



**PERSPECTIVES  
THAT DRIVE  
ENTERPRISE  
SUCCESS**



PERIOD ENDING: JUNE 30, 2019

Private Equity Review

**San Mateo County Employees' Retirement Association**

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**DEBT RELATED**

- **HY issuance was up and leveraged loan issuance was down.** During the first half of 2019, US high yield issuance of \$130.7 billion<sup>1</sup> was up 21.0% compared to 1H 2018. Leveraged loan issuance has been very weak in 2019. 1H 2019 volume was \$315.6 billion<sup>1</sup>, down 57.2% versus 1H 2018.
- **Spreads widened across the board.** US HY Credit Index loosed by 38 bps or 9.9%<sup>2</sup> versus the same period last year. BB, B and CCC index loosed by 16 bps, 67 bps and 175 bps respectively, a 5.8%<sup>2</sup>, 15.9%<sup>2</sup> and 17.0%<sup>2</sup> increases versus the same period last year.
- **Slight increase in LBO debt, but interest coverage deteriorated.** US total leverage (Debt / EBITDA) for 1H 2019 at 6.0x<sup>3</sup> up 5.8% from the same time last year. Interest coverage (EBITDA / Cash Interest) of 1H 2019 was 2.3x<sup>3</sup>, down 22.6% from 1H 2018.

**GLOBAL**

- **PE dry powder keeps surging globally.** For Q1 2019, global total PE dry powder was at \$1.50 trillion<sup>4</sup>, up 14.2% from Q1 2018. US total PE was up by 17.2% to \$790.9 billion<sup>4</sup>; Europe total PE was up by 6.3% to \$298.4 billion<sup>4</sup>; Asia total PE was up by 15.8% to \$358.0 billion<sup>4</sup>; and the rest of world total PE was up by 10.5% to \$49.5 billion<sup>4</sup>.
- **Investment activity was down.** During 1H 2019, global PE firms invested in \$295.1 billion<sup>6&12</sup> worth of deals, down 22.8% from the same time prior year and closed on 9,861 transactions<sup>6&12</sup>, down 0.6% from the first half of 2018.

**US BUYOUTS**

- **Dry powder was up.** For Q1 2019, US buyout was \$437.4 billion<sup>4</sup>, up by 25.6% from the same time in 2018.
- **Less fundraising activity, but with significantly larger fund sizes.** In the first 6 months of 2019, US buyout firms across all buyout strategies raised \$106.5 billion<sup>5</sup>, up by 195.8% from same time prior year.
- **Investment activity was down.** During 1H 2019, US buyout firms invested in \$105.8 billion<sup>6</sup> worth of deals, down 27.4% from the same time last year and closed on 1,338 transactions<sup>6</sup>, down 16.4% versus the same time in 2018.



- **LBO price multiples were up.** As of June 30, 2019, US LBO purchase price multiples (Enterprise Value / EBITDA) were at  $11.2x^7$ , a 14.3% increase from the first half of 2018.
- **Exit activity slowed down but large transactions.** During 1H 2019, US buyout firms exited 441 companies<sup>12</sup>, representing \$72.8 billion<sup>12</sup> in total transaction value. This represented a 63.9% decrease in the number of exits and a 53.7% increase in total transaction value compared to the same time last year.

