



**PERSPECTIVES  
THAT DRIVE  
ENTERPRISE  
SUCCESS**



**PERIOD ENDING: DECEMBER 31, 2019**

Private Equity Review

**San Mateo County Employees' Retirement Association**

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# Market Commentary

## DEBT RELATED

- **HY issuance was up and leveraged loan issuance was down.** 2019 US high yield issuance of \$267 billion<sup>1</sup> was up 58.9% compared 2018. At \$808 billion<sup>1</sup>, leveraged lending declined for the second consecutive year to the lowest volume in four years. Issuance was down 35% YoY and \$594 billion lower compared to 2017's record year.
- **Spreads tightened across the board except for CCC index.** US HY Credit Index tightened by 167 bps or 31.0%<sup>2</sup> versus the same period last year. BB and B index tightened by 152 bps and 98 bps, a 36.7%<sup>2</sup> and 17.3%<sup>2</sup> decreases versus the same period last year. However, in 2019 CCC index increased by 17.3%<sup>2</sup> from 2018.
- **Slight increase in LBO debt, with deterioration in interest coverage.** US total leverage (Debt / EBITDA) for 2019 at 5.9x<sup>3</sup> up 5.8% from the same time last year. Interest coverage (EBITDA / Cash Interest) of 2019 was 2.7x<sup>3</sup>, down 1.5% from 2018.

## GLOBAL

- **PE dry powder keeps surging globally except for Europe.** For 2019, global total PE dry powder was at \$1.57 trillion<sup>4</sup>, up 6.7% from 2018. US total PE was up by 6.0% to \$857.0 billion<sup>4</sup>; Europe total PE was down by 1.1% to \$2991.9 billion<sup>4</sup>; Asia total PE was up by 13.5% to \$361.4 billion<sup>4</sup>; and the rest of world total PE was up by 20.3% to \$52.8 billion<sup>4</sup>.
- **Investment activity was down.** During 2019, global PE firms invested in \$667.6 billion<sup>6</sup> worth of deals, down 17.2% from the same time prior year and closed on 21,892 transactions<sup>6</sup>, down 15.2% from 2018.

## US BUYOUTS

- **Dry powder was up.** For 2019, US buyout was \$449.6 billion<sup>4</sup>, up by 10.0% from the same time in 2018.
- **More fundraising activity with significantly larger fund sizes.** In 2019, US buyout firms across all buyout strategies raised \$240.3 billion<sup>5</sup>, up by 84.6% from same time prior year.
- **Investment activity was down.** During 2019, US buyout firms invested in \$213.8 billion<sup>6</sup> worth of deals, down 25.1% from the same time last year and closed on 2,882 transactions<sup>6</sup>, down 17.4% versus the same time in 2018.

# Market Commentary

- **LBO price multiples were up.** As of December 31, 2019, US LBO purchase price multiples (Enterprise Value / EBITDA) were at 11.5x<sup>7</sup>, an 8.6% increase from 2018.
- **Exit activity slowed down but large transactions.** During 2019, US buyout firms exited 898 companies<sup>12</sup>, representing \$186.2 billion<sup>12</sup> in total transaction value. This represented a 20.3% decrease in the number of exits and a 7.6% decrease in total transaction value compared to the same time last year. However, the average exit size increased 16.0% to \$207.2 million in 2019 from \$178.6 million in 2018.

