Triton Pacific
Securities, LLC

LOOKING TO DIVERSIFY?
CONSIDER ALTERNATIVE INVESTMENTS.

EXECUTIVE SUMMARY

Reliance on alternative investments has begun to dramatically increase in popularity, with predictions for explosive growth in the next decade. Alternative investments are a fancy term for everything which is not listed stocks, bonds, or cash. Due to the long-term nature, alternative investments are increasingly attracting assets away from public markets. The returns from alternative markets have proven out the benefits over public markets in addition to being less volatile.

Alternative investments experienced meteoric growth in the 2010s. Alternative investments grew by 170% in the past decade and 10% in 2019 alone.[1] Much of this growth bore out of ultra-low interest fed rates post the 2008 financial crisis. Today approximately 12% of the global investment market is in alternative investments.[2]

Outlook for the future of alternative investments remains strong. Prequin, forecasts as much as 18% to 24% of the global investment market will be in alternative markets.[3] Alternative investments tend to be profitable businesses which need a cash infusion to expand or take the business to the next level.

> "The worse economic fundamentals and forecasts become, the more mysterious stock-market outcomes in the US appear. At a time when genuine news suggests that equity prices should be tanking, not hitting record highs, explanations based on crowd psychology, the virality of ideas, and the dynamics of narrative epidemics can shed some light.[4]"
>
> \- Robert J. Shiller, 2013 Nobel laureate in economics

WHY ALTERNATIVES

Alternative markets traditionally behave independently of stock and bond investments. As we have seen over the past ten months of the pandemic, there have been wild swings in the stock market, yet alternative investments, which are typically long-term investments, mostly remained stable.

There are three leading reasons for investors to pursue alternative markets:

1. DIVERSIFY

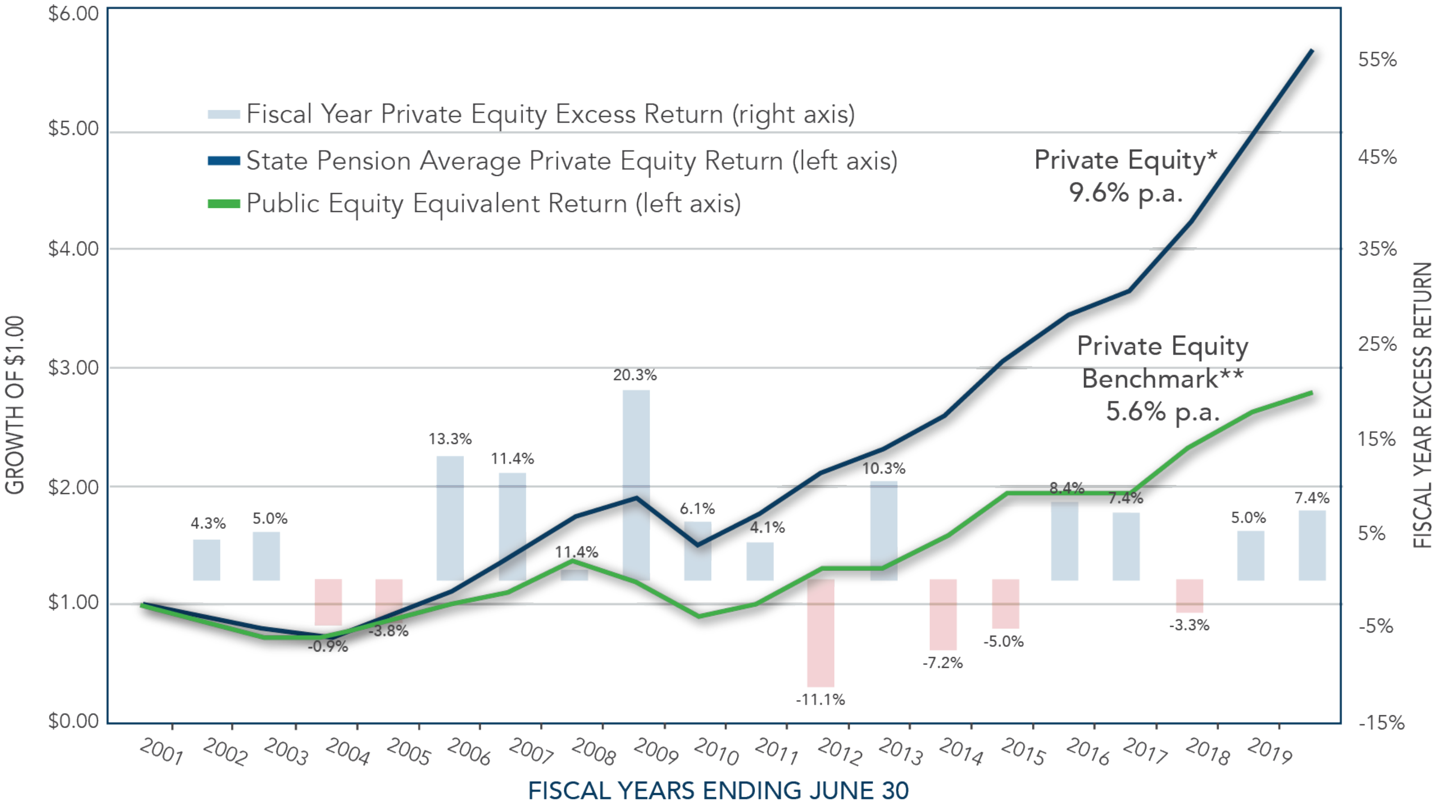
Basic investing 101. Alternative markets are attractive because it offers investors diversification with a well-documented, low correlation to traditional asset classes such as stocks and bonds. Diversification is not limited to risk. Many alternative market opportunities are private companies. Changing ownership to a Private Equity ("PE") owner may allow the company to focus on long term growth.