#### US VENTURE CAPITAL

- **Dry powder was increasing.** For Q1 2019, US VC dry powder was at \$118.2 billion<sup>4</sup>, up 12.5% from the last year.
- **Fundraising activity slowed down a bit, but average fund size increased.** US VC firms raised \$24.9 billion<sup>5</sup> during 1H 2019, a 29.7% increase from the same period last year. 206 funds<sup>5</sup> closed in 1H 2019, an 8.8% decrease from the same period last year. The average US VC fund size increased by 42.3% at \$120.9 million<sup>5</sup> versus the same period last year.
- **Investment activities was up.** US VC firms deployed \$62.9 billion<sup>12</sup> in capital during the first half of 2019, a 42.6% increase from 1H 2018. The number of rounds closed at 2,761<sup>12</sup>, a 21.5% decrease from the same time last year. The average investment per deal increased to \$22.8 million<sup>12</sup>, a 30% increase from prior year.
- **All stages valuations were up, except Series C flat.** Compared to 1H 2018, the average pre-money valuations increased across almost all stages in the first half of 2019: up 7.1% at \$7.5 million<sup>8</sup> for Seed stage, 12% at \$22.4 million<sup>8</sup> for Series A, 18.2% at \$65.0 million<sup>8</sup> for Series B, and 50.2% at \$417.5 million<sup>8</sup> for Series D. Series C pre-money valuation stayed flat \$115.0 million<sup>8</sup>. 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 27.1%, 58.5%, 72.9%, 27.8% and 108.8%, respectively<sup>9</sup>.
- **Exit activity increased with large transactions.** US VC firms exited 304 companies<sup>12</sup> in 1H 2019, up by 4.1% from the same period last year, representing \$46.0 billion<sup>12</sup> in transaction value up 15.6% from the same period last year.

## EX US

- **Ex US dry powder grew but less than dry powder in the US.** PE dry powder outside the US grew to \$706.1 billion<sup>4</sup> for Q1 2019, a 10.9% increase versus last year. However, dry powder outside the US was still slightly less than dry powder in the US (\$790.9 billion<sup>4</sup>) by 10.7%.
  - **Europe buyout and VC dry powders were up.** For Q1 2019, Europe buyout dry power was \$203.5 billion<sup>4</sup>, up by 7.6% from last year. Same time, VC dry powder in Europe grew to \$30.8 billion<sup>4</sup>, a 16.7% increase from prior year.
  - **Dry powder of buyout, VC and growth equity in Asia kept increasing.** At the end of Q1 2019, Asia buyout dry power was \$85.9 billion<sup>4</sup>, up by 6% from last year. VC dry powder in Asia increased to \$103.5 billion<sup>4</sup>, up by 24.0% from prior year. Growth equity dry powder grew to \$149.4 billion<sup>4</sup>, a 21.3% increase from 2018.
- **Fundraising outside of US was down.** For 1H 2019, Ex US fundraising was down 19.4% to \$103.3 billion<sup>5</sup> compared to same time prior year. The decrease was led by European funds which raised \$58.8 billion<sup>5</sup>, down 21.2% from same time last year. Fundraising was down in Asia as well, down by 17.2% from \$46.5 billion in 1H 2018 to \$38.5 billion<sup>5</sup> in 1H 2019. Fundraising in the rest of the world was down 15.5% to \$6.0 billion<sup>5</sup> compared to 1H 2018.
- **Investments activity was up except for Asia VC.** Both buyout and venture capital firms in Europe and Asia buyout firms increased number of deals and aggregate deal volume in the first half of 2019.
  - **Europe buyout and VC investment activities decreased.** In 1H 2019, Europe buyout firms transacted on \$46.0 billion<sup>6</sup> in aggregate value, down by 47.1% from 1H 2018. VC investment activity was up from \$11.3 billion during 1H 2018 to \$17.2 billion<sup>12</sup> during the first half of 2019, an increase of 52.3%.
  - **Asia buyout activity was up, while VC investment activities was down significantly.** During 1H 2019, Asia buyout firms closed on \$17.9 billion<sup>6</sup> in aggregate value, up by 2.4% from the same time of last year's \$17.5 billion<sup>6</sup>. VC investment activity was up from \$60.8 billion during 1H 2018 to \$32.5 billion<sup>12</sup>, a decrease of 46.6%.
- **Global purchase price multiples increased.** As of June 30, 2019, global median purchase price multiples (Enterprise Value / EBITDA) was 12.6x<sup>1</sup>, an 21.2% increase from the same time last year. This was driven by a 14.3% increase in US purchase multiples at 11.2x<sup>7</sup>, a 2.1% increase in purchase price multiples in Europe at 9.5x<sup>11</sup>, and a 20.9% decrease in the rest of the world at 11.5x<sup>11</sup>.
- **Leverage multiples in Europe moved up.** European LBO leverage multiples (Debt / EBITDA) have averaged 5.6x<sup>10</sup> during 1H 2019, an increase of 3.0% from the same time last year and an 8.5% decrease from the peak (6.1x<sup>11</sup>) in 2007. European LBO Loan volume at \$27.5 billion<sup>11</sup> is down 41.4% versus 1H 2018, a decrease of 74.4% versus the peak of \$107.3 billion<sup>11</sup> in the first half of 2007.
- **Exit activity weaker in Europe, but stronger in Asia.** During the first half of 2019, Europe PE firms aggregate exit value amounted to \$45.1 billion<sup>6&12</sup>, a 35.7% decrease from the same time last year, while Asia PE firms' exits were up 24.5% from 1H 2018 to \$61.4<sup>6&12</sup> billion in the same time.

