



**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**



PERIOD ENDING: DECEMBER 31, 2016

Private Equity Review

San Mateo County Employees' Retirement Association

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Debt-Related:

HY down but leveraged loans up. 2016 high yield issuance of \$228.2 billion¹ is down 12.8% from 2015 and leveraged loan volume of \$336.4 billion¹ is up 30.6% versus 2015. The rise in popularity of leveraged loans can be attributed to corporate borrowers increasingly able to secure covenant lite terms from banks².

Spreads tightened across the board. Reflecting increased business confidence post election, HY Credit Index tightened by 214 bps or 40.8%¹ versus the same period last year. BB-, B+ and B index tightened by 126 bps, 104 bps and 140 bps respectively, a 31.2%¹, 23.21%¹ and 25.5%¹ decrease versus same period last year.

LBO debt terms improve slightly. Total leverage (Debt / EBITDA) for 2016 at 5.4x³ down 3.4% from last year. Interest coverage (EBITDA / Cash Interest) for the first half of 2016 at 3.05x³ down slightly by 0.3% from 2015.

Buyouts & PE:

PE dry powder increasing. At the end of 2016, PE dry powder was at \$1.4 trillion⁴, up 6.7% from 2015. Total buyout dry power was at \$534 billion⁴, up 13.1% from 2015.

PE Fundraising is strengthening led by Buyouts. During 2016, US PE firms raised \$187.8 billion⁵, up 12.0% from prior year. US buyout firms across all buyout strategies raised \$120.2 billion⁵, up 46.9% from prior year.

Investment activity is down. During 2016, PE firms invested in \$319 billion⁶ worth of deals, down 24.7% from prior year and closed on 3,985 transactions⁶, up 0.8% from prior year.

LBO price multiples still above 2007 peak. As of December 31, 2016, US LBO purchase price multiples (Enterprise Value / EBITDA) are at 10.02x⁷, a 2.3% decrease from prior year. This is still above the peak in the previous cycle of 9.7x⁷ which was reached in 2007.

Exit activity decreased. During 2016, US PE firms exited 1,097 companies⁷, representing \$316.0 billion⁷ in total transaction value. This represents a 18.0% decrease in the number of exits and a 22.1% decrease in total transaction value compared to prior year. In number of exits, the decline was led by a 21.8% decline in the total number of exits to strategic buyers, which currently comprise 50.2% of exits, and a 13.0% decline in the total value of exits to financial buyers, which currently comprise 46.9% of exits.

VC:

VC dry powder increasing. VC dry powder at \$142.0 billion⁴, up 11.8% from the same period last year.

VC fundraising up but sizes decline. US VC firms raised \$34.2 billion⁵ in 2016, a 3.6% increase from the same period last year. 220 funds⁵ closed in 2016, a 25.0% increase from the same period last year. Most of the increases were led by smaller funds. The average VC fund size shrank 17.1% at \$155.3 million⁵ versus the same period last year.

Fewer rounds closed but larger deals. US VC firms deployed \$71.7 billion⁸ in capital for 2016, a 9% decrease from prior year. The decline was led by a large decrease in number of rounds closed at 8,467⁸, a 19.3% decrease from prior year. This decline was offset by an increase in average investment per deal which grew to \$8.5 million⁸, a 12.8% increase from prior years.

Late stage valuations down, early stage up. Reflecting a reversal in trends from prior years, the average valuation of a Seed Stage, Series A, Series B and Series C investment was up 17.0% at \$8.0 million⁸, 8.0% at \$21.0 million⁸, 0.4% at \$50.7 million⁸ and 10.2% at \$100.4 million⁸, respectively. However, the average valuation of Series D+ investment was down 6.8% at \$192.7 million⁸.

