



**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**



PERIOD ENDING JUNE 30, 2021

Private Equity Review

San Mateo County Employees' Retirement Association

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Market Commentary

DEBT RELATED

- **HY issuance and leveraged loan issuance both were up.** In the first half of 2021, US high yield issuance was up 21.6% at \$267.1 billion compared to 1H 2020¹. Leverage loan issuance volume was \$763.5 billion in 1H 2021, up 59.7% from the same time last year².
- **Spreads tightened across the board.** US HY Credit Index tightened by 331 bps or 51.0%³ decrease in 1H 2021 versus the same period last year. BB and B index tightened by 142 bps and 214 bps, a 31.4%³ and 32.6%³ decreases versus the same period last year. In the meantime, CCC index decreased by 51.2%³ in the first half of 2021 from 2020 same period.
- **With significant increase in LBO debt issuance, interest coverage decreased in US.** Total leverage averaged 5.9x (Debt / EBITDA) in 1H 2021 for US new issue loans up 14.0% from 1H 2020⁴. Interest coverage averaged 3.5x (EBITDA / Cash Interest), down 2.0% from 1H 2020⁴. In Europe with 1H 2021 LBO Loan volume at \$64.9 billion up 137.1% from 1H 2020 and down 39.5% from \$137.7 billion peak in 2007⁵, leverage multiples decreased 4.9% to 5.5x in 1H 2021⁵, below 6.1x peak in 2007⁵.

GLOBAL

- **Both investment activity and average deal size increased.** During 1H 2021, global PE firms invested in \$960.5 billion worth of deals, up 96.9% from the same time prior year and closed on 27,755 transactions, up 14.5%⁶.
- **PE dry powder decreased globally.** In the first half of 2021, global total PE dry powder was at \$2.3 trillion, down 13.1% from 1H 2020⁶. US total PE was down by 14.5% to \$1.5 trillion⁶; Europe total PE decreased by 4.4% to \$596.7 billion⁶; Asia total PE was down by 21.8% to \$135.4 billion⁶; and the rest of world total PE was down by 36.1% to \$39.0 billion⁶.

US BUYOUTS

- **Dry powder decreased.** In 1H 2021, US buyout dry powder was \$960.8 billion, down by 15.0% from the same time in 2020⁶.
- **Fundraising activity picked up.** In 1H 2021, US firms across all buyout strategies raised \$155.1 billion, up by 86.9% from same time prior year⁶. Average fund size was down 12.6%, from \$1.2 billion in 1H 2020 to \$1.0 billion in 1H 2020⁶.
- **Investment activity was up significantly.** During the first half of 2021, US buyout firms invested in \$348.0 billion worth of deals +101.8% from 1H 2020 into 2,780 deals (+65.7%)⁶.

Market Commentary

- **LBO price multiples were up.** As of June 30, 2021, US LBO purchase price multiples (Enterprise Value / EBITDA) were at 11.1x , a 4.6% increase from June 30, 2020⁴.
- **Exit activity increased.** During 1H 2021, US buyout firms exited 496 companies, representing \$290.2 billion in total transaction value⁶. This represented a 61.6% increase in the number of exits and a 161.7% increase in total transaction value compared to the same time last year⁶.

US VENTURE CAPITAL

- **Dry powder decreased.** In 1H 2021, US VC dry powder was at \$100.5 billion, down 19.6% from 1H 2020⁶.
- **Fundraising activity increased.** US VC firms raised \$74.1 billion during 1H 2021, a 73.4% increase from the same period last year⁶. 338 funds closed in 1H 2021, a 128.4% increase from the same period last year⁶. The average US VC fund size decreased to \$219.2 million by 24.1% versus the same period last year⁶.
- **Investment activity and average deal size increased.** US VC firms deployed \$150.0 billion in capital in 1H 2021, a 117.0% increase from 1H 2020 as deal activity skewed from early to late stage⁶. The number of deals closed at 7,058, a 39.5% increase from the same time last year⁶. The average investment per deal increased to \$21.3 million, a 55.5% increase from prior year⁶.
- **All stages valuations were up.** Compared to June 30, 2020, the average pre-money valuations increased for all stages in 1H 2021: up 6.7% at \$8.0 million⁶ for Seed stage, 40% at \$42 million⁶ for early-stage VC, and 13.8% at \$136.5 million⁶ for late-stage VC.
- **Exit activity increased significantly with larger transactions.** US VC firms exited 699 companies in 1H 2021, up by 85.9% from last year and 66.8% from three years ago⁶. This represented the record high \$372.2 billion in transaction value, up by 721.6% from the same period last year and 1,198.7% from three years ago⁶. Largest sectors exited were Software and Pharma & Biotech.