## Outlook

- **PE allocations likely to increase slightly.** A recent survey of institutional investors conducted on June 30, 2019 indicated that 40%<sup>13</sup> intend to increase their allocation for private equity compared to 29%<sup>13</sup> during the same period last year. 47%<sup>13</sup> intend to maintain their allocation for private equity compared to 57%<sup>13</sup> during the same period last year. 13%<sup>13</sup> intend to commit less capital to private equity compared to 14%<sup>13</sup> 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, 2019, Institutional investors view North America as the most attractive location to invest in the current economic climate with 88%<sup>13</sup> choosing it as their preferred developed market investment destination. This compares favorably versus West Europe (60%<sup>13</sup>) and Asia (29%<sup>13</sup>). China (49%)<sup>13</sup> and India (39%)<sup>13</sup> are the top two desired countries in the emerging markets for investors. In the same survey, 68%<sup>13</sup> 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 54%<sup>13</sup> 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 Historical Fundraising Statistics*
6. *Preqin Quarterly Update: Private Equity & Venture Capital*
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, Pitchbook Europe M&A and Leveraged Loan Monthly Thomson Reuters LPC.*
12. *Preqin Pro Buyout and Venture Deals*
13. *Preqin Investor Update: Alternative Assets*

Investment Type	Policy Target	Policy Range	Market Value %	Market Value \$(000)	Unfunded Commitment \$(000)	Market Value + Unfunded \$(000)
<b>SamCERA - Total Plan</b>			<b>100.0%</b>	<b>4,660,521</b>		
Buyout (60% +/- 20%)	3.6%	2.4%-4.8%	4.0%	185,112	102,560	287,672
Venture Capital (20%, 0%-30%)	1.2%	0.0%-1.8%	2.6%	122,392	11,161	133,553
Debt-Related/Special Situations (20% +/- 10%)	1.2%	0.6%-1.8%	0.6%	28,449	68,108	96,557
<b>Total Private Equity*</b>	<b>6.0%</b>	<b>4%-8%</b>	<b>7.2%</b>	<b>335,953</b>	<b>181,829</b>	<b>517,782</b>

### Portfolio Summary

- As of June 30, 2019, the Private Equity Portfolio had a total market value of \$336.0 million, with \$185.1 million in Buyout, \$122.4 million in Venture Capital, and \$28.4 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 \$303.5 million toward its Private Equity commitments. Unfunded commitments total \$181.8 million.
- The portfolio exposure at 7.2% is above the new 6% policy target, but within range. Compared to December 31, 2018, portfolio exposure is up 17.0%, largely driven by an 47.1% increase in value of its Venture Capital portfolio. All sub-asset classes, except Venture Capital which is above its policy 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 Great Hill Equity Partners VII, L.P. in the first half of 2019.
- SamCERA requested redemption from Cevian Capital II, L.P. for \$20M, effective July 1, 2019.