Exit activity down. VC exits are down for 2016 compared to prior years. VC firms exited 1,152 companies⁹ in 2016, down 23.6% from the same period last year. Similarly, VC firm exits represented \$60.9 billion⁹ in transaction value down 7.2% from the same period last year. In total number, the decrease was led by a 22.7% decline in the total exits to strategic buyers, which comprise 78.9% of total exits, and a 42.0% decline in exits by IPO, which comprise 7.0% 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 \$594.5 billion⁴ for 2016, a 8.4% increase versus last year. This was led by Europe which grew to \$347.3 billion⁴, a 14.7% increase from prior year. Asian dry powder also grew to \$178.9 billion⁴, a 2.8% increase from prior year. Dry powder in the rest of the world (excluding US, Europe and Asia) declined by 4.1% to \$68.3 billion⁴. Dry powder outside the US is less than dry powder in the US by 27.2%.

Fundraising outside of U.S. up. For 2016, Ex US fundraising was up 31.8% to \$157.2 billion⁵ compared to prior year. The increase was led by European funds which raised \$109.7 billion⁵, up 57.9% from prior year. The increase was offset by a decrease in funds outside Asia, Europe and the North America which only raised \$8.6 billion⁵, down 26.1% from prior year.

Investments outside of U.S. down. For 2016, Ex-US PE firms transacted on \$129.0 billion⁶ of aggregate value, down 21.9% from prior year. The largest decline in dollar value was in Asia where firms deployed \$24.0 billion⁶ in deals, a 52.6% decrease from prior years. Deals in Europe drew \$88.0 billion⁶ in capital (-7.4% from prior year). Funds outside Asia, Europe and North America invested in just \$18.0 billion⁶ worth of deals (-14.5% from prior year).

Global purchase price multiples increase. As of December 31, 2016, global median purchase price multiples (Enterprise Value / EBITDA) was up at $9.8x^{10}$, a 6.0% increase from prior year. This was driven by a 9.7% increase in European purchase multiples at $9.7x^{10}$ offset slightly by a 2.3% decrease in purchase price multiples in the US at $10.0x^{10}$. Purchase multiples outside Europe and the US decrease by 1.5% at $8.3x^{10}$.

Leverage multiples in Europe stayed flat. European LBO leverage multiples (Debt / EBITDA) have averaged $5.0x^{11}$ in 2016, a decrease of less than 1% from prior year. European LBO Loan volume at \$50.4 billion¹² is up 12.6% versus prior year.

Exit activity weakened in Europe. Similar to the U.S. which recorded \$316.0 billion⁷ in exits for 2016, a decrease of 22.1% from prior year, exits in Europe amounted to \$180.1 billion¹³, a 28.1% decrease from prior year.

Outlook:

PE allocations likely to increase. A recent survey of institutional investors conducted on December 31, 2016 indicated that 40%¹⁴ intend to increase their allocation for private equity compared to 43%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 December 31, 2016, Institutional investors view North America as the most attractive location to invest in the current economic climate with 61%¹⁴ choosing it as their preferred investment destination. This compares favorably versus Europe (44%¹⁴) and Asia (21%¹⁴). In the same survey, 58%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 28%¹⁴ of institutional investors believing it presented the best opportunities.

