



**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**



PERIOD ENDING DECEMBER 31, 2022

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 down significantly.** In 2022, US high yield issuance at \$96.5 billion was down 77.5% compared to 2021¹. Leverage loan issuance volume was \$1.1 trillion in 2022, down 24.5% from the \$1.4 trillion last year¹.
- **Spreads loosened across the board.** US HY Credit Index increased by 161 bps or up 48.8%² versus the same period last year. BB and B index loosened by 56 bps and 247 bps, increasing by 18.2%² and 55.6%² versus the same period last year. In the meantime, CCC index spread increased by 69.8%² in 2022 from 2021.
- **Slight decrease in LBO debt except Large Corp, interest coverage decreased in US.** Large Corp total leverage averaged 5.9x (Debt / EBITDA) in 2022 for US new issue loans, up 0.7% from 2021³, and interest coverage averaged 3.0x (EBITDA / Cash Interest), down 13.5% from 2021³. Middle-market total leverage averaged 5.7x (Debt / EBITDA) in 2022 for US new issue loans, down 4.6% from 2021³, and interest coverage averaged 2.3x (EBITDA / Cash Interest), down 33.3% from 2021³. In Europe, 2022 new issue LBO Loan volume at \$36.2 billion was down 66.8% from 2021 and down 73.7% from \$137.7 billion peak in 2007⁴. European leverage multiples decreased 0.9% to 5.7x in 2022⁴, down from 6.1x from peak in 2007⁴.

GLOBAL

- **Both investment activity and average deal size decreased.** During 2022, global PE firms invested in \$1.7 trillion worth of deals, down 14.7% from prior year, and closed on 67,894 transactions, down 10.9%⁵. Average deal size declined 4.3%⁵.
- **Private Markets* dry powder decreased globally.** In 2022, global total dry powder was at \$2.6 trillion, down 13.9% from 2021⁵. Global total PE ex Venture Capital dry powder was down by 16.2% to \$1.3 trillion⁵. Global Venture Capital dry powder was down by 4.6% to \$583.1 billion⁵. Global Private Debt dry powder was down by 20.8% to \$395.2 billion⁵.

US PRIVATE EQUITY (BUYOUT & GROWTH)

- **Fundraising activity increased.** In 2022, US buyout firms raised \$282.1 billion, up by 6.3% from prior year⁵. Average fund size was up 87.4%, from \$457.6 million in 2021 to \$857.6 million in 2022⁵. US growth strategy raised \$60.9 billion, down by 32.8% from \$90.6 billion in 2021.
- **Investment activity was down.** During 2022, US buyout firms invested in \$921.5 billion (-26.9% from 2021) into 7,495 deals (-17.8%)⁵. IT and Financial Services sectors declined the least, down from 2021 by 11.6% and 16.8%, respectively. B2B sector invested the most capital (\$281.5 billion⁵, -25.6% from 2021 and completed the most number of deals (2,879 deals⁵, -13.7% from 2021).
- **Dry powder decreased.** In 2022, US private equity dry powder was \$775.6 billion, down by 14.9% from 2021⁵.

Market Commentary

- **LBO price multiples up.** As of December 31, 2022, US LBO purchase price multiple (Enterprise Value / EBITDA) was at 11.9x, a 4.3% increase from December 31, 2021³. Healthcare sector led the highest purchase price multiple at 14.4x, an increase of 5.2% from same time last year.
- **Exit activity decreased.** During 2022, US private equity firms exited 1,082 companies, representing \$295.8 billion in total transaction value⁵. This represented a 39.1% decrease in the number of exits and a 66.3% decrease in total transaction value compared to the same time last year⁵.