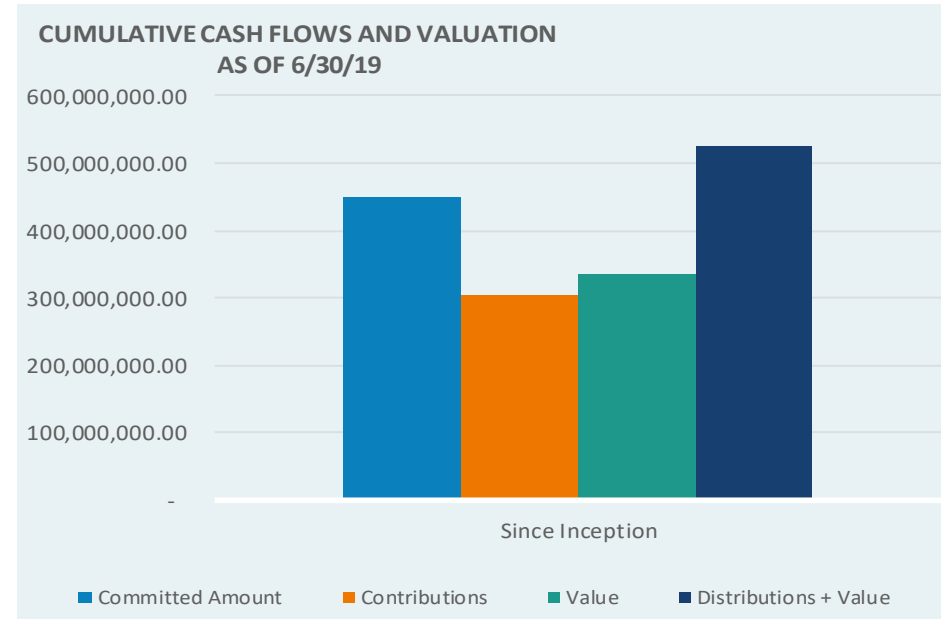
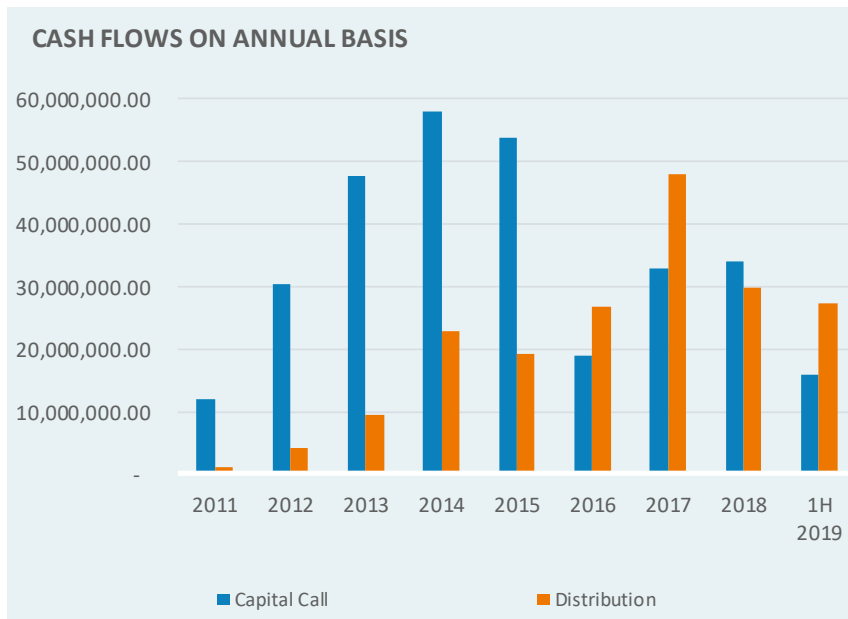
# PE Performance

Period Ending: June 30, 2019

## Performance

- The Private Equity portfolio’s performance, as measured by net IRR, is 18.40%, 589 bps above the same cash flow invested in Russell 3000 Total Return Index of 12.51%. Capital weighted average investment age of the portfolio is 4.1 years.
- The portfolio is currently valued at \$336.0 million. Together with \$188.5 million in realized distributions, the Total Value at \$524.5 million is approximately \$221.0 million above \$303.5 million total capital contributions, resulting in a total value multiple of 1.73x and a distribution multiple of 0.62x.
- Distributions surpassed contributions with a ratio of 1.7:1 in the first quarter of 2019 compared to 1.4:1 in 2016, 1.4:1 in 2017, and 0.9:1 in 2018.