1. *UBS' US Leveraged Capital Markets Weekly Update – January 13, 2017*
2. *Jones, B. (2017, April 6). 1Q Borrowing Booms Across Leveraged Loan, HY and HG Markets; M&A, Pro Rata Underwhelm. Retrieved April 23, 2017, from <https://www.forbes.com/sites/spleverage/2017/04/06/1q-borrowing-booms-across-leveraged-loan-hy-hg-markets-ma-pro-rata-underwhelm/#553d67132be8>*
3. *LCD's Leveraged Buyout Review – 4Q16*
4. *Preqin Dry powder by Geography (Preqin Website) Dry powder includes Buyout, Distressed PE, Growth, Mezzanine, Other, Real Estate and Venture Strategies.*
5. *Preqin Q4 2016 Private Equity Fundraising*
6. *Preqin Q4 2016 Private Equity-Backed Buyout Deals and Exits Factsheet*
7. *PitchBook's 2016 Annual US Breakdown*
8. *PitchBook's Venture Capital Valuations + Trends Data Sheet (2H 2016)*
9. *PitchBook's Venture Capital Liquidity Data Sheet (2H 2016)*
10. *Ex US Multiples were estimated utilizing a number of sources including Preqin Q4 2016 Private Equity-Backed Buyout Deals and Exits Factsheet, LCD's Leveraged Buyout Review (2H 2016), Pitchbook 2016 4Q M&A Report and Europe Leverage Lending Review.*
11. *LCD European Leveraged Buyout Review (2H 2016)*
12. *European Leveraged Lending Review (2H 2016)*
13. *PitchBook's 2016 Global PE Exits & Company Inventory Report*
14. *Preqin Investor Outlook: Alternative Assets, 2H 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%	3,693,904		
Buyout (60% +/- 20%)	4.2%	2.8%-5.6%	4.0%	146,785	69,252	216,037
Venture Capital (20%, 0%-30%)	1.4%	0.0%-2.1%	1.8%	66,542	12,368	78,910
Debt-Related/Special Situations (20% +/- 10%)	1.4%	0.7%-2.1%	0.8%	31,013	51,981	82,994
Total Private Equity	7.0%	6%-10%	6.6%	244,340	133,601	377,941

Portfolio Summary

- As of December 31, 2016, the Private Equity Portfolio had a total market value of \$244.3 million, with \$146.8 million in Buyout, \$66.5 million in Venture Capital, and \$31.0 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 \$220.6 million toward its Private Equity commitments. Unfunded commitments total \$133.6 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.

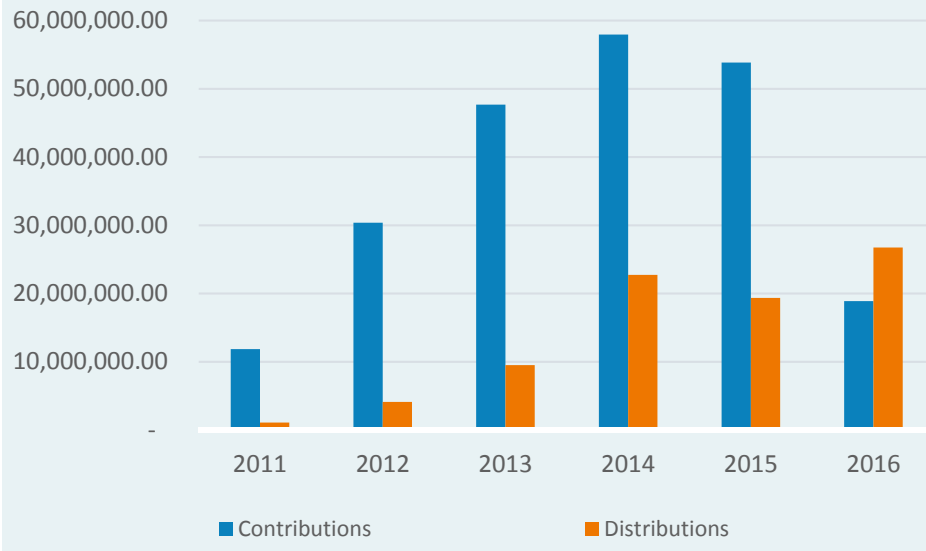
Performance

- The Private Equity portfolio’s performance, as measured by net IRR, is 19.29%. Capital weighted average investment age of the portfolio is 2.64 years.
- The portfolio is currently valued at \$244.3 million. Together with \$83.6 million in realized distributions, the Total Value at \$327.9 million is approximately \$107.3 million above \$220.6 million total capital contributions, resulting in a total value multiple of 1.49x and a distribution multiple of 0.38x.
- Attribution of returns:
 - Buyouts up \$61.8 million / +46.5% versus cost (Sycamore, ABRY VII, and Warburg Pincus XI leading), with 36.1% of Total Value of portfolio