## US VENTURE CAPITAL

- **Dry powder increased.** For 2019, US VC dry powder was at \$123.8 billion<sup>4</sup>, up 10.0% from the last year.
- **Fundraising activity slowed down, but average fund size increased.** US VC firms raised \$49.9 billion<sup>5</sup> during 2019, a 13.7% increase from the same period last year. 449 funds<sup>5</sup> closed in 2019, a 12.5% decrease from the same period last year. The average US VC fund size increased to \$111.1 million<sup>5</sup> by 29.9% versus the same period last year.
- **Investment activities was up.** US VC firms deployed \$129.0 billion<sup>6</sup> in capital in 2019, an 1.4% increase from 2018. The number of rounds closed at 5,835<sup>6</sup>, a 15.5% decrease from the same time last year. The average investment per deal increased to \$26.8 million<sup>6</sup>, a 18.1% increase from prior year.
- **All stages valuations were up.** Compared to 2018, the average pre-money valuations increased across all stages in 2019: up 14.3% at \$8.0 million<sup>8</sup> for Seed stage, 17.6% at \$29.4 million<sup>8</sup> for early stage VC, and 15.8% at \$88.0 million<sup>8</sup> for late stage VC. Over the past 3 years, the average pre-money valuations of Seed stage, early stage and late stage investments were up 33.3%, 55.3%, and 60.7%, respectively<sup>9</sup>.
- **Exit activity decreased with less transactions.** US VC firms exited 611 companies<sup>6</sup> in 2019, down by 10.8% from last year, representing \$70.0 billion<sup>6</sup> in transaction value down by 11.0% from the same period last year.

# Market Commentary

## EX US

- **Ex US dry powder grew but less than dry powder in the US.** PE dry powder outside the US grew to \$708.2 billion<sup>4</sup> for 2019, a 7.5% increase versus last year. However, dry powder outside the US was still 17.4% less than dry powder in the US (\$857.0 billion<sup>4</sup>).
  - **Europe buyout and VC dry powders were up.** For 2019, Europe buyout dry power was \$198.0 billion<sup>4</sup>, up by 1.5% from last year. Same time, VC dry powder in Europe grew to \$31.7 billion<sup>4</sup>, a 17.0% increase from prior year.
  - **In Asia, dry powder of VC and growth equity kept increasing, but buyouts decreased.** At the end of 2019, Asia buyout dry power was \$88.9 billion<sup>4</sup>, down by 3.9% from last year. VC dry powder in Asia increased to \$103.4 billion<sup>4</sup>, up by 10.7% from prior year. Growth equity dry powder grew to \$147.0 billion<sup>4</sup>, a 29.4% increase from 2018.
- **Fundraising outside of US was down.** In 2019, ex-US fundraising was down 8.4% to \$264.7 billion<sup>5</sup> compared to same time prior year. The decrease was led by Asian funds which raised \$124.2 billion<sup>5</sup>, down 12.0% from same time last year. Fundraising was down in Europe as well, down by 0.9% from \$125.4 billion in 2018 to \$124.3 billion<sup>5</sup> in 2019. Fundraising in the rest of the world was down 27.7% to \$16.2 billion<sup>5</sup> compared to 2018.
- **Investments activity was down except Europe VC and Asia buyout with large deal value.** Both Europe buyout and Asia venture capital firms decreased the number of deals and aggregate deal volume in 2019. Europe venture capital and Asia buyout firms decreased the number of deals but increased aggregate deal volume in 2019.
  - **Europe buyout activities decreased, but VC investment increased .** In 2019, Europe buyout firms transacted on \$115.3 billion<sup>6</sup> in aggregate value, down by 23.0% from 2018. VC investment activity was up from \$26 billion in 2018 to \$34.6 billion<sup>6</sup> in 2019, an increase of 33.1%.
  - **Asia buyout activity was up, while VC investment activities was down significantly.** During 2019, Asia buyout firms closed on \$51.5 billion<sup>6</sup> in aggregate value, up by 20.6% from the same time of last year's \$42.7 billion<sup>6</sup>. VC investment activity was down from \$141.8 billion during 2018 to \$86.2 billion<sup>6</sup>, a decrease of 39.2%.
- **Global purchase price multiples increased.** As of December 31, 2019, global median purchase price multiples (Enterprise Value / EBITDA) was 13.3x<sup>1</sup>, a 23.1% increase from the same time last year. This was driven by an 8.6% increase in US purchase multiples at 11.5x<sup>7</sup>, a 34.3% increase in the rest of the world at 12.3x<sup>11</sup>, and a 9.4% decrease in purchase price multiples in Europe at 8.9x<sup>11</sup>.
- **Leverage multiples in Europe moved down.** European LBO leverage multiples (Debt / EBITDA) have averaged 5.5x<sup>10</sup> during 2019, a decrease of 3.1% from the same time last year and an 10.5% decrease from the peak (6.1x<sup>11</sup>) in 2007. European LBO Loan volume at \$53.1 billion<sup>11</sup> is down 30.5% versus 2018, a decrease of 50.5% versus the peak of \$107.3 billion<sup>11</sup> in the first half of 2007.
- **Exit activity weaker in both Europe and Asia.** During 2019, Europe PE firms aggregate exit value amounted to \$110.9 billion<sup>6</sup>, a 9.9% decrease from the same time last year, while Asia PE firms' exits were down 14.0% from to \$112.9<sup>6</sup> billion in 2018 to \$97.1<sup>6</sup> billion in 2019.