US VENTURE CAPITAL

- **Fundraising activity increased.** US VC firms raised \$162.6 billion in 2022, a 5.5% increase from last year⁵. 769 funds closed in 2022, a 39.4% decrease from last year⁵. The average US VC fund size increased to \$211.5 million by 74.3% versus the same period last year⁵.
- **Investment activity decreased.** US VC firms deployed \$238.3 billion in capital in 2022, a 30.9% decrease from 2021. The number of deals closed at 15,852, a 14.4% decrease from last year⁵. Average deal size decreased 19.3% from 2021 due to fewer deals in late stage.
- **Dry powder increased.** In 2022, US VC dry powder was at \$289.0 billion, up 15.7% from 2021⁵.
- **Entry valuations and deal sizes mixed by stage:**
 - **Entry valuations.** Compared to December 31, 2021, the average pre-money valuations for all stages in 2022 are: up 9.7% at \$4.9 million⁵ for Angel stage, up 16.7% at \$10.5 million⁵ for Seed stage, up 19.0% at \$50.0 million⁵ for early-stage VC, and down 10.2% at \$67.3 million⁵ for late-stage VC.
 - **Deal sizes.** Average deal size increased for Angel stage and Seed stage by 6.8% to \$0.7 million⁵ and 30.5% at \$3.9 million⁵, respectively. In the meantime, average deal size decreased for Early stage and Late stage by 11.6% to \$14.4 million⁵ and 29.0% at \$23.2 million⁵, respectively. Across all stages, the average investment per deal decreased to \$10.5 million, a 19.8% decrease from prior year⁵. Over the past 3 years, the average deal size of Angel-, Seed-, Early- and Late-stage investments were down 92.2%, 86.6%, 101.0%, and 101.5%, respectively⁵.
- **Exit activity decreased significantly with smaller transactions.** US VC firms exited 1,208 companies in 2022, down by 37.2% from the same time last year, and down 7.2% from three years ago⁵. This represented \$71.4 billion in transaction value, down by 90.5% from the same period last year, but up by 73.5% from three years ago⁵. Largest sectors exited were Software and Pharma & Biotech.

EX US

- **Ex-US fundraising activity was down.** In 2022, ex-US fundraising decreased 1.3% from the same time in 2021 to \$419.9 billion⁵. Fundraising in Asia decreased by 1.9% to \$124.0 billion⁵, while Europe was down by 40.8% to \$83.9 billion⁵.

Market Commentary

- **Capital deployment decreased by VCs and Buyout managers in Europe and Asia.**
 - **In both Europe and Asia, VCs invested less capital into fewer deals.** In 2022, number of deals closed decreased by 16.0% in Europe with 15.9% in capital deployed at \$98.3 billion. Similar to Europe, Asia VC capital investment 74.9% less capital to \$32.2 billion, representing 63.1% fewer deals than 2021.
 - **Buyout deal activity and capital deployment dropped in Europe and in Asia.** In Europe, buyout firms transacted on \$638.6 billion in aggregate value (-18.2% from 2021)⁵. Asia buyout firms invested \$24.3 billion in aggregate value (-53.3%)⁵.
- **Dry powder decreased ex-US.** PE dry powder outside the US decreased 19.2% to \$1.6 trillion⁵ in 2022. Dry powder outside the US was 58.8% less than dry powder in the US (\$3.8 trillion)⁵.
 - **Europe VC and buyout dry powder both down.** VC at \$17.3 billion and buyout at \$677.9 billion were down 22.8% and 16.6% from 2021, respectively⁵.
 - **In Asia, VC and buyout dry powder decreased in parallel with US and Europe, but growth dry powder increased.** VC at \$40.9 billion, buyout at \$218.9 billion, and growth at \$59.9 billion were down 6.7%, 25.3% and up 7.2% from 2021, respectively⁵.
- **Purchase price multiples decreased in Europe and Asia.** As of December 31, 2022, European buyout median purchase price multiples decreased 9.4% from 8.4x to 7.6x EBITDA from the same time last year⁵. Asia buyout median purchase price multiples decreased 39.3% from 7.1x to 4.3x EBITDA from the same time last year⁵.
- **Exit activity weakened in Europe and Asia.** Europe PE aggregate exit value amounted to \$254.9 billion in 2022, a 54.8% decrease from 2021, while Asia PE exit value dropped by 30.1% to \$158.2 billion⁵.