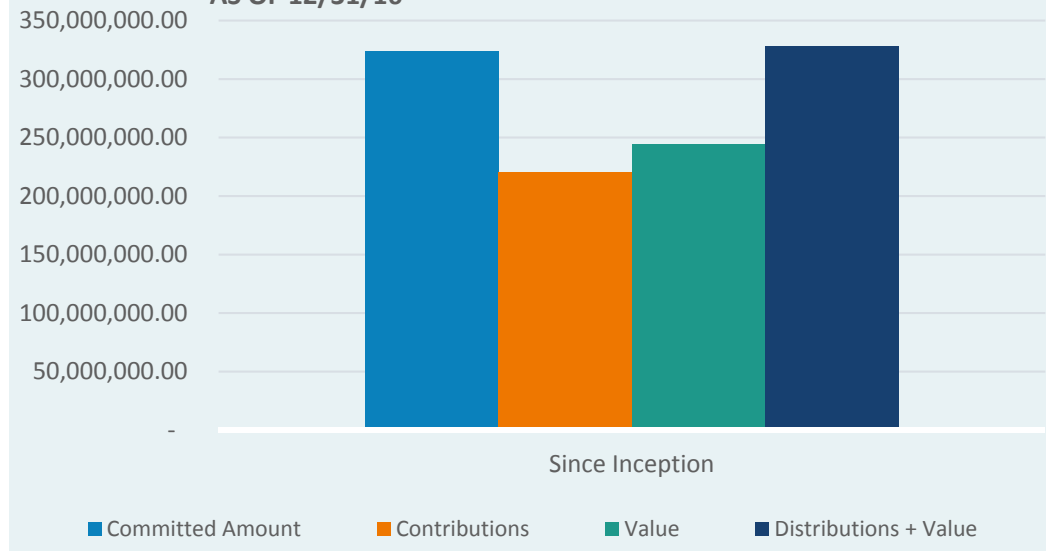
distributed;

- Venture Capital up \$29.9 million / +71.8% versus cost (General Catalyst VI, Emergence Capital III, Third Rock III, and NEA 14 leading), with 12.2% of Total Value of portfolio distributed; and
- Debt-related/Special Situations up \$15.6 million / +34.0% versus cost (Catalyst Fund Limited Partners V and ABRY Advanced Securities II leading), with 66.4% of Total Value of portfolio distributed.
- Within Private Equity, the current allocation of invested capital is 60.1% to Buyout, 27.2% to Venture Capital, and 12.7% to Debt-Related/Special Situations.