# Market Commentary

## Outlook

- **PE allocations likely to increase slightly.** A recent survey of institutional investors conducted on December 31, 2019 indicated that 41%<sup>12</sup> intend to increase their allocation for private equity compared to 31%<sup>12</sup> during the same period last year. 45%<sup>12</sup> intend to maintain their allocation for private equity compared to 57%<sup>12</sup> during the same period last year. 14%<sup>12</sup> intend to commit less capital to private equity compared to 12%<sup>12</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 December 31, 2019, institutional investors view North America as the most attractive location to invest in the current economic climate with 88%<sup>12</sup> choosing it as their preferred developed market investment destination. This compares favorably versus West Europe (43%<sup>12</sup>) and Asia (21%<sup>12</sup>). China (44%)<sup>12</sup> and India (21%)<sup>12</sup> are the top two desired countries in the emerging markets for investors. In the same survey, 65%<sup>12</sup> of institutional investors also cited the venture capital strategy as presenting the best opportunities in the current financial climate. Small to mid-market buyout strategy was mentioned next with 60%<sup>12</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 Pro Buyout and Venture 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 Buyout Review, Pitchbook Europe M&A and Leveraged Loan Monthly Thomson Reuters LPC.*
  - b. *Buyout Review, Pitchbook Europe M&A and Leveraged Loan Monthly Thomson Reuters LPC.*
12. *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>4,934,684</b>		
Buyout (60% +/- 20%)	3.6%	2.4%-4.8%	3.3%	163,410	104,829	268,239
Venture Capital (20%, 0%-30%)	1.2%	0.0%-1.8%	2.4%	119,604	9,719	129,323
Debt-Related/Special Situations (20% +/- 10%)	1.2%	0.6%-1.8%	0.7%	33,915	61,042	94,957
<b>Total Private Equity*</b>	<b>6.0%</b>	<b>4%-8%</b>	<b>6.4%</b>	<b>316,929</b>	<b>175,590</b>	<b>492,519</b>

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

### Portfolio Summary

- As of December 31, 2019, the Private Equity Portfolio had a total market value of \$316.9M, with \$163.4M in Buyout, \$119.6M in Venture Capital, and \$33.9M 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 \$320.0M toward its Private Equity commitments. Unfunded commitments total \$175.6M.
- The portfolio exposure at 6.4% is above the new 6% policy target, but within range. 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

- In the second half of 2019, SamCERA committed \$10.0M to Altas Partners Holding II, L.P. and \$15.0M to AG Credit Solutions, L.P. The latter fund was reallocated to the Opportunistic Fixed Income portfolio, effective as of April 7, 2020.