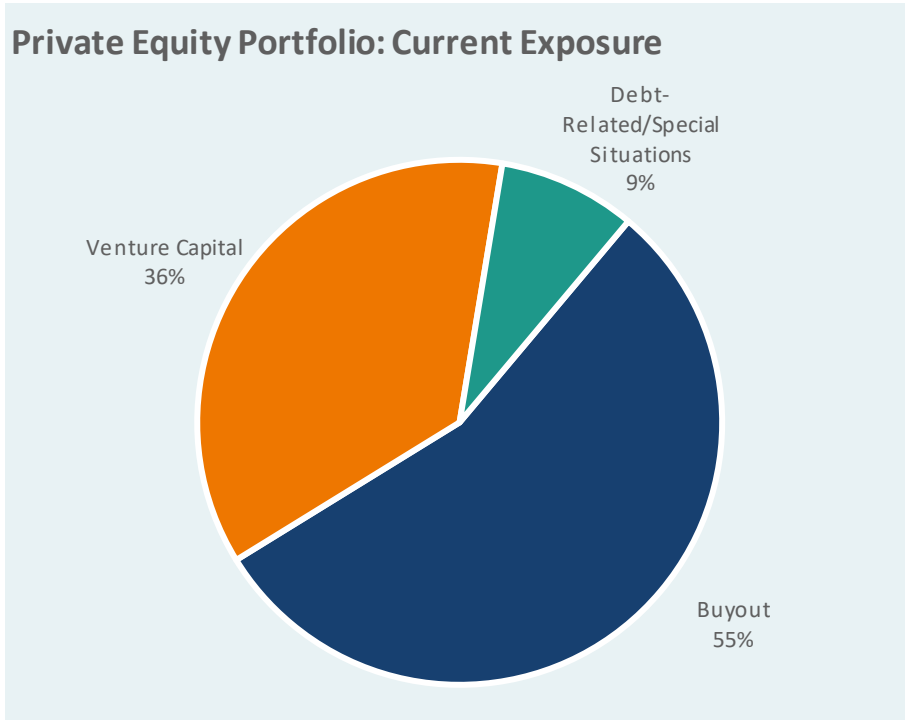
- Attribution of returns:
  - Buyouts up \$101.8 million / +53.4% versus cost (Sycamore, Great Hill V, ABRY VII, and Warburg Pincus XI leading), with 56.3% of called capital realized and distributed;
  - Venture Capital up \$102.1 million / +192.9% versus cost (Emergence Capital III, General Catalyst VI, NEA 14, and Third Rock III leading), with 61.6% of called capital realized and distributed; and
  - Debt-related/Special Situations up \$17.2 million / 28.6% versus cost (ABRY Advanced Securities II and III leading), with 81.1% of called capital realized and distributed.
- Within Private Equity, the current allocation of market value exposure is 55.1% to Buyout, 36.4% to Venture Capital, and 8.5% to Debt-Related/Special Situations.





