



**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**



PERIOD ENDING DECEMBER 31, 2021

Private Equity Review

San Mateo County Employees' Retirement Association

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Market Commentary

DEBT RELATED

- **HY issuance stable, leveraged loan issuance up.** In 2021, US high yield issuance was stable, with a small increase of 0.3% at \$429.7 billion compared to \$429.7 billion in 2020¹. Leverage loan issuance volume was \$1,403.4 billion in 2021, up 62.9% from the same time last year¹.
- **Spreads tightened across the board.** US HY Credit Index tightened by 60 bps or 15.4%² decrease in 2021 versus the same period last year. BB and B index tightened by 2 bps and 25 bps, decreasing by 0.7%² and 5.3%² versus the same period last year. In the meantime, CCC index spread decreased by 19.0%² in 2021 from 2020 same period.
- **Slight increase in LBO debt, coupled with slight improvement in interest coverage in US.** Total leverage averaged 5.8x (Debt / EBITDA) in 2021 for US new issue loans, up 1.7% from 2020³. Interest coverage averaged 3.5x (EBITDA / Cash Interest), up 1.7% from 2020³. In Europe with 2021 LBO Loan volume at \$109.1 billion, up 149.1% from 2020 and down 20.8% from \$137.7 billion peak in 2007⁴, leverage multiples decreased 1.7% to 5.7x in 2021⁴, below 6.4x peak in 2007⁴.

GLOBAL

- **Both investment activity and average deal size increased.** During 2021, global PE firms invested in \$2.1 trillion worth of deals, up 79.1% from the same time prior year, and closed on 61,866 transactions, up 21.3%⁵.
- **PE dry powder decreased globally.** In the 2021, global total PE dry powder was at \$5.2 trillion, down 12.3% from 2020⁵. US total PE was down by 9.7% to \$3.6 trillion⁵; Europe total PE decreased by 16.0% to \$1.2 trillion⁵; Asia total PE was down by 23.8% to \$277.1 billion⁵; and the rest of world total PE was down by 19.6% to \$111.0 billion⁵.

US BUYOUTS

- **Fundraising activity slowed down.** In 2021, US firms across all buyout strategies raised \$223.4 billion, down by 13.8% from same time prior year⁵. Average fund size was up 26.2%, from \$800.8 million in 2021 to \$634.4 million in 2020.
- **Investment activity was up significantly.** During 2021, US buyout firms invested in \$1.0 trillion (+50.2% from 2020) into 7,044 deals (+23.4%)⁵.
- **Dry powder decreased.** In 2021, US buyout dry powder was \$1.9 trillion, down by 15.6% from the same time in 2020⁵.
- **LBO price multiples down slightly.** As of December 31, 2021, US LBO purchase price multiple (Enterprise Value / EBITDA) was at 11.4x , a 0.4% decrease from December 31, 2020³.
- **Exit activity increased.** During 2021, US buyout firms exited 1,393 companies, representing \$741.6 billion in total transaction value⁵. This represented a 105.1% increase in the number of exits and a 39.7% increase in total transaction value compared to the same time last year⁵.

Market Commentary

US VENTURE CAPITAL

- **Fundraising activity increased.** US VC firms raised \$128.3 billion during 2021, a 47.5% increase from the same period last year⁵. 730 funds closed in 2021, a 0.4% decrease from the same period last year⁵. The average US VC fund size increased to \$175.7 million by 48.1% versus the same period last year⁵.
- **Investment activity increased.** US VC firms deployed \$329.9 billion in capital in 2021, a 98.0% increase from 2020. With deal activity skewing from early to angel & seed stage⁵, the number of deals closed at 15,500, a 27.3% increase from the same time last year⁵.
- **Dry powder decreased.** In 2021, US VC dry powder was at \$220.6 billion, down 11.9% from 2020⁵.
- **Increases across all stages:**
 - **Entry valuations.** Compared to December 31, 2020, the average pre-money valuations increased for all stages in 2021: up 25.7% at \$6.3 million⁵ for Angel stage, 58.3% at \$9.5 million⁵ for Seed stage, 53.3% at \$46.0 million⁵ for early-stage VC, and 76.2% at \$114.5 million⁵ for late-stage VC. Over the past 3 years, the average pre-money valuations of Angel-, Seed-, Early- and Late-stage investments were up 25.7%, 58.3%, 109.1%, and 129.0%, respectively⁵.
 - **Deal sizes.** Average deal size increased for all stages as well: up 41.4% at \$1.8 million⁵ for Angel stage, 33.1% at \$4.0 million⁵ for Seed stage, 45.8% at \$23.2 million⁵ for early-stage VC, and 51.1% at \$56.1 million⁵ for late-stage VC. Across all stages, the average investment per deal increased to \$21.3 million, a 48.5% increase from prior year⁵. Over the past 3 years, the average deal size of Angel-, Seed-, Early- and Late-stage investments were up 33.2%, 35.3%, 67.2%, and 55.6%, respectively⁵.
- **Exit activity increased significantly with larger transactions.** US VC firms exited 1,612 companies in 2021, up by 43.5% from last year and 40.8% from three years ago⁵. This represented the record high \$774.1 billion in transaction value, up by 168.0% from the same period last year and 524.9% from three years ago⁵. Largest sectors exited were Software and Pharma & Biotech.