## PE Performance

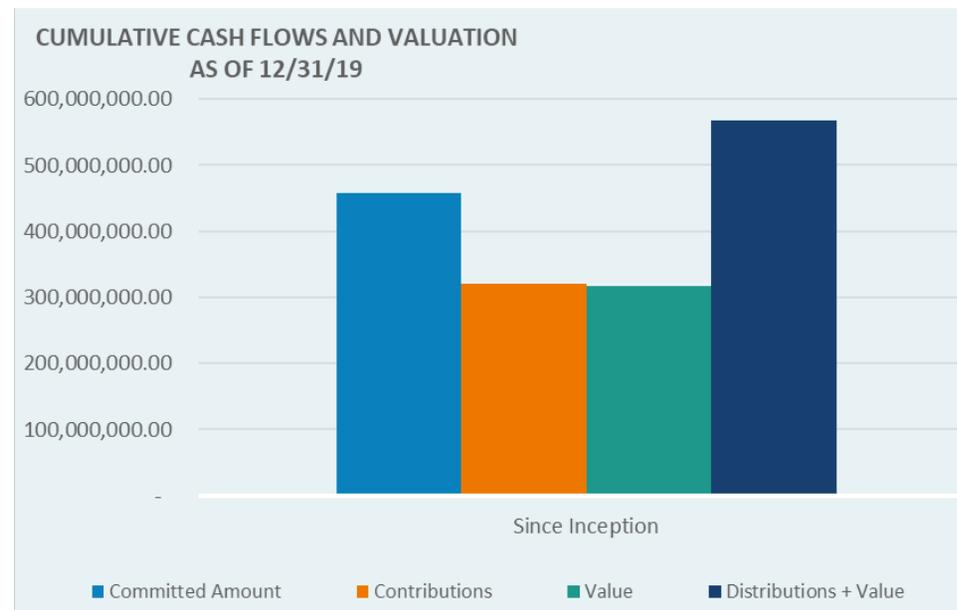
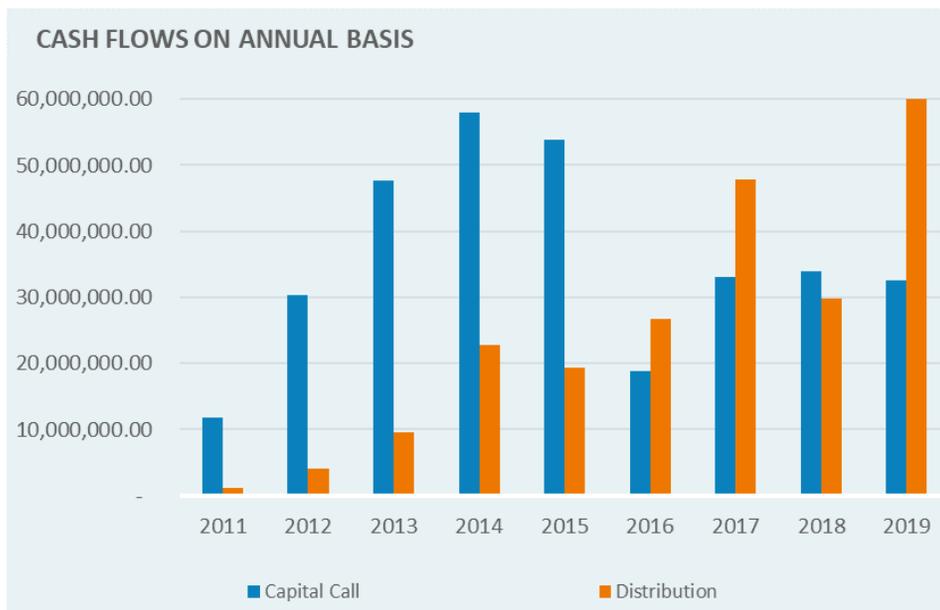
Period Ending: December 31, 2019