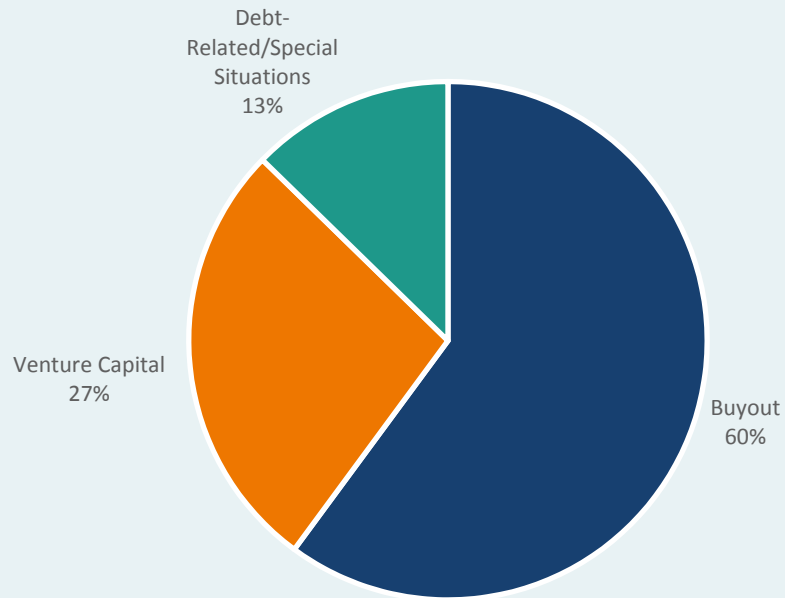
CASH FLOWS ON ANNUAL BASIS



CUMULATIVE CASH FLOWS AND VALUATION AS OF 12/31/16



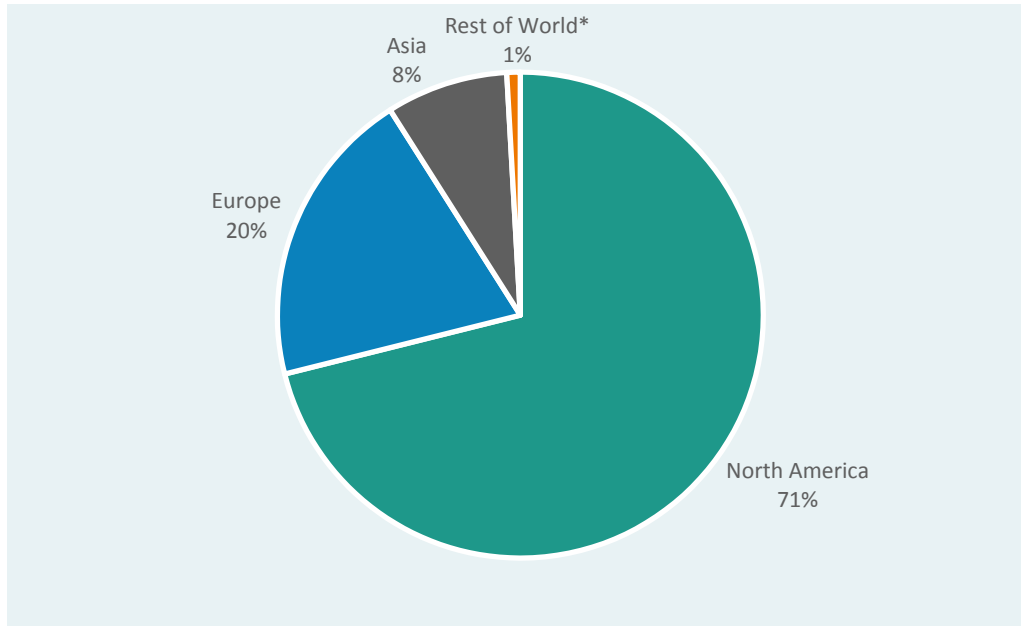
PRIVATE EQUITY PORTFOLIO: CURRENT EXPOSURE