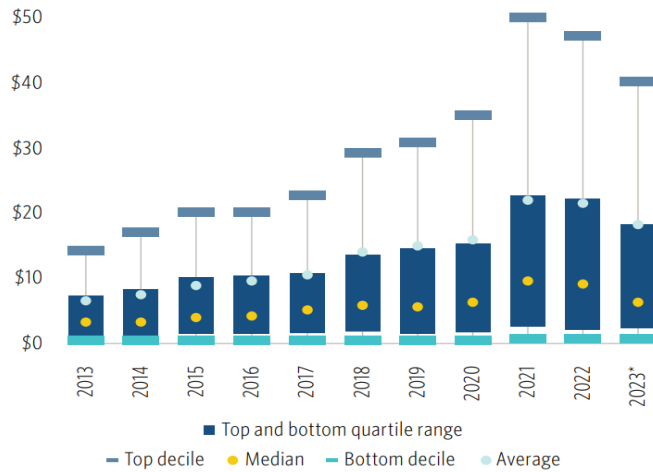
Notes

1. *White & Case Debt Explorer (April 10, 2023)*
 2. *Guggenheim High-Yield Bank Loan Outlook (Q1 2023)*
 3. *S&P Global US LBO Review (4Q 2022)*
 4. *S&P Global LCD European Leveraged Buyout Review (4Q 2022)*
 5. *Pitchbook (December 31, 2022)*
- * Include Buyout, Venture Capital, Private Debt, Fund of Funds and Secondaries.

VC Valuations

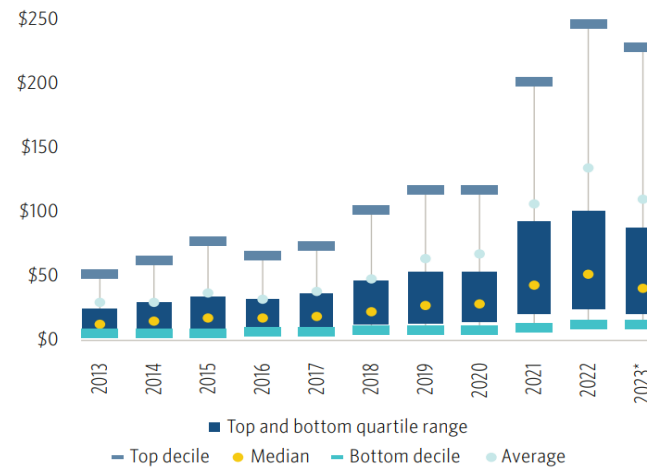
Early-stage deal sizes continue to dip

Early-stage VC deal value (\$M) dispersion



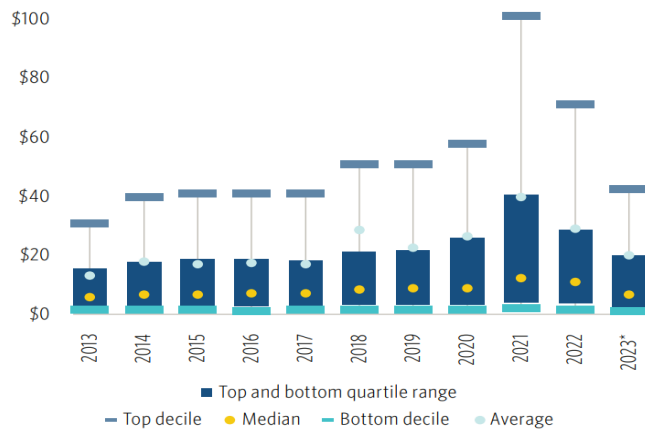
Median early-stage VC valuation falls to eight-quarter low

Early-stage VC pre-money valuation (\$M) dispersion



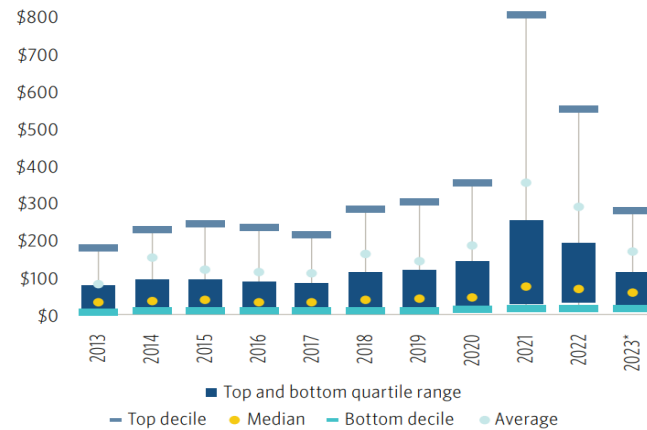
Median late-stage deal value has fallen 40% YoY