EX US

- **Dry powder decreased ex-US.** PE dry powder outside the US decreased 10.2% to \$771.1 billion⁶ for 1H 2021. Dry powder outside the US was 50.1% less than dry powder in the US (\$1.5 trillion)⁶.
 - **Europe VC and buyout dry powders both down.** VC at \$53.3 billion and buyout at \$354.7 billion were down 7.4% and 11.0% from 1H 2020, respectively⁶.
 - **In Asia, VC, buyout and growth dry powder decrease paralleled US and Europe.** VC at \$4.6 billion, buyout at \$113.9 billion, and growth at \$7.9 billion were down 44.4%, 15.6% and 37.1% from 1H 2020, respectively⁶.

Market Commentary

- **Ex-US fundraising up.** In 1H 2021, ex-US fundraising increased 202.3% from 1H 2020 to \$138.4 billion⁶. Fundraising in Europe and Asia increased by 154.0% and 27.7% from 1H 2020 to \$80.1 billion and \$35.2 billion, respectively⁶.
- **Capital deployment increased in all but European buyouts.**
 - **In both Europe and Asia, VCs invested more capital into fewer deals.** Investment activity increase by 59.1% in Europe and 127.2% in Asia from 1H 2020⁶. Capital deployed increased by 155.2% to \$54.6 billion and by 38.8% to \$39.3 billion, respectively, in Europe and Asia⁶.
 - **Buyout deal activity and capital deployment rose in Europe and Asia.** In Europe, buyout firms transacted invested \$274.3 billion in aggregate value (+72.6% from 1H 2020)⁶. Asia buyout firms invested \$33.9 billion in aggregate value (+119.5%)⁶.
- **Europe purchase price multiples increased.** As of June 30, 2021, Europe median purchase price multiples increased 28.6% from 8.1x to 9.3x EBITDA from the same time last year⁶.
- **Similar to US, exit activity strengthened in Asia and Europe.** Europe PE aggregate exit value amounted to \$223.7 billion, a 150.8% increase from 1H 2020, while Asia PE exit value grew by 8.4% to \$75.2 billion⁶.

Notes

1. <https://www.jdsupra.com/legalnews/high-yield-issuance-surges-in-the-us-2965861>
2. <https://www.lexology.com/library/detail.aspx?g=67ef22e3-f17c-4b06-a66d-48071860b5fe>
3. *Guggenheim High-Yield Bank Loan Outlook*
4. *S&P Global US LBO Review*
5. *S&P Global LCD European Leveraged Buyout Review*
6. *Pitchbook*
7. *Preqin*