### Performance

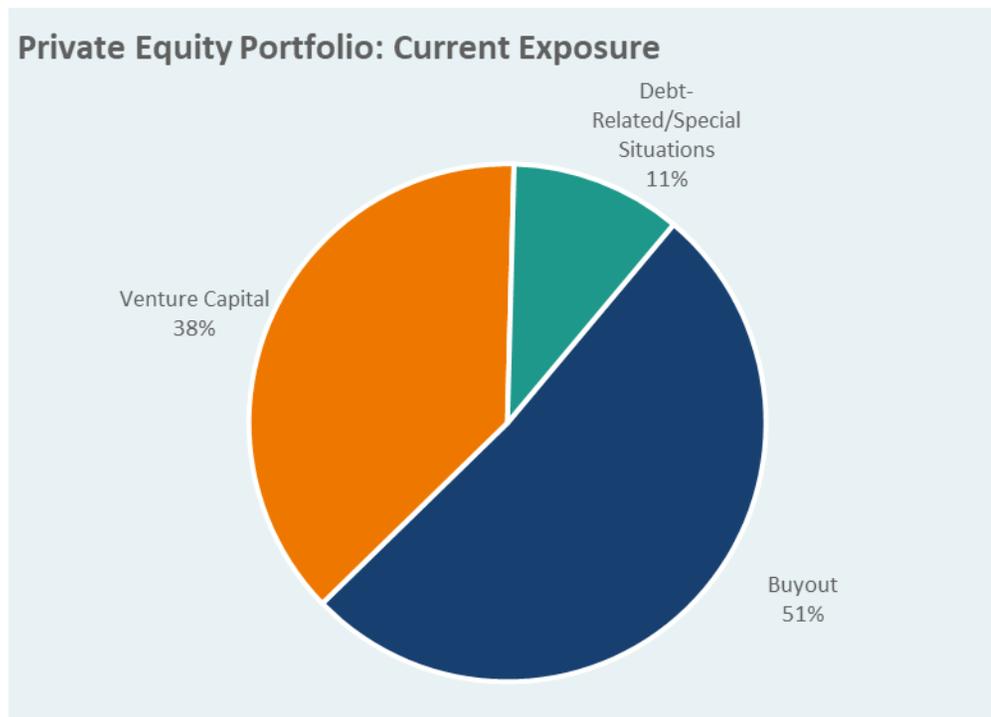
- The Private Equity portfolio's performance, as measured by net IRR, is 18.40%, 534 bps above the same cash flow invested in Russell 3000 Total Return Index of 13.06%. Capital weighted average investment age of the portfolio is 4.19 years.
- The portfolio is currently valued at \$316.9M. Together with \$251.4M in realized distributions, the Total Value at \$568.3M is approximately \$248.3M above \$320.0M total capital contributions, resulting in a total value multiple of 1.78x and a distribution multiple of 0.79x.
- Distributions surpassed contributions with a ratio of 2.8:1 in the year 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 \$128.9M / +64.9% versus cost (Cevian II, Great Hill V & VI, Sycamore, ABRY VII, and Warburg Pincus XI leading), with 82.6% of called capital realized and distributed; and
  - Venture Capital up \$102.0M / +187.5% versus cost (Emergence Capital III, General Catalyst VI, NEA 14, and Third Rock III leading), with 67.6% of called capital realized and distributed; and
  - Debt-related/Special Situations up \$17.35M / +25.9% versus cost (ABRY Advanced Securities II and III leading), with 75.3% of called capital realized and distributed.
- Within Private Equity, the current allocation of market value exposure is 51.6% to Buyout, 37.3% to Venture Capital, and 10.7% to Debt-Related/Special Situations.



Investment Type	Commitment	Reported Value	Current Exposure as % of Private Equity
Buyout	279,431,240	163,410,199	51.6%
Venture Capital	64,000,000	119,604,097	37.7%
Debt-Related/Special Situations	114,500,000	33,915,426	10.7%
<b>Total Private Equity</b>	<b>457,931,240</b>	<b>316,929,722</b>	<b>100.0%</b>