Late-stage VC deal value (\$M) dispersion



Top-decile valuation down 70% QoQ

Late-stage VC pre-money valuation (\$M) dispersion



Source: Pitchbook

Source: PitchBook • Geography: US
*As of March 31, 2023

Source: PitchBook • Geography: US
*As of March 31, 2023

Private Equity portfolio

Portfolio Overview

Period Ending: December 31, 2022

Investment Type	Policy Target	Policy Range	Market Value %	Market Value \$(000)	Unfunded Commitment \$(000)	Market Value + Unfunded \$(000)
SamCERA - Total Plan			100.0%	5,688,526		
Buyout (60% +/- 20%)	4.2%	2.4%-4.8%	3.8%	216,622	99,793	316,415
Venture Capital (20%, 0%-30%)	1.4%	1.0%-1.8%	1.7%	93,904	35,089	128,993
Debt-Related/Special Situations (20% +/- 10%)	1.4%	0.6%-1.8%	1.3%	71,652	100,705	172,357
Total Private Equity*	7.0%	4%-8%	6.8%	382,178	235,587	617,765

Portfolio Summary

- As of December 31, 2022, the Private Equity Portfolio had a total market value of \$382.2M, with \$216.6M in Buyout, \$93.9M in Venture Capital, and \$71.7M 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 \$507.4M towards its Private Equity commitments, with \$310.8M to Buyouts, \$75.2M to Venture Capital, and \$121.4M in Debt-Related / Special Situations. Unfunded commitments total \$215.6M.
- The portfolio exposure at 6.8% is below the 7.0% target, effective July 1st, 2022. Compared to December 31, 2021, portfolio exposure is down 0.2%. Buyout, Venture Capital, and Debt Related / Special Situations exposures remain within policy range.

Portfolio Activity

- In 2022, SamCERA committed \$25M to Altas Partners III, \$25M to Great Hill Equity Partners VIII, \$25M to Davidson Kempner Opportunities Fund VI, and \$25M to Sixth Street – TAO.
- SamCERA completed the sale of its interest in three funds in the secondary market: JLL Partners Fund VII, L.P., Angeles Equity Partners I, L.P., and New Enterprise Associates 14, L.P.

*The Private equity Policy Target of 6.0% was increased to 7.0% effective 7/1/2022.