Current Exposure as  
% of Private Equity

Investment Type	Commitment	Reported Value	Current Exposure as % of Private Equity
Buyout	269,742,000	185,112,292	55.1%
Venture Capital	64,000,000	122,391,699	36.4%
Debt-Related/Special Situations	114,500,000	28,448,580	8.5%
<b>Total Private Equity</b>	<b>448,242,000</b>	<b>335,952,571</b>	<b>100.0%</b>

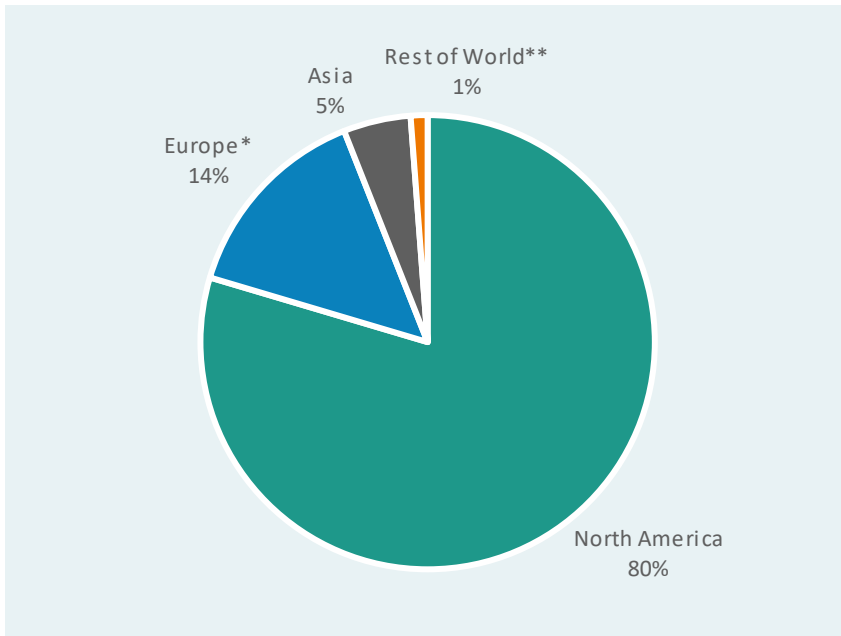


# Geography

## Portfolio Diversification

Period Ending: June 30, 2019

Geography	Current Exposure
North America	251,702,645
Europe*	45,484,120
Asia	15,280,843
Rest of World**	3,934,291
<b>Total Private Equity</b>	<b>316,401,899</b>



Based on the value of portfolio companies as of June 30, 2019, 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.

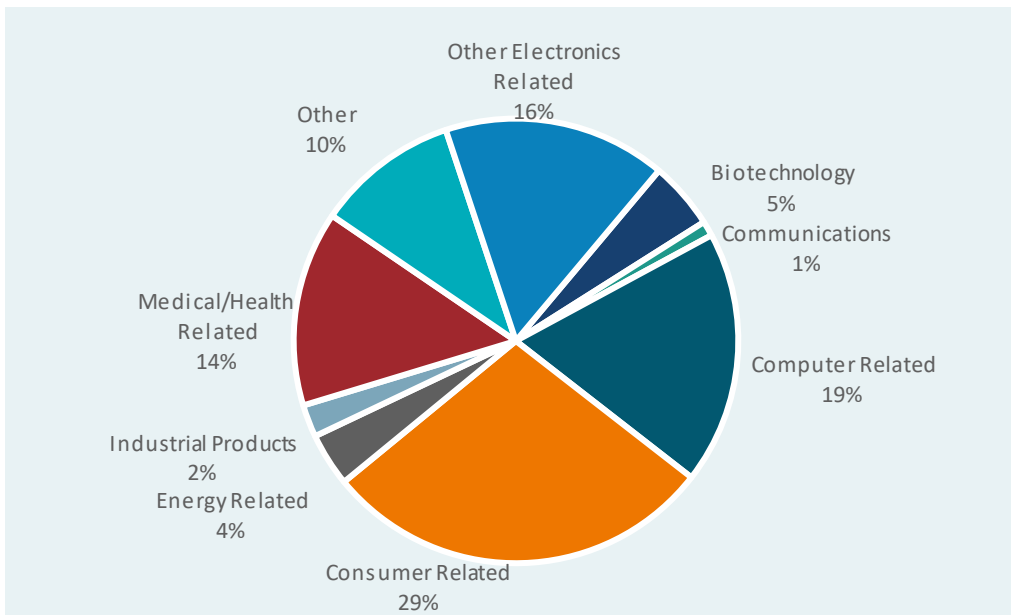
\* Europe includes 100% market value from Cevian II.