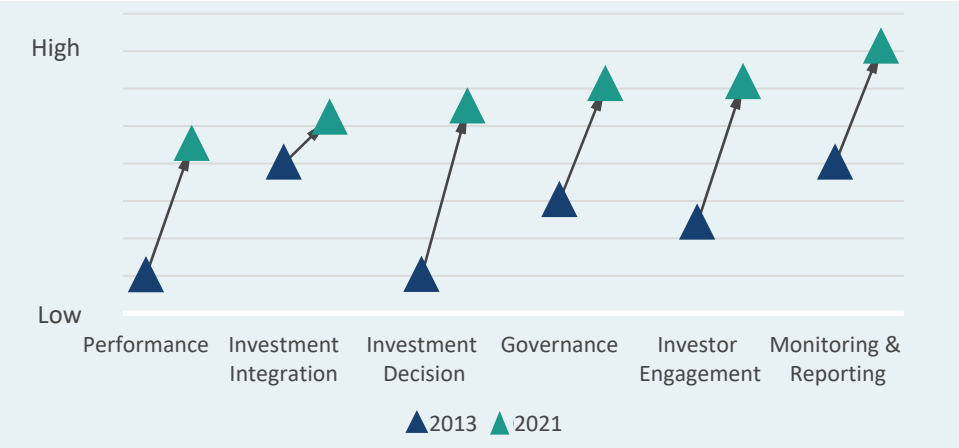
Topical focus

ESG gains private equity attention

Investor appetite brings ESG to mainstream private equity

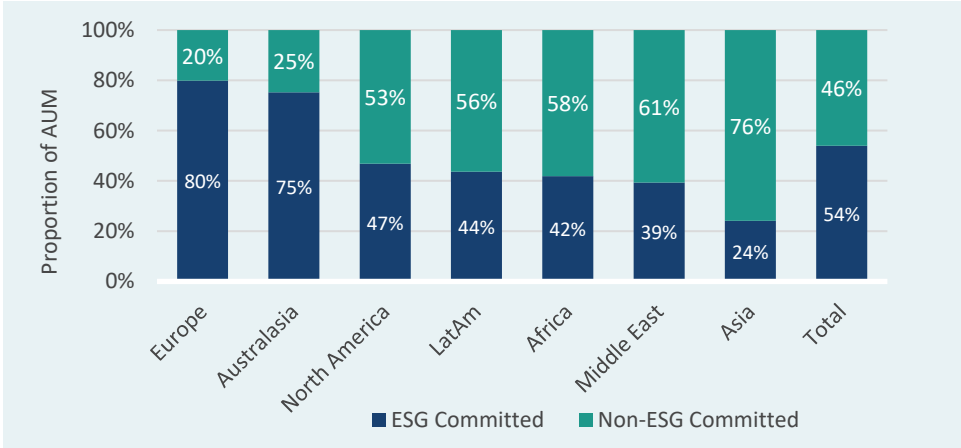
- Private equity firms have continued to make inroads incorporating environmental, social and governance (“ESG”) factors into their investment programs through the formation of dedicated “impact” funds, participation in global responsible investing standards, and use of new metrics and methods in managing portfolio companies.
- Private equity, always focused on governance risk, is increasingly growing aware environmental, social and governance issues are highly interrelated and that the biggest benefits over time accrue to companies that balance efforts between all three.
- Initiatives like the UN Paris Agreement and the European Commission Action Plan have pushed Europe into the epicenter of ESG-commitment (80%); whereas in North America less than half of institutional capital is managed under ESG considerations with Asia even lower at 24%.

PE FIRMS ARE PLACING GREATER EMPHASIS ON ALL AREAS ESG



Source: PWC Private Equity Responsible Investment Survey 2021 & 2013

REGIONAL PRIVATE CAPITAL MANAGED UNDER ESG COMMITMENT



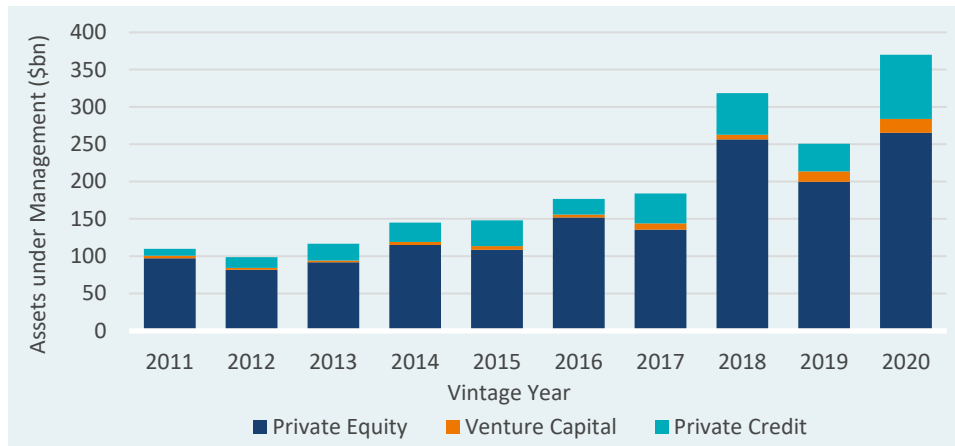
Source: Preqin

Capital is flowing to ESG strategies

A new commitment to ESG

- Capital flowing into ESG-related investment strategies saw unprecedented growth in 2020: nearly \$400 billion in cumulative ESG-focused private capital was raised from 2015 to 2020, with over a quarter being raised in 2020 alone¹.
- Despite the challenges of 2020, ESG-committed fundraising remains strong, led by private credit and buyout strategies. A key driver in this trend has been firmwide ESG commitments by the largest alternatives managers.
- The average size of ESG-committed funds far outpaces that of non-ESG funds; while these vehicles are not solely focused on environmental, social, and governance issues, they are pledging that they will, at the very least, not have a negative impact through their portfolios.

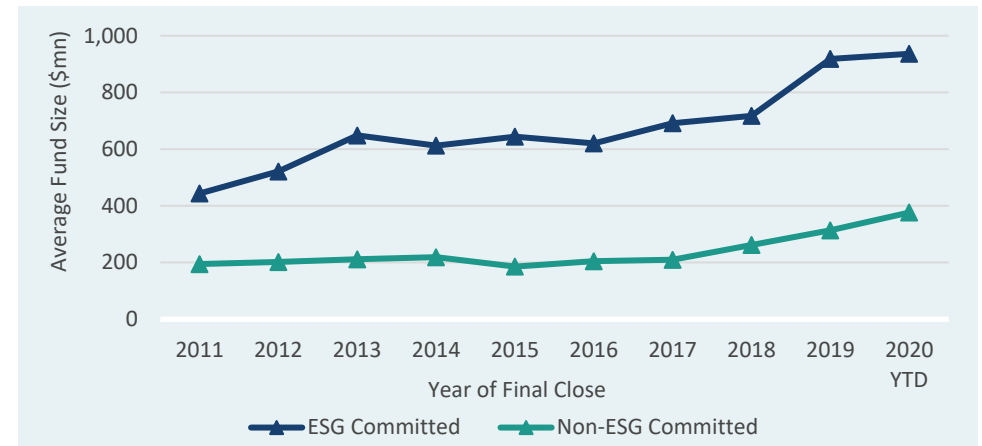
ESG-COMMITTED PRIVATE CAPITAL AUM BY ASSET CLASS