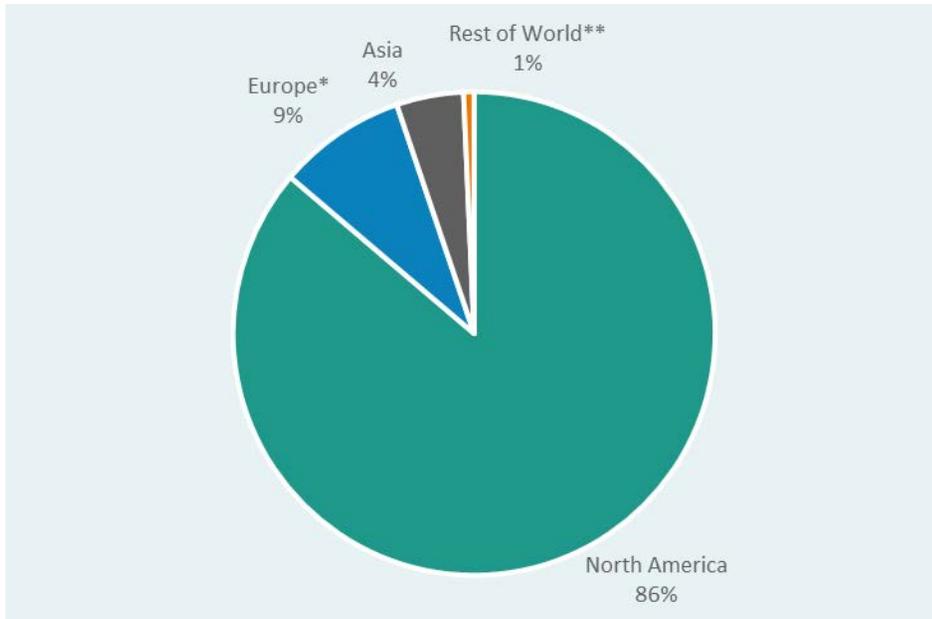


# Geography

## Portfolio Diversification

Period Ending: December 31, 2019

Geography	Current Exposure
North America	255,165,719
Europe*	25,446,375
Asia	13,405,075
Rest of World**	1,957,511
<b>Total Private Equity</b>	<b>295,974,680</b>



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

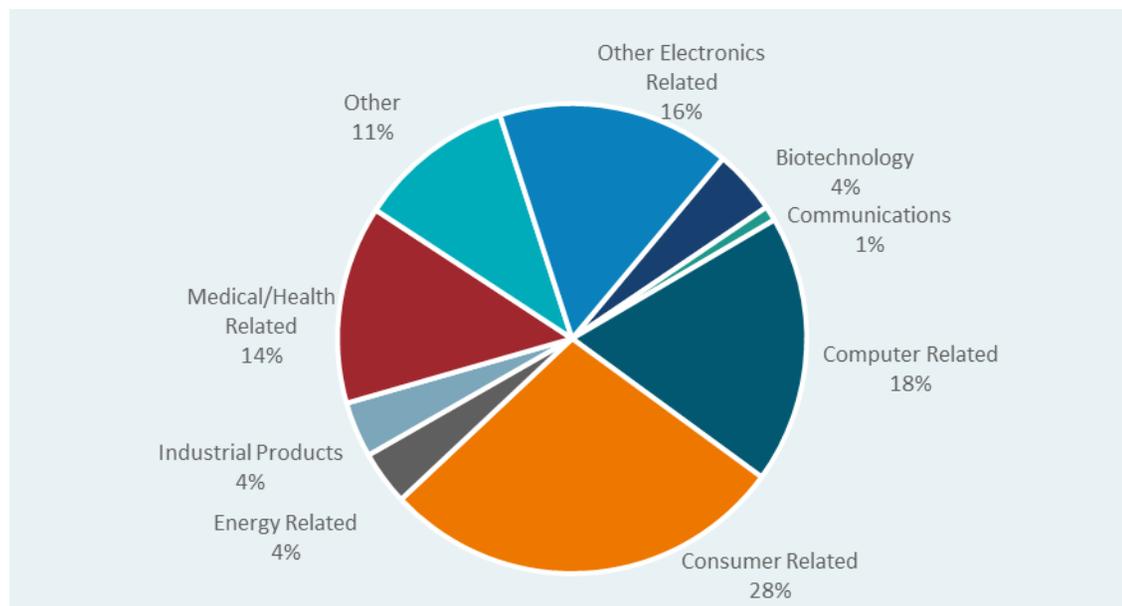
\* Europe includes 100% market value from Cevian II.

