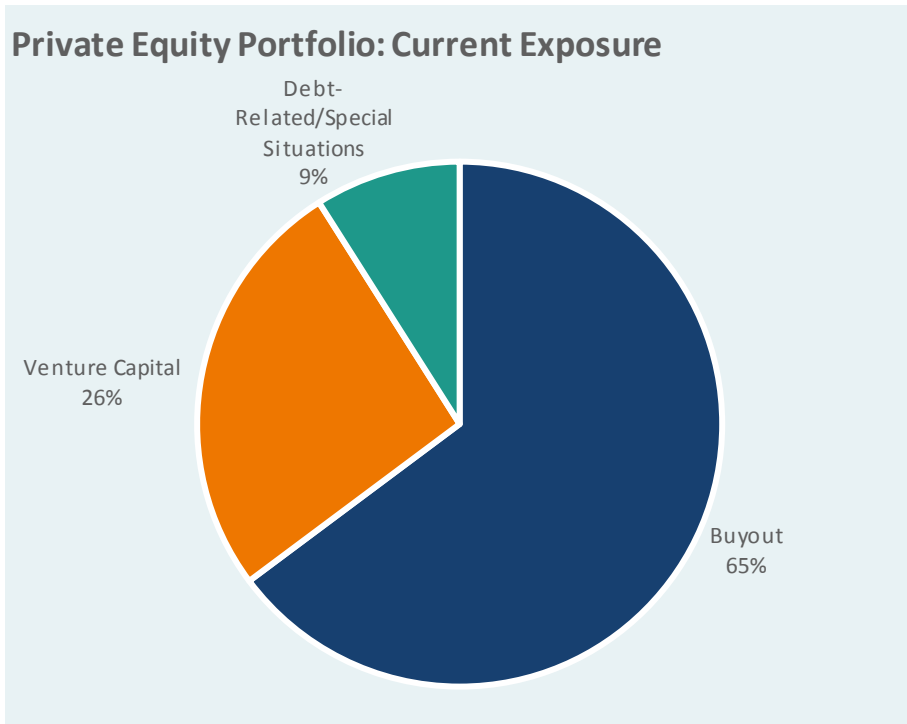


Strategy

Portfolio Diversification

Period Ending: June 30, 2018

| Investment Type | Commitment | Reported Value | Current Exposure as % of Private Equity |
|---------------------------------|--------------------|--------------------|---|
| Buyout | 255,298,000 | 180,297,285 | 64.8% |
| Venture Capital | 59,000,000 | 72,871,469 | 26.2% |
| Debt-Related/Special Situations | 94,500,000 | 25,116,552 | 9.0% |
| Total Private Equity | 408,798,000 | 278,285,306 | 100.0% |

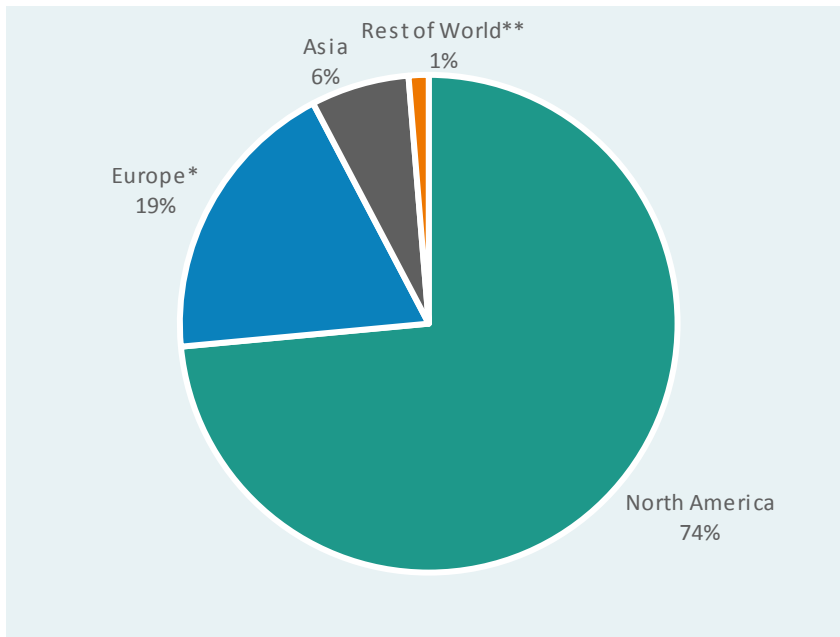


Geography

Portfolio Diversification

Period Ending: June 30, 2018

| Geography | Current Exposure |
|-----------------------------|--------------------|
| North America | 191,955,980 |
| Europe* | 48,939,443 |
| Asia | 16,565,794 |
| Rest of World** | 3,414,845 |
| Total Private Equity | 260,876,062 |



Based on the value of portfolio companies as of June 30, 2018, 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.