Source: Preqin as of September 2020

¹ McKinsey Global Private Markets Review 2021

AVG FUND SIZE CLOSED ESG-COMMITTED VS. NON-ESG-COMMITTED



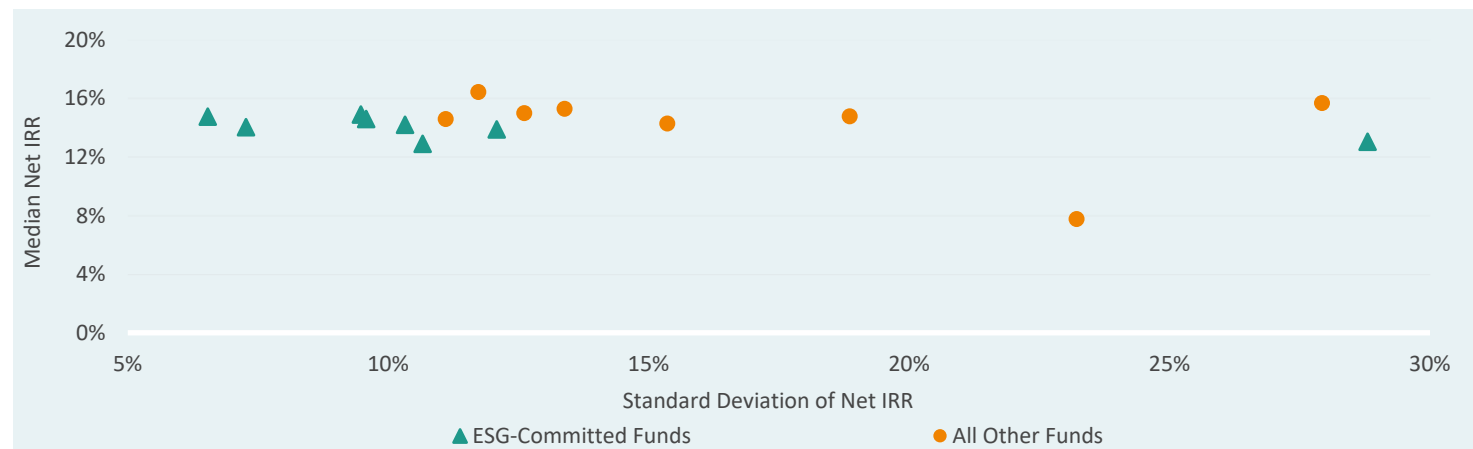
Source: Preqin as of September 2020

ESG-committed fund performance

The relationship between ESG factors and company financial performance remains unclear

- A major roadblock to ESG investing is the concern about its impact on returns. Managers and investors worry that by limiting their opportunity set to transactions that meet ESG requirements, they will be losing out.
- According to Preqin, analysis shows that ESG investments perform on par with their non-ESG counterparts and with less dispersion; however, the data is skewed under a relatively small sample set which include the largest private capital managers who broadly commit to ESG.
- Investor demand for ESG is strong, but the lack of high quality, consistent ESG data is the top challenge for fund managers who are also balancing the additional burden on portfolio company management and internal resources.
- Sponsors face the same challenges as public companies emanating from the lack of standardization and clearly adopted definitions of the goals of, and appropriate metrics to measure, ESG or “sustainable investment,” as well as pressure from investors to prioritize ESG. As the broader market becomes more sophisticated in operationalizing ESG, so too will the private equity industry.