EX US

- **Ex-US fundraising activity was up.** In 2021, ex-US fundraising increased 39.2% from 2020 to \$349.7 billion⁵. Fundraising in Asia increased by 51.8% to \$76.0 billion⁵, while Europe was flat to 2020, decreasing by just 0.4% to \$127.5 billion⁵.
- **Capital deployment increased by VCs and Buyout managers in Europe and Asia.**
 - **In both Europe and Asia, VCs invested more capital into more deals.** Investment activity increased by 8.6% in Europe and 54.0% in Asia from 2020⁵. Capital deployed increased by 119.8% to \$117.0 billion and by 82.3% to \$126.1 billion, respectively, in Europe and Asia⁵.
 - **Buyout deal activity and capital deployment rose in Europe and Asia.** In Europe, buyout firms transacted \$677.1 billion in aggregate value (+37.9% from 2020)⁵. Asia buyout firms invested \$78.3 billion in aggregate value (+229.2%)⁵.

Market Commentary

- **Dry powder decreased ex-US.** PE dry powder outside the US decreased 17.7% to \$1.6 trillion⁵ in 2021. Dry powder outside the US was 55.1% less than dry powder in the US (\$3.6 trillion)⁵.
 - **Europe VC and buyout dry powder both down.** VC at \$12.0 billion and buyout at \$686.3 billion were down 24.7% and 19.1% from 2020, respectively⁵.
 - **In Asia, VC, buyout and growth dry powder decreased in parallel with US and Europe.** VC at \$12.2 billion, buyout at \$223.6 billion, and growth at \$12.8 billion were down 29.8%, 21.9% and 54.6% from 2020, respectively⁵.
- **Purchase price multiples increased ex-US.** As of December 31, 2021, European buyout median purchase price multiples increased 15.0% from 8.0x to 9.3x EBITDA from the same time last year⁵. Asia buyout median purchase price multiples increased 23.1% from 6.1x to 7.5x EBITDA from the same time last year⁵.
- **Exit activity strengthened in Europe but weaken in Asia.** Europe PE aggregate exit value amounted to \$552.7 billion, a 125.6% increase from 2020, while Asia PE exit value dropped by 12.7% to \$171.5 billion⁵.

Outlook

- **PE allocations likely to continue rising steadily.** Based on a survey of more than 350 LPs by Preqin (prior to escalation of the Russia-Ukraine conflict), more than a third of LPs (35%) plan to invest more in private capital over the next 12 months, with a further 51% expecting to invest the same amount, and just 14% planning to invest less⁶.

Notes

1. *White & Case Debt Explorer (February 14, 2022)*
2. *Guggenheim High-Yield Bank Loan Outlook (March 2022)*
3. *S&P Global US LBO Review (4Q 2021)*
4. *S&P Global LCD European Leveraged Buyout Review (4Q 2021)*
5. *Pitchbook (December 31, 2021)*
6. *Preqin (H1 2022)*

Private Equity portfolio

Investment Type	Policy Target	Policy Range	Market Value %	Market Value \$(000)	Unfunded Commitment \$(000)	Market Value + Unfunded \$(000)
SamCERA - Total Plan			100.0%	6,176,865		
Buyout (60% +/- 20%)	3.6%	2.4%-4.8%	3.4%	209,898	119,222	329,120
Venture Capital (20%, 0%-30%)	1.2%	1.0%-1.8%	2.6%	161,115	30,972	192,087
Debt-Related/Special Situations (20% +/- 10%)	1.2%	0.6%-1.8%	1.0%	62,965	48,282	111,247
Total Private Equity*	6.0%	4%-8%	7.0%	433,977	198,476	632,452