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

# Industry Portfolio Diversification

Period Ending: December 31, 2019

Industry	Current Exposure
Biotechnology	12,342,814
Communications	2,842,397
Computer Related	51,400,531
Consumer Related	77,865,463
Energy Related	10,404,166
Industrial Products	10,656,846
Medical/Health Related	37,996,370
Other	30,075,048
Other Electronics Related	44,792,387
<b>Total Private Equity</b>	<b>278,376,022</b>

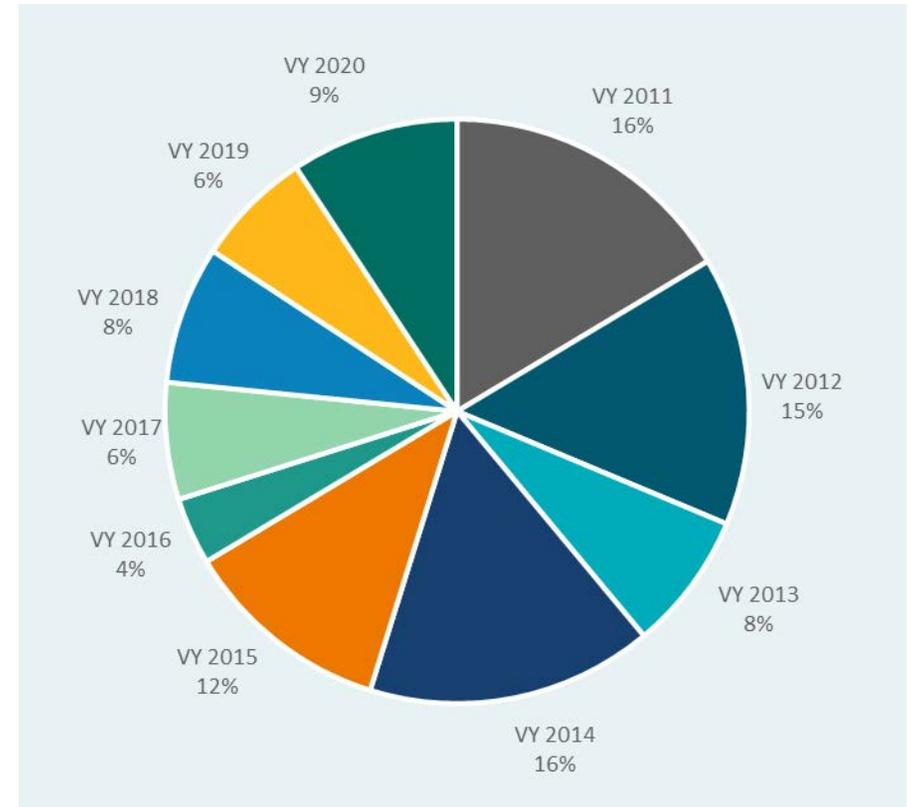


Based on the value of portfolio companies as of December 31, 2019, if provided by the partnerships. Differences between reported value and the total portfolio valuation is due to temporary cash funds, fees, other expenses, and holdings with undisclosed industry breakdown.

# Vintage Year Portfolio Diversification

Period Ending: December 31, 2019

Vintage Year	Commitment as of 12/31/19	% of Portfolio Commitment	Reported Value as of 12/31/19
2011	75,000,000	16.38%	32,857,098
2012	68,000,000	14.85%	115,569,386
2013	35,000,000	7.64%	28,547,175
2014	72,500,000	15.83%	60,771,883
2015	53,000,000	11.57%	45,019,690
2016	17,000,000	3.71%	6,562,417
2017	30,000,000	6.45%	19,028,199
2018	35,000,000	7.64%	3,090,821
2019	30,000,000	6.45%	5,483,053
2020	42,431,240	9.27%	0
<b>Total Private Equity</b>	<b>457,931,240</b>	<b>100%</b>	<b>316,929,722</b>



- As of December 31, 2019, the Private Equity Portfolio at 6.4% of the overall plan is above its 6.0% policy target, but within its 4-8% target range.
  - Venture Capital remains above its new policy target, as a result of significant increase in value to a select portfolio company.