RISK/RETURN OF ESG-COMMITTED FUNDS (VINTAGE 2010-2017)*



*Net IRRs are since inception. Source: Preqin

Private Equity portfolio

Portfolio Overview

Period Ending: June 30, 2021

Investment Type	Policy Target	Policy Range	Market Value %	Market Value \$(000)	Unfunded Commitment \$(000)	Market Value + Unfunded \$(000)
SamCERA - Total Plan			100.0%	5,899,766		
Buyout (60% +/- 20%)	3.6%	2.4%-4.8%	3.6%	209,769	154,249	364,018
Venture Capital (20%, 0%-30%)	1.2%	1.0%-1.8%	3.2%	191,073	27,766	218,839
Debt-Related/Special Situations (20% +/- 10%)	1.2%	0.6%-1.8%	1.0%	60,408	36,403	96,811
Total Private Equity*	6.0%	4%-8%	7.8%	461,250	218,418	679,668

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

Portfolio Summary

- As of June 30, 2021, the Private Equity Portfolio had a total market value of \$461.3M, with \$209.8M in Buyout, \$191.1M in Venture Capital, and \$60.4M in Debt-Related/Special Situations. Total market value is the current reported value of investments, excluding the remaining amount of unfunded commitments.
- Since its initial allocation to Private Equity, SamCERA has contributed \$385.3M towards its Private Equity commitments, with \$228.2M to Buyouts, \$60.4M to Venture Capital, and \$96.7M in Debt-Related / Special Situations. Unfunded commitments total \$218.4M.
- The portfolio exposure at 7.8% is above the 6.0% policy target but within its 4-8% target range. Compared to December 31, 2020, portfolio exposure is up 0.9%, driven by Venture Capital's strong performance. Buyout exposure matches its policy target, and Debt Related / Special Situations remains below target but within policy range. Venture Capital is 1.4% above its policy target range.

Portfolio Activity

- In the first half of 2021, SamCERA committed \$15.0M to SVP Special Situations Fund V, L.P., \$15.0M to Genstar Capital Fund X, L.P., \$9.0M to Eclipse IV, L.P., and \$5.0M to Genstar X Opportunity Fund, L.P. in order to maintain exposure to policy over time.

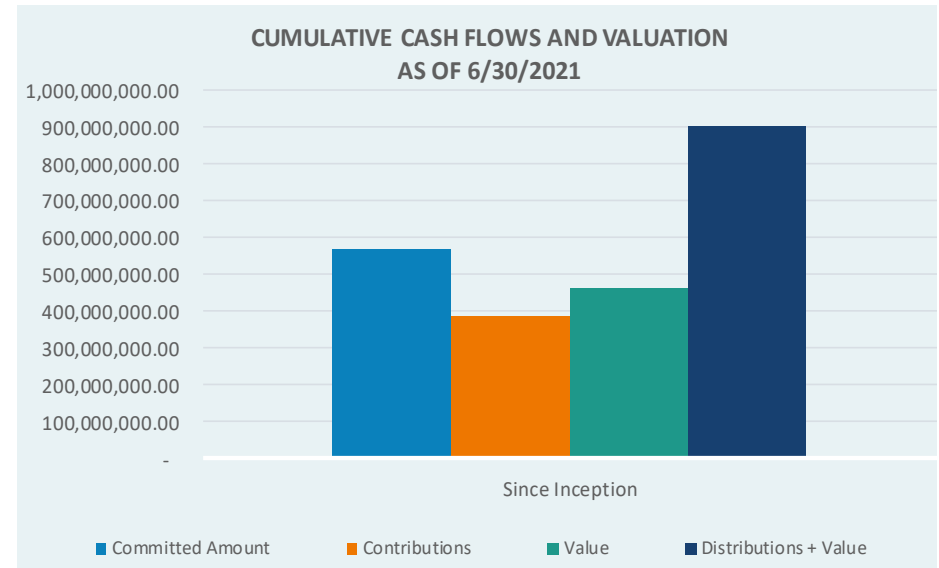
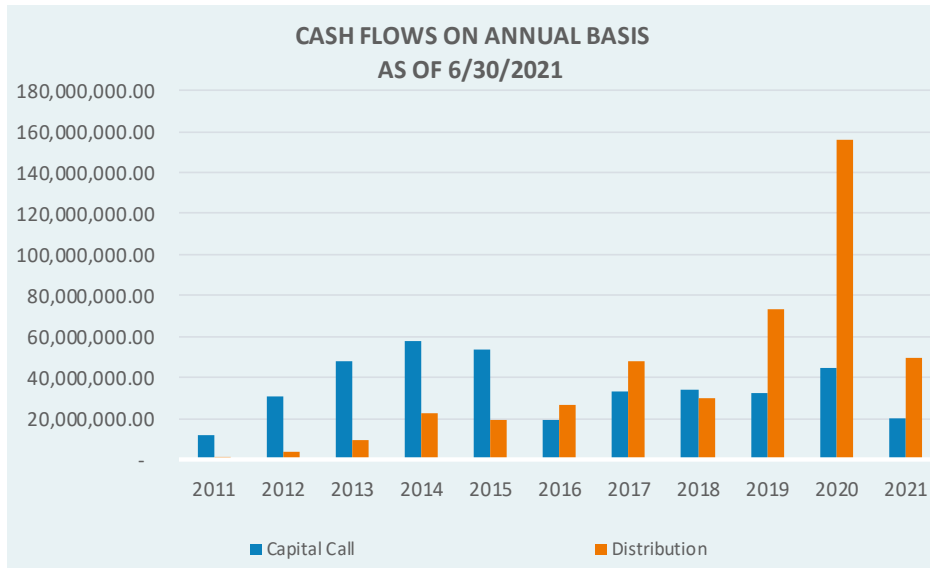
Performance