Portfolio Summary

- As of December 31, 2021, the Private Equity Portfolio had a total market value of \$434.0M, with \$210.0M in Buyout, \$161.1M in Venture Capital, and \$63.0M 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 \$434.1M towards its Private Equity commitments, with \$265.6M to Buyouts, \$67.2M to Venture Capital, and \$101.3M in Debt-Related / Special Situations. Unfunded commitments total \$198.5M.
- The portfolio exposure at 7.0% is above the 6.0% policy target but within its 4-8% target range. Compared to December 31, 2020, portfolio exposure is up 0.1%. Buyout exposure and Debt Related / Special Situations exposure remain below target but within policy range. Venture Capital is 1.4% above its policy target.

Portfolio Activity

- In 2021, SamCERA committed \$15M to Genstar Capital Fund X, L.P., \$5M to Genstar X Opportunity Fund, L.P., \$20M to Endeavor Capital Fund VIII L.P., \$10M to Summit Partners Growth Equity Fund XI, L.P., \$9M to Eclipse IV, L.P., \$15M to SVP Special Situations Fund V, L.P., and \$15M to ABRY Senior Equity VI, L.P. in order to maintain exposure to policy over time.

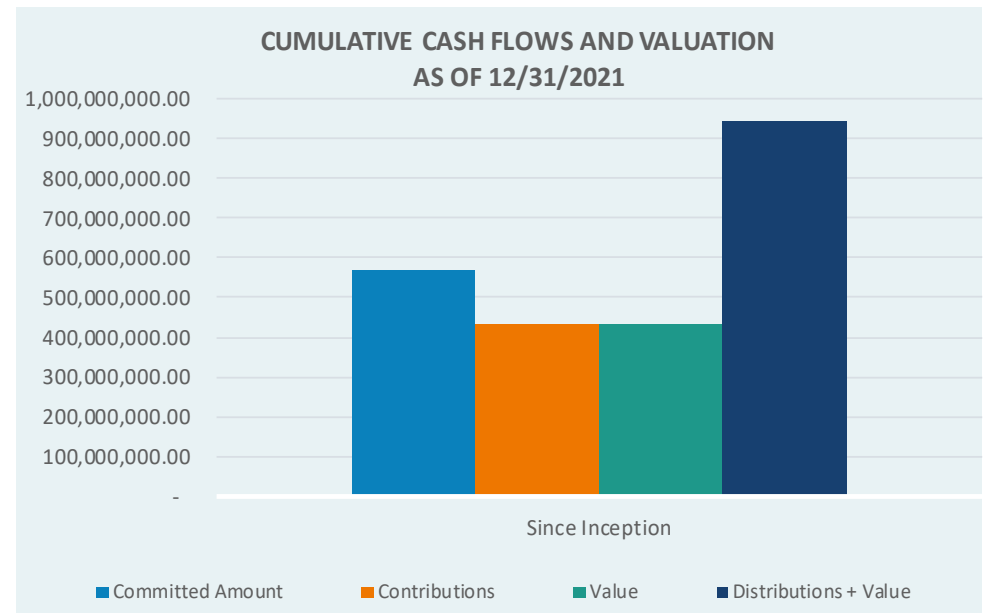
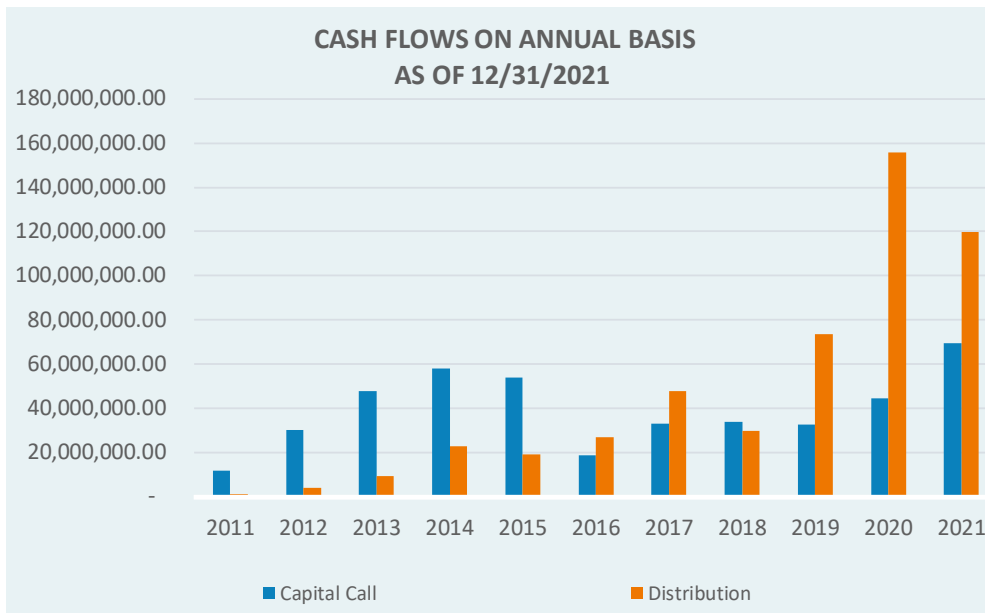
Performance