\*\* Rest of World includes Kenya, United Arab Emirates, Turkey, and Brazil.

# Industry Portfolio Diversification

Period Ending: June 30, 2019

Industry	Current Exposure
Biotechnology	13,765,459
Communications	3,019,686
Computer Related	51,547,511
Consumer Related	79,872,432
Energy Related	10,872,796
Industrial Products	6,632,258
Medical/Health Related	39,747,002
Other	29,034,798
Other Electronics Related	45,396,948
<b>Total Private Equity</b>	<b>279,888,890</b>

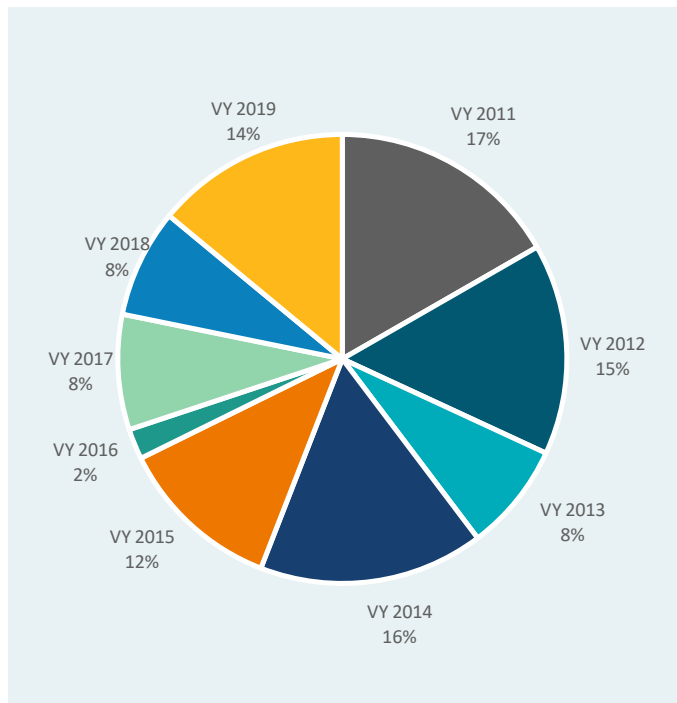


Based on the value of portfolio companies as of June 30, 2019, if provided by the partnerships. Differences between reported value and the total portfolio valuation is due to temporary cash funds, fees, other expenses, and holdings with undisclosed geography breakdown.

# Vintage Year Portfolio Diversification

Period Ending: June 30, 2019

Vintage Year	Commitment as of 6/30/19	% of Portfolio Commitment	Reported Value as of 6/30/19
2011	75,000,000	16.7%	30,816,857
2012	68,000,000	15.2%	128,315,486
2013	35,000,000	7.8%	49,409,966
2014	72,500,000	16.2%	64,868,693
2015	53,000,000	11.8%	41,336,193
2016	10,000,000	2.2%	1,818,917
2017	37,000,000	8.3%	15,276,933
2018	35,000,000	7.8%	2,642,242
2019	62,742,000	14.0%	1,467,284
<b>Total Private Equity</b>	<b>448,242,000</b>	<b>100%</b>	<b>335,952,571</b>





- The Private Equity policy target was reduced from 7.0% to 6.0% effective October 1, 2018.
- As of June 30, 2019, the Private Equity Portfolio is above the new 6% policy target, but within range, with exposures within target diversification bands.
  - Venture Capital is outside the policy range while Buyouts and Debt-Related/Special Situations are within the policy range.
  - Compared to December 31, 2018, portfolio exposure is up 17.0%, largely driven by an increase (47.1%) in value of its Venture Capital portfolio.