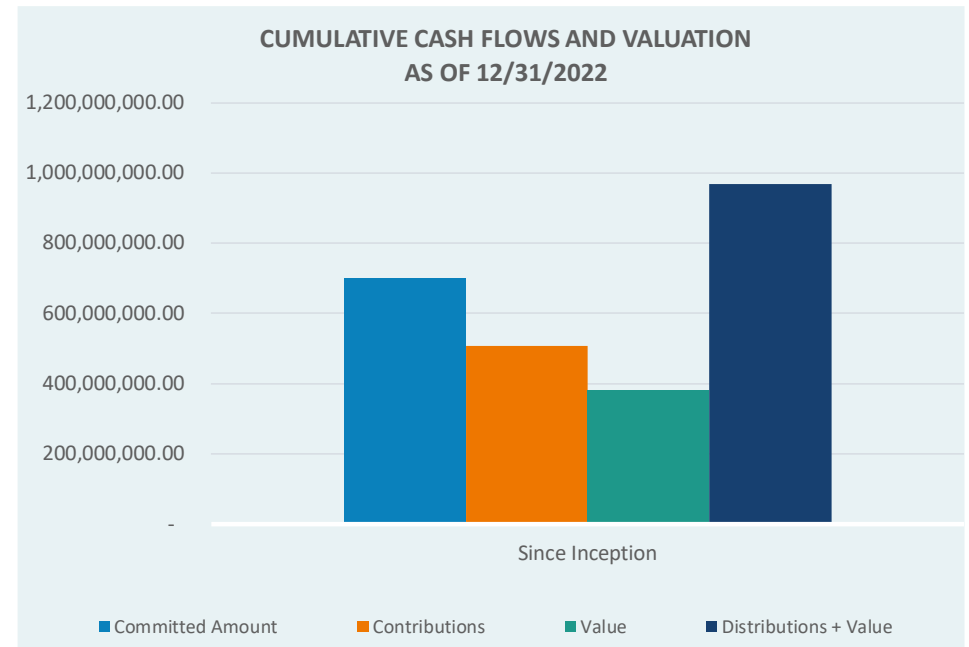
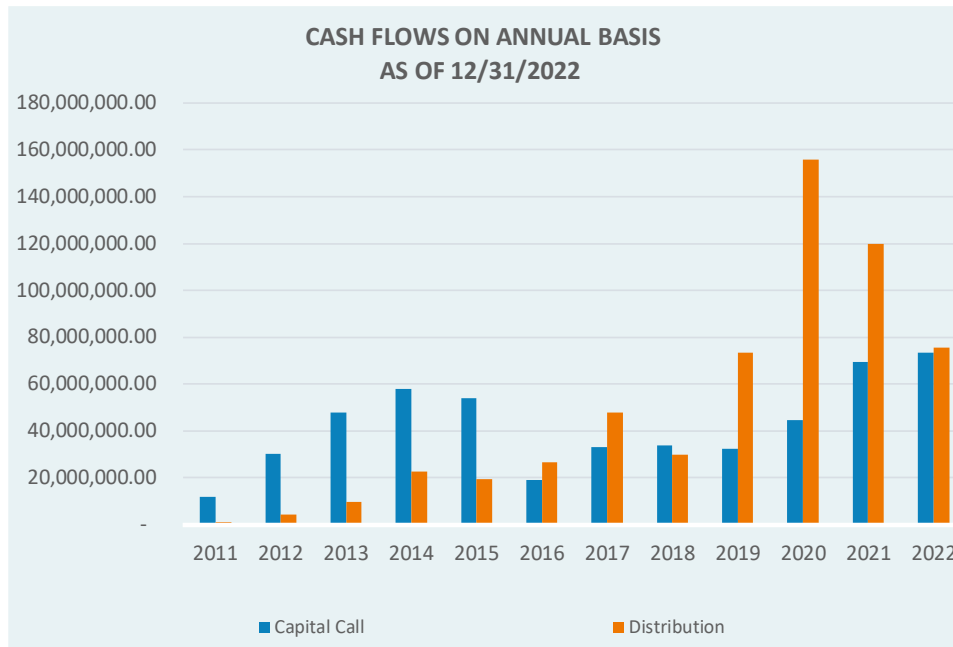
Performance

- The Private Equity portfolio’s performance, as measured by net IRR, is 19.7%, 725 bps above the same cash flow invested in Russell 3000 Total Return Index of 12.5%. Capital weighted average investment age of the portfolio is 5.2 years.
- The portfolio is currently valued at \$382.2M. Together with \$586.2M in realized distributions, the Total Value at \$968.4M is approximately \$461.0M above \$507.4M in total capital contributions, resulting in a total value multiple of 1.91x and a distribution multiple of 1.16x.
- Distributions (\$75.6M) surpassed contributions (\$73.4M) with a ratio of 1.0:1 in 2022 compared to 1.7:1 in 2021 and 3.5:1 in 2020.

— Attribution of returns:

- Buyouts up \$197.7M / 0.64x cost (Great Hill V, VI & VII, Sycamore and JLL VII leading), with 93.9% of called capital realized and distributed;
- Venture Capital up \$243.9M / 3.24x cost (Emergence Capital III & IV, General Catalyst VI, NEA 14, and Third Rock III leading), with 299.5% of called capital realized and distributed;
- Debt-related/Special Situations up \$19.4M / 0.16x cost (ABRY Advanced Securities II, ABRY Senior Equity V, and OHA Strategic Credit II leading), with 57.0% of called capital realized and distributed.