- The Private Equity portfolio’s performance, as measured by net IRR, is 22.33%, 953 bps above the same cash flow invested in Russell 3000 Total Return Index of 12.80%. Capital weighted average investment age of the portfolio is 5.6 years.
- The portfolio is currently valued at \$434.0M. Together with \$510.6M in realized distributions, the Total Value at \$944.6M is approximately \$510.5M above \$434.1M in total capital contributions, resulting in a total value multiple of 2.18x and a distribution multiple of 1.18x.
- Distributions surpassed contributions with a ratio of 1.7:1 in 2021 compared to 3.5:1 in 2020 and 2.3:1 in 2019.

— Attribution of returns:

- Buyouts up \$198.0M / 1.75x cost (Great Hill V & VI, Sycamore, JLL VII, Angeles I, and Warburg XI leading), with 95.5% of called capital realized and distributed;
- Venture Capital up \$291.4M / 5.34x cost (Emergence Capital III, General Catalyst VI, and NEA 14 leading), with 294.0% of called capital realized and distributed;
- Debt-related/Special Situations up \$21.2M / 1.21x cost (ABRY Advanced Securities II, ABRY Senior V and OHA II leading), with 58.8% of called capital realized and distributed.

- Within Private Equity, the current allocation of market value exposure is 48.8% to Buyout, 37.1% to Venture Capital, and 14.5% to Debt-Related/Special Situations.

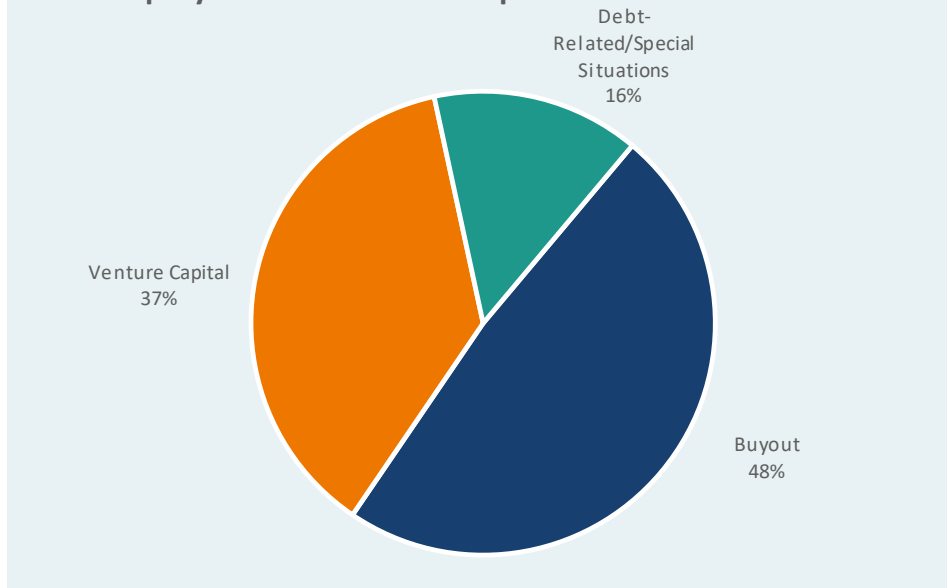


Portfolio Diversification By Strategy

Period Ending: December 31, 2021

Investment Type	Commitment	Reported Value
Buyout	349,001,040	209,898,114
Venture Capital	98,000,000	161,114,735
Debt-Related/Special Situations	144,500,000	62,964,531
Total Private Equity	591,501,040	433,977,380