- The Private Equity portfolio’s performance, as measured by net IRR, is 23.49%, 575 bps above the same cash flow invested in Russell 3000 Total Return Index of 17.74%. Capital weighted average investment age of the portfolio is 5.8 years.
- The portfolio is currently valued at \$461.2M. Together with \$439.8M in realized distributions, the Total Value at \$901.1M is approximately \$515.8M above \$385.3M total capital contributions, resulting in a total value multiple of 2.34x and a distribution multiple of 1.14x.
- Distributions surpassed contributions with a ratio of 2.5:1 in the first half of 2021 compared to 3.5:1 in 2020, 2.3:1 in 2019, 0.9:1 in 2018 and 1.4:1 in 2017 and 2016.

— Attribution of returns:

- Buyouts up \$188.4M / +82.6% versus cost (Great Hill V & VI, Sycamore, Warburg Pincus XI, ABRY VII and Cevian II leading), with 90.6% of called capital realized and distributed;
- Venture Capital up \$309.18M / +512.2% versus cost (Emergence Capital III, General Catalyst VI, NEA 14, and Third Rock III leading), with 295.7% of called capital realized and distributed; and
- Debt-related/Special Situations up \$18.2M / +18.8% versus cost (ABRY Advanced Securities II, ABRY Senior V and OHA II leading), with 56.4% of called capital realized and distributed.

- Within Private Equity, the current allocation of market value exposure is 45.5% to Buyout, 41.4% to Venture Capital, and 13.1 % to Debt-Related/Special Situations.

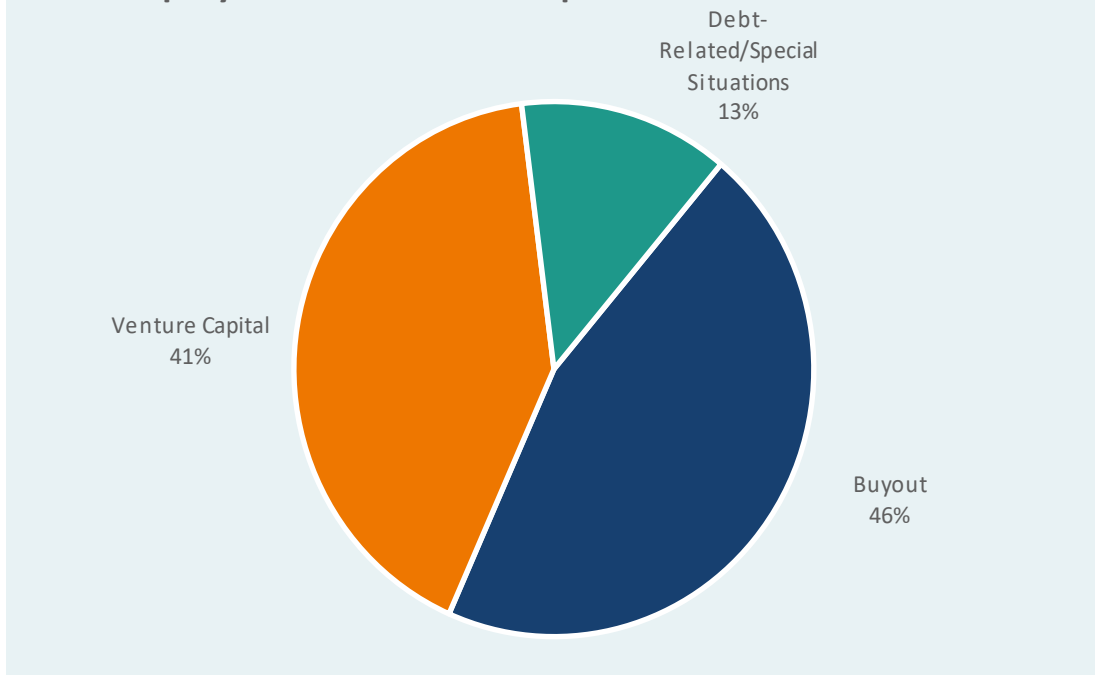


Portfolio Diversification By Strategy

Period Ending: June 30, 2021

Investment Type	Commitment	Reported Value	Current Exposure as % of Private Equity
Buyout	349,001,040	209,768,652	45.5%
Venture Capital	88,000,000	191,073,159	41.4%
Debt-Related/Special Situations	129,500,000	60,407,565	13.1%
Total Private Equity	566,501,040	461,249,376	100.0%