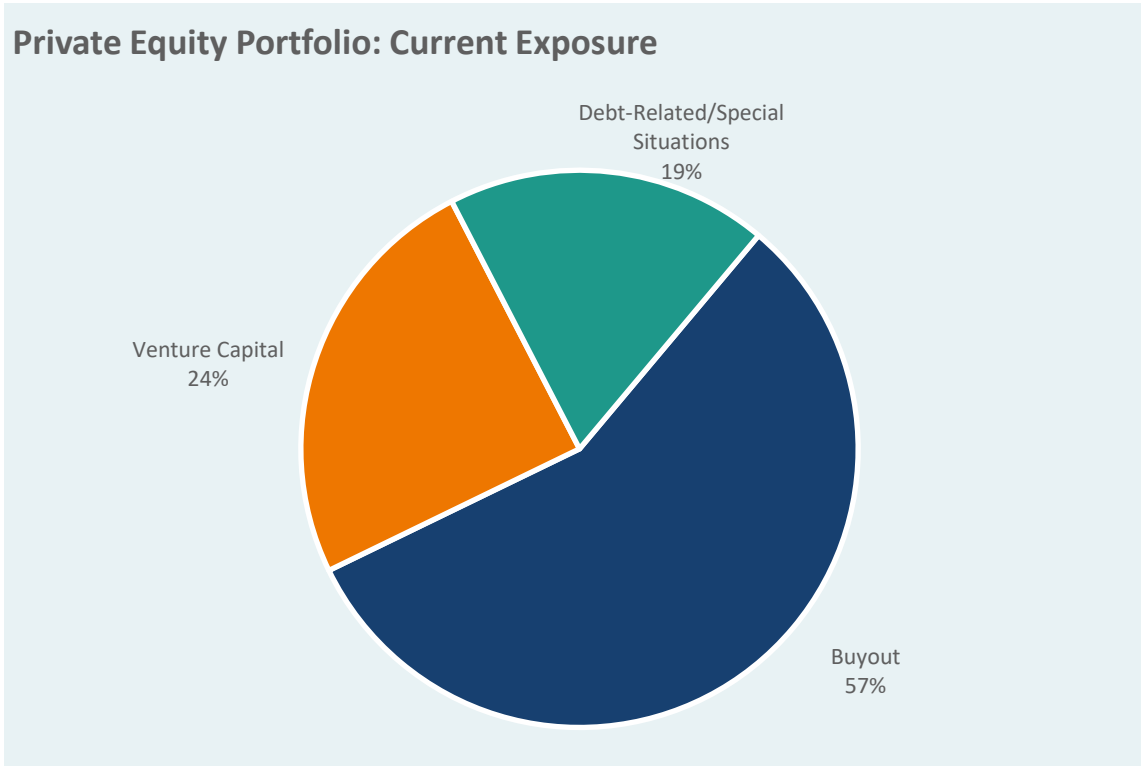
- Within Private Equity, the current allocation of market value exposure is 56.7% to Buyout, 24.6% to Venture Capital, and 18.7% to Debt-Related/Special Situations.



Portfolio Diversification By Strategy

Period Ending: December 31, 2022

Investment Type	Commitment	Reported Value	Current Exposure as % of Private Equity
Buyout	377,501,508	216,621,523	56.7%
Venture Capital	110,500,000	93,903,601	24.6%
Debt-Related/Special Situations	194,500,000	71,652,274	18.7%
Total Private Equity	682,501,508	382,177,398	100.0%