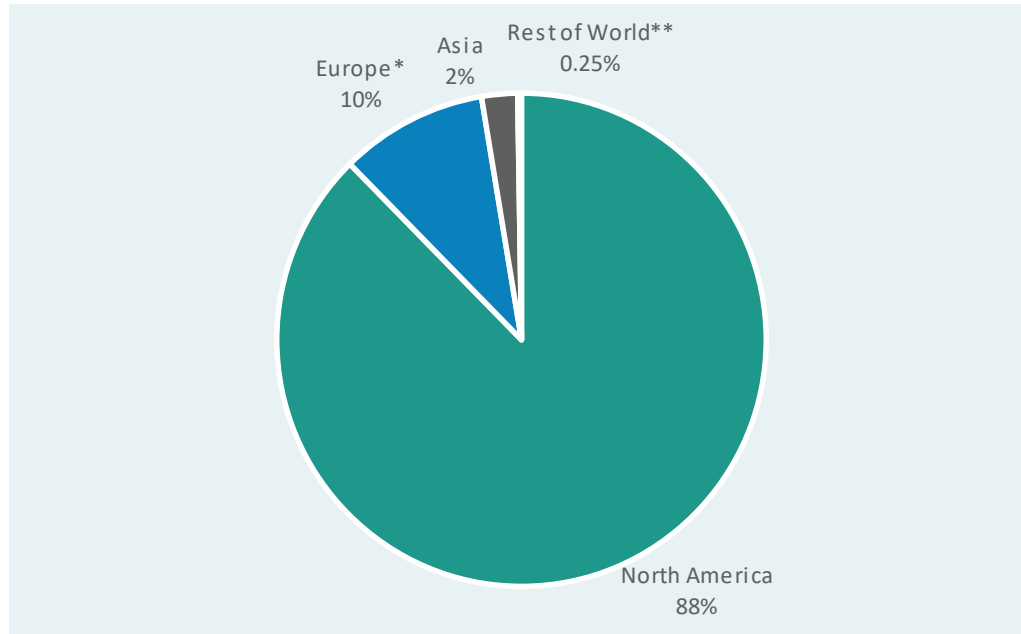
Private Equity Portfolio: Current Exposure



Portfolio Diversification By Geography

Period Ending: December 31, 2021

Geography	Current Exposure
North America	380,265,469
Europe*	42,333,505
Asia	10,293,467
Rest of World**	1,084,938
Total Private Equity	433,977,380



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

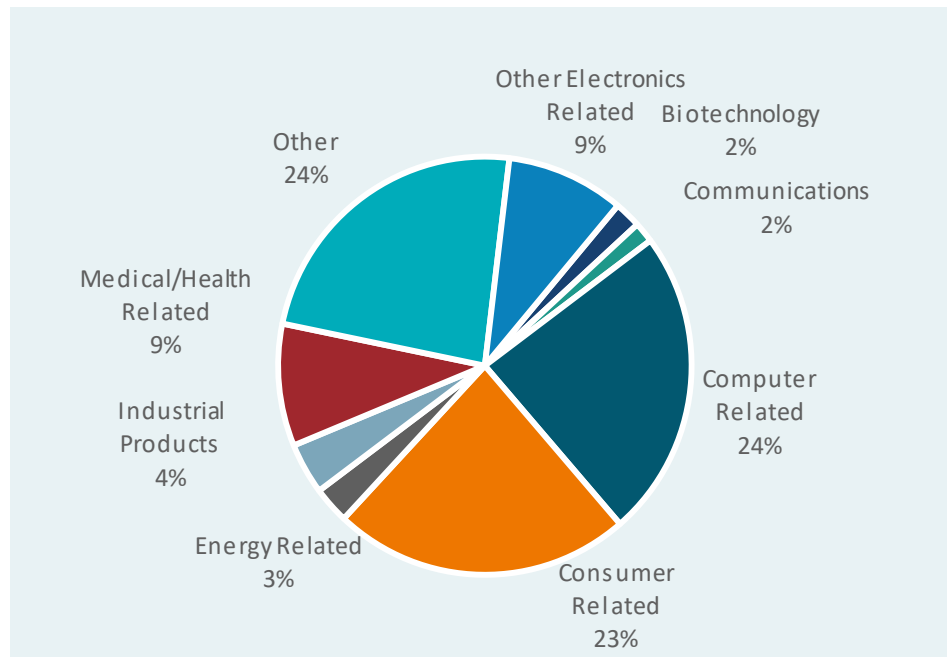
* Europe includes 100% market value from Cevian II.