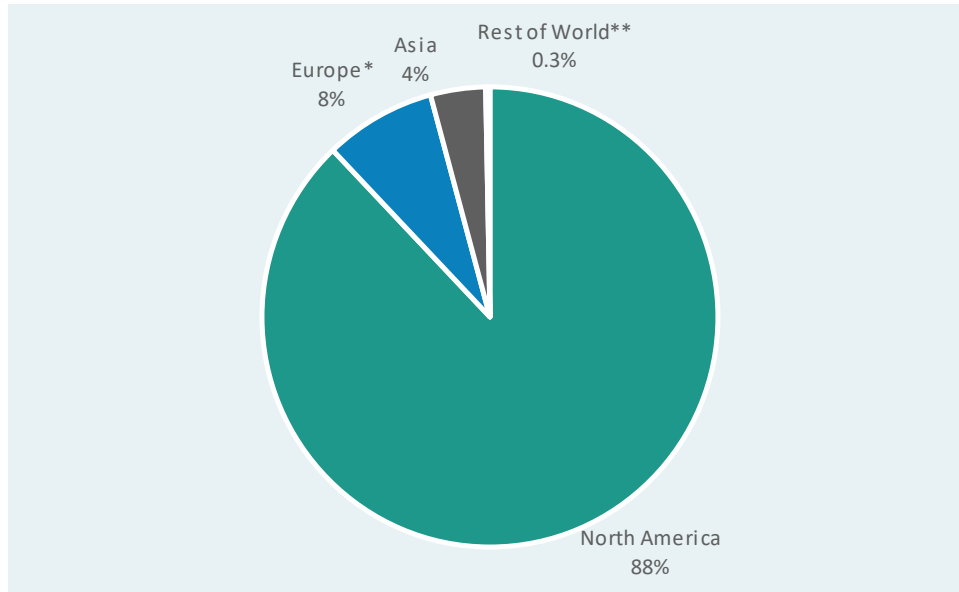
Private Equity Portfolio: Current Exposure



Portfolio Diversification By Geography

Period Ending: June 30, 2021

Geography	Current Exposure
North America	405,564,352
Europe*	36,525,870
Asia	17,889,651
Rest of World**	1,269,502
Total Private Equity	461,249,376



Based on the value of portfolio companies as of June 30th, 2021, 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.

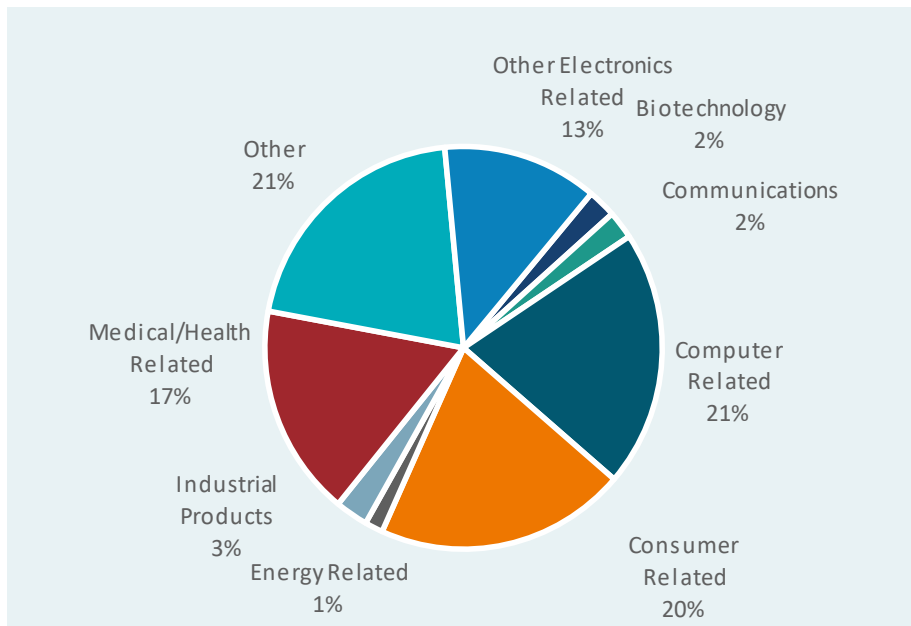
* Europe includes 100% market value from Cevian II.