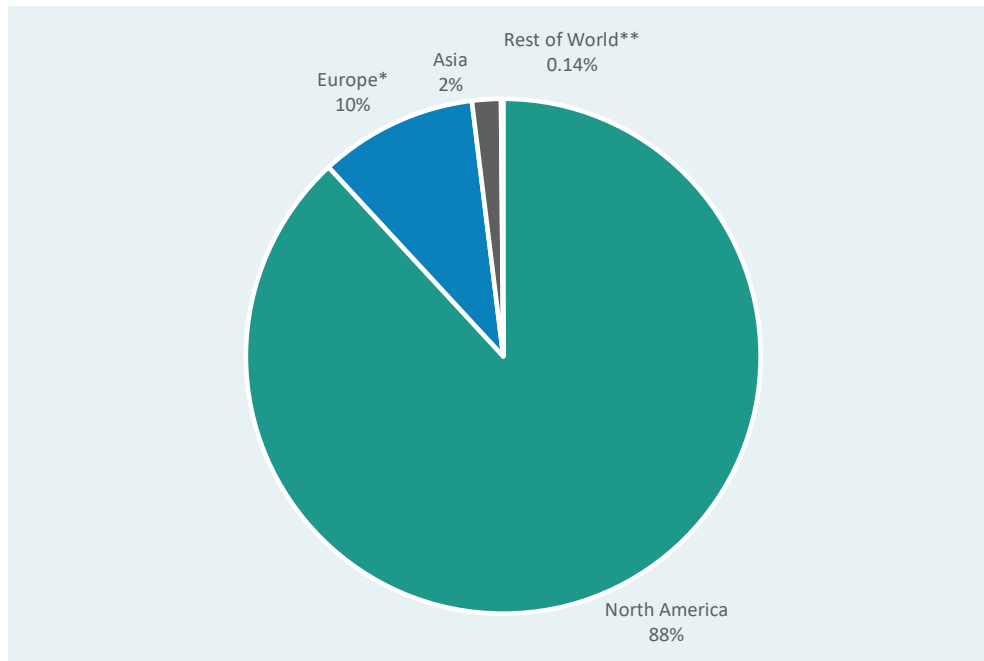
Portfolio Diversification By Geography

Period Ending: December 31, 2022

Geography	Current Exposure
North America	336,833,299
Europe*	37,899,039
Asia	6,921,614
Rest of World**	523,446
Total Private Equity	382,177,398

* Europe includes 100% market value from Cevian II.

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

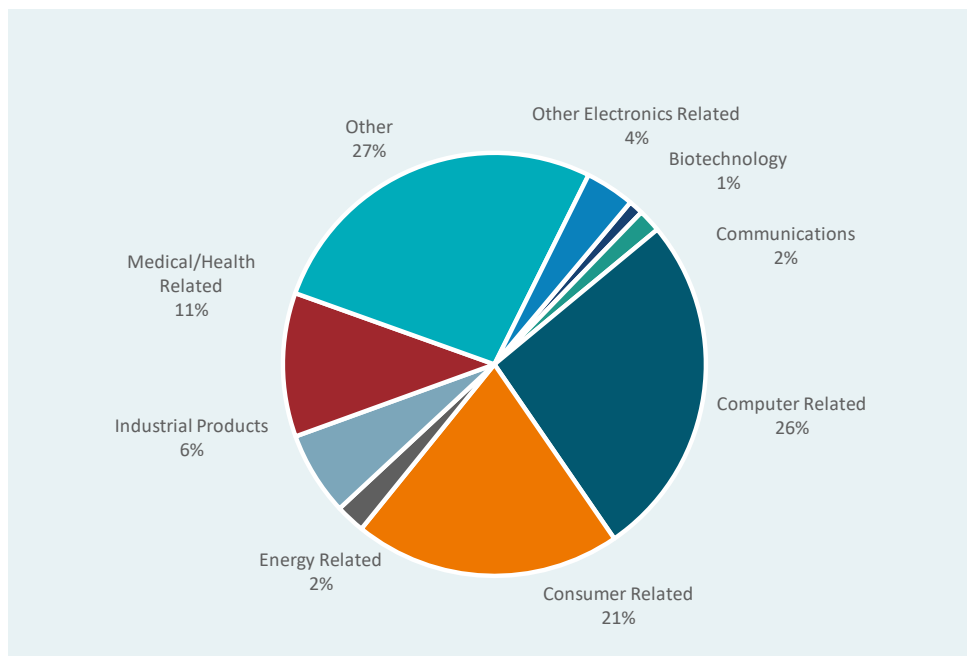


Based on the value of portfolio companies as of December 31, 2022, if provided by the partnerships. Differences between reported value and the total portfolio valuation is due to temporary cash funds, fees, other expenses, and holdings with undisclosed geography breakdown.