Geography

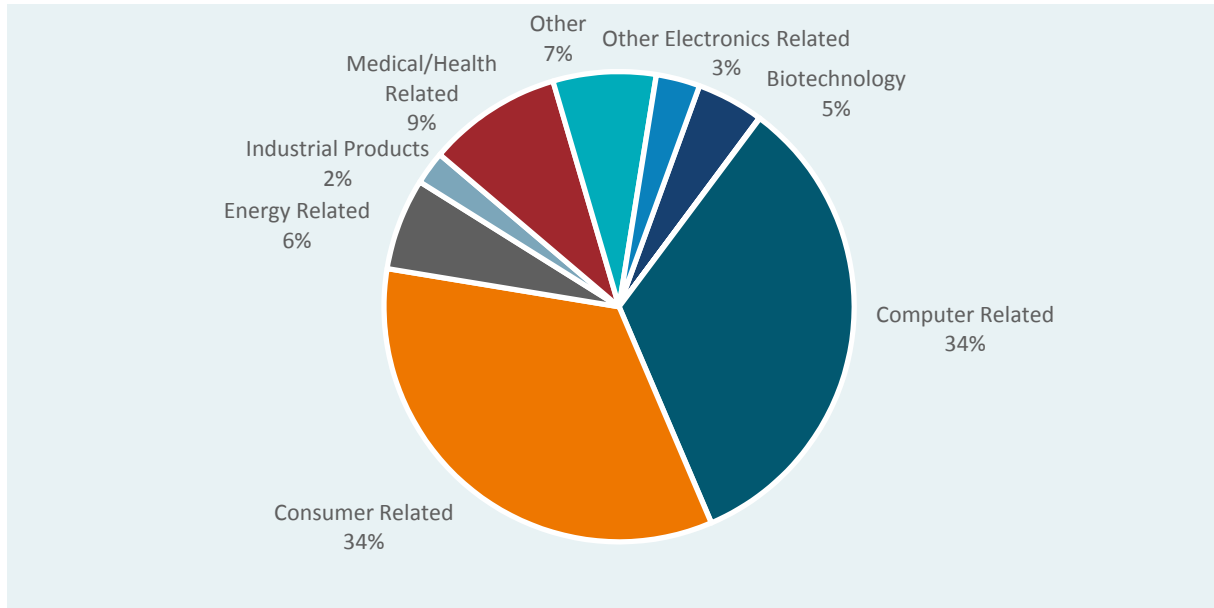
Portfolio Diversification

Period Ending: December 31, 2016



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

Based on the value of portfolio companies as of December 31, 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.



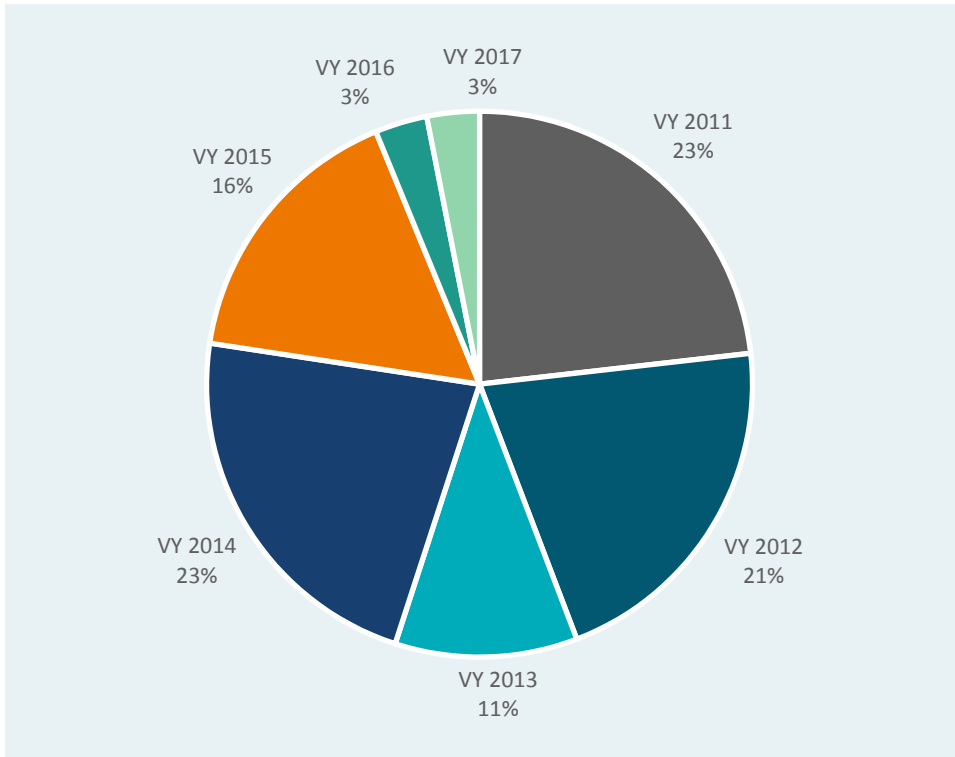
* Please note the industry names have been reclassified to Burgiss' standard, which uses Thomson Reuters' Venture Economic Industry Codes.

As of the date of this report, the industry's exposures are preliminary as the data need to be remapped appropriately.

Based on the value of portfolio companies as of December 31, 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

Period Ending: December 31, 2016



- **As of December 31, 2016, the Private Equity Portfolio is slightly below the lower range of its target allocation, with exposures within target diversification bands.**