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

Portfolio Diversification By Industry

Period Ending: December 31, 2021

Industry	Current Exposure
Biotechnology	9,036,081
Communications	6,887,481
Computer Related	103,638,486
Consumer Related	101,064,752
Energy Related	12,375,979
Industrial Products	17,239,530
Medical/Health Related	41,054,092
Other	102,716,596
Other Electronics Related	39,964,383
Total Private Equity	433,977,380

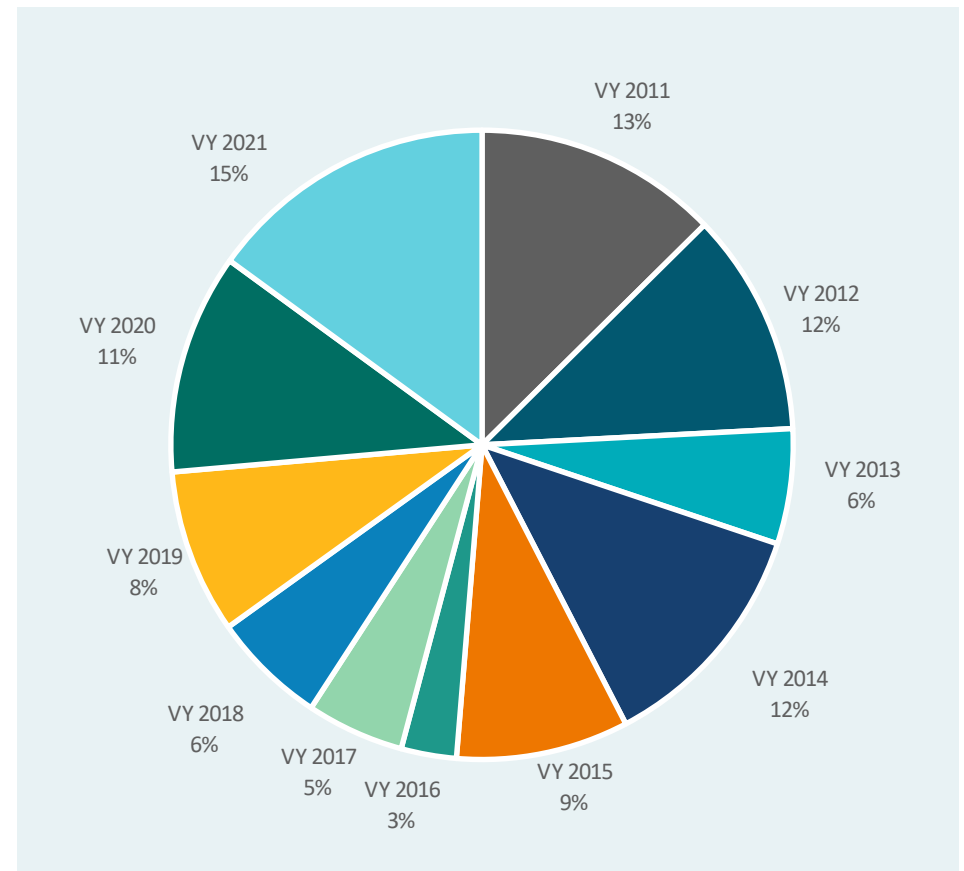


Based on the value of portfolio companies as of December 31, 2021, if provided by the partnerships. Differences between reported value and the total portfolio valuation is due to temporary cash funds, fees, other expenses, and holdings with undisclosed geography breakdown.

Portfolio Diversification By Vintage Year

Period Ending: December 31, 2021

Vintage Year	Commitment as of 12/31/2021	% of Portfolio Commitment	Reported Value as of 12/31/2021
2011	75,000,000	12.68%	30,253,105
2012	68,000,000	11.50%	135,132,191
2013	35,000,000	5.92%	31,456,774
2014	72,500,000	12.26%	49,804,204
2015	53,000,000	8.96%	42,171,507
2016	17,000,000	2.87%	11,113,962
2017	30,000,000	5.07%	39,245,699
2018	35,000,000	5.92%	19,141,941
2019	50,000,000	8.45%	31,656,689
2020	67,001,040	11.33%	30,085,186
2021	89,000,000	15.05%	13,916,124
Total Private Equity	591,501,040	100%	433,977,380



- **As of December 31, 2021, the Private Equity Portfolio exposure at 7.0%, 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 0.1%.
 - Venture Capital remains above its policy target.