Portfolio Diversification By Industry

Period Ending: December 31, 2022

Industry	Current Exposure
Biotechnology	4,273,829
Communications	6,743,635
Computer Related	100,949,700
Consumer Related	78,027,464
Energy Related	8,583,182
Industrial Products	24,447,921
Medical/Health Related	42,036,829
Other	102,717,608
Other Electronics Related	14,397,230
Total Private Equity	382,177,398

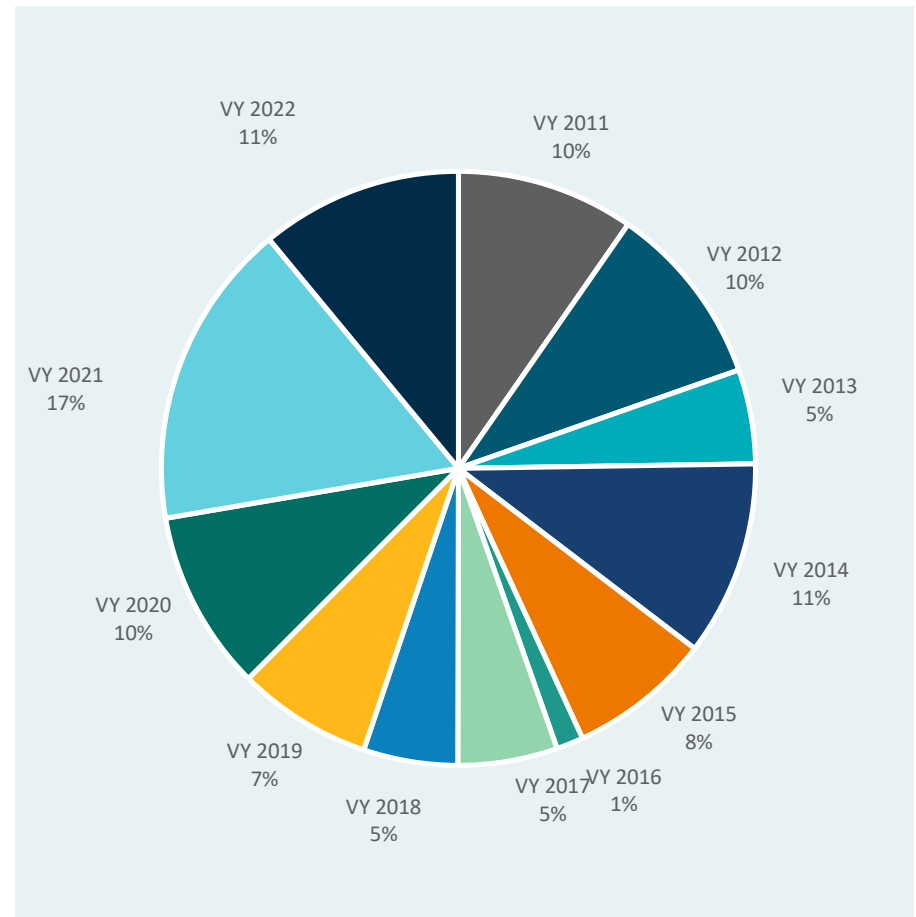


Based on the value of portfolio companies as of December 31, 2022, if provided by the partnerships. Differences between reported value and the total portfolio valuation is due to temporary cash funds, fees, other expenses, and holdings with undisclosed industry breakdown.

Portfolio Diversification By Vintage Year

Period Ending: December 31, 2022

Vintage Year	Commitment as of 12/31/2022	% of Portfolio Commitment	Reported Value as of 12/31/2022
2011	66,000,468	9.67%	18,270,154
2012	68,000,000	9.96%	66,626,241
2013	35,000,000	5.13%	19,309,291
2014	72,500,000	10.62%	45,083,418
2015	53,000,000	7.77%	25,114,321
2016	10,000,000	1.47%	0
2017	37,000,000	5.42%	46,029,453
2018	35,000,000	5.13%	32,923,356
2019	50,000,000	7.33%	39,552,305
2020	67,001,040	9.82%	46,923,877
2021	114,000,000	16.70%	37,118,215
2022	75,000,000	10.99%	5,226,767
Total Private Equity	682,501,508	100%	382,177,398



Material Exceptions to Policy Significant Events

Period Ending: December 31, 2022

- No material exceptions to Policy.