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

Portfolio Diversification By Industry

Period Ending: June 30, 2021

Industry	Current Exposure
Biotechnology	10,695,508
Communications	10,405,623
Computer Related	95,170,284
Consumer Related	94,088,680
Energy Related	6,869,706
Industrial Products	12,303,155
Medical/Health Related	78,643,980
Other	94,827,845
Other Electronics Related	58,244,595
Total Private Equity	461,249,376

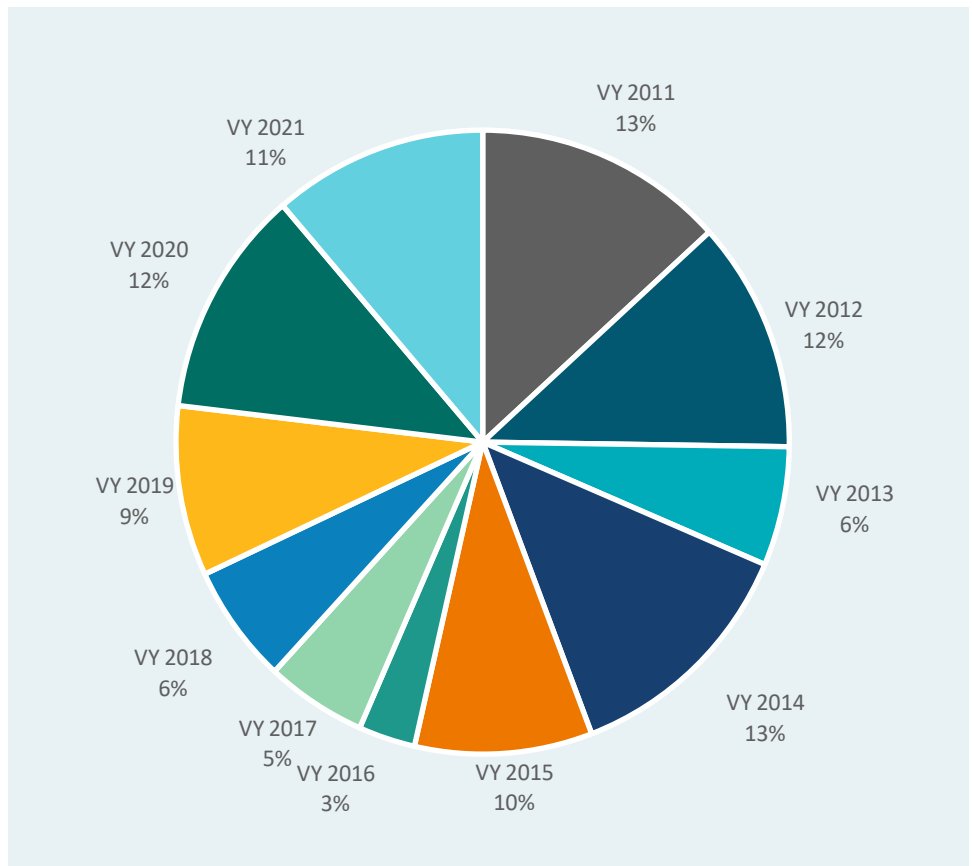


Based on the value of portfolio companies as of June 30th, 2021, if provided by the partnerships. Differences between reported value and the total portfolio valuation is due to temporary cash funds, fees, other expenses, and holdings with undisclosed geography breakdown.

Portfolio Diversification By Vintage Year

Period Ending: June 30, 2021

Vintage Year	Commitment as of 6/30/2021	% of Portfolio Commitment	Reported Value as of 6/30/2021
2011	75,000,000	13.24%	43,339,080
2012	68,000,000	12.00%	170,743,187
2013	35,000,000	6.18%	33,062,546
2014	72,500,000	12.80%	61,018,235
2015	53,000,000	9.36%	51,058,337
2016	17,000,000	3.00%	14,214,229
2017	30,000,000	5.30%	46,956,534
2018	35,000,000	6.18%	9,897,350
2019	50,000,000	8.83%	19,381,330
2020	67,001,040	11.83%	10,828,549
2021	64,000,000	11.30%	750,000
Total Private Equity	566,501,040	100%	461,249,376



- **As of June 30, 2021, the Private Equity Portfolio exposure at 7.8%, is greater than that of the plan's 6.0% policy target, but within its 4-8% target range.**
 - Compared to December 31, 2020, portfolio exposure is up 0.9%, driven by recent increased valuations and exits from the Venture Capital portfolio and increased valuations in the Buyout portfolio.
 - Venture Capital remains above its policy target, as a result of significant increase in value of two select venture holdings.