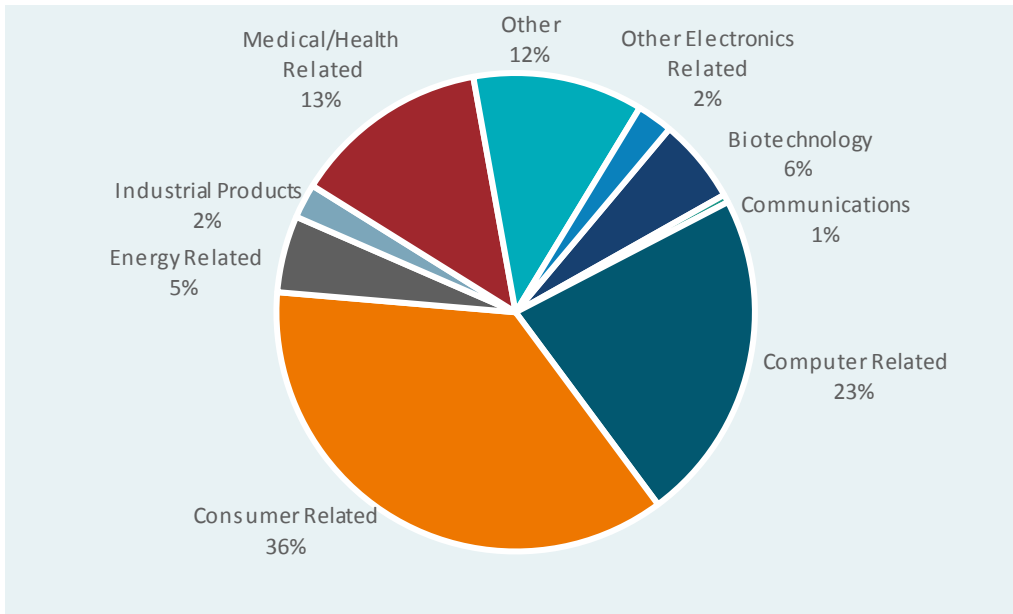
* Europe includes 100% market value from Cevian II.

** Rest of World includes Chile and Australia.

Industry Portfolio Diversification

Period Ending: June 30, 2018

| Industry | Current Exposure |
|-----------------------------|--------------------|
| Biotechnology | 12,747,899 |
| Communications | 1,200,417 |
| Computer Related | 50,053,524 |
| Consumer Related | 81,224,265 |
| Energy Related | 11,580,452 |
| Industrial Products | 5,183,016 |
| Medical/Health Related | 29,609,677 |
| Other | 25,649,776 |
| Other Electronics Related | 5,403,290 |
| Total Private Equity | 222,652,316 |

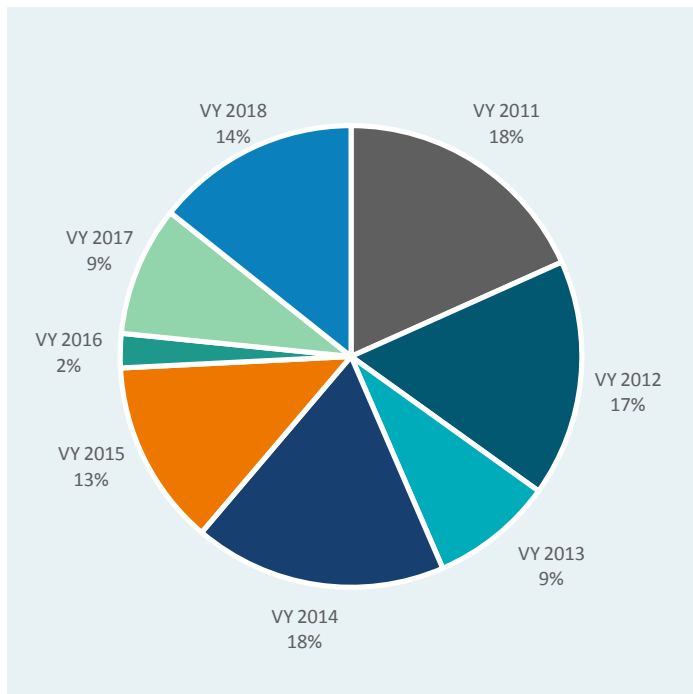


Based on the value of portfolio companies as of June 30, 2018, if provided by the partnerships. Differences between reported value and the total portfolio valuation is due to temporary cash funds, fees, other expenses, and holdings with undisclosed geography breakdown.

Vintage Year Portfolio Diversification

Period Ending: June 30, 2018

| Vintage Year | Commitment as of 6/30/18 | % of Portfolio Commitment | Reported Value as of 6/30/18 |
|-----------------------------|--------------------------|---------------------------|------------------------------|
| 2011 | 75,000,000 | 18.3% | 42,394,953 |
| 2012 | 68,000,000 | 16.6% | 87,123,592 |
| 2013 | 35,000,000 | 8.6% | 49,562,067 |
| 2014 | 72,500,000 | 17.7% | 59,792,717 |
| 2015 | 53,000,000 | 13.0% | 32,426,511 |
| 2016 | 10,000,000 | 2.4% | 879,963 |
| 2017 | 37,000,000 | 9.1% | 6,105,503 |
| 2018 | 58,298,000 | 14.3% | 0 |
| Total Private Equity | 408,798,000 | 100% | 278,285,305 |



- As of June 30, 2018, the Private Equity Portfolio is at the lower end of its target allocation, with exposures within target diversification bands.
- The Private Equity policy target will be reduced from 7.0% to 6.0% effective October 1, 2018.