2. RETURNS

Alternative markets enable an investor a wide range of opportunities not available in the public market. Adding alternative markets to a portfolio provides a risk and return profile utilizing a broader set of strategies which may result in expanding the total return.

3. INCOME

Alternative markets may garner a higher yield than traditional investment vehicles. Due to the private nature of the alternative markets this assertion is less transparent than public markets. A Cliffwater LLC study of the returns of state pension performances determining private equity allocations resulted in a 9.6% annualized return over a 19-year period as opposed to a 5.6% public equity benchmark over the same period.[5]



* An equal-weighted average of all state funds who reported private equity returns in annual CAFRs for June 30 fiscal years 2001-2019

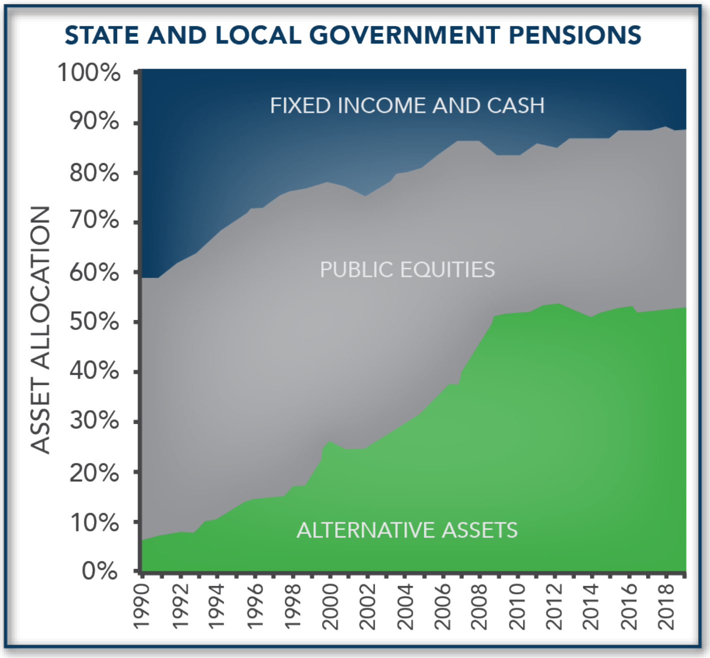
** A public equity benchmark weighted 70% to the Russell 3000 Index (6.1% annualized return) and 30% to the MSCI ACWI ex US Index (3.9% annualized return), with assigned weights

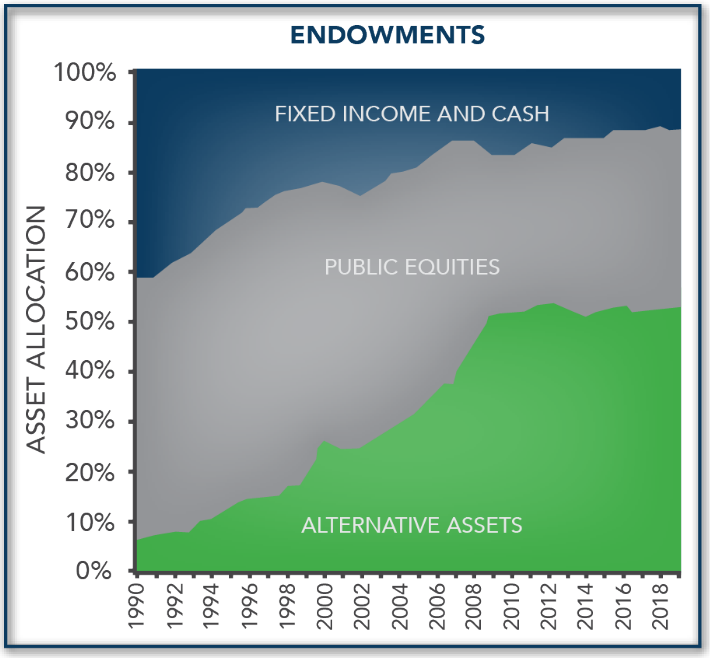
Source: Cliffwater, LLC: Stephan L. Nesbitt, "Long-Term Returns on Private Equity" March 5th, 2020.

ALTERNATIVES HISTORY

Entering the second year of this new decade, the global pandemic is still wreaking havoc on the global economy. The US GDP plunged by 33% in the second quarter of 2020 as the sharp sting of the pandemic hit. The United States ended the year with almost 7% unemployment.[6] Despite the ominous economic indicators, many alternative investments remain strong. To understand why, it is helpful to examine the recent history of the sector.

One of the key drivers of alternative investments is historically low interest rates. During the past twenty years, the federal interest rate has largely remained below 5%. During the majority of the last decade, interest rates were below 1%.[7] Thus, institutional investors could not rely on traditional investment vehicles to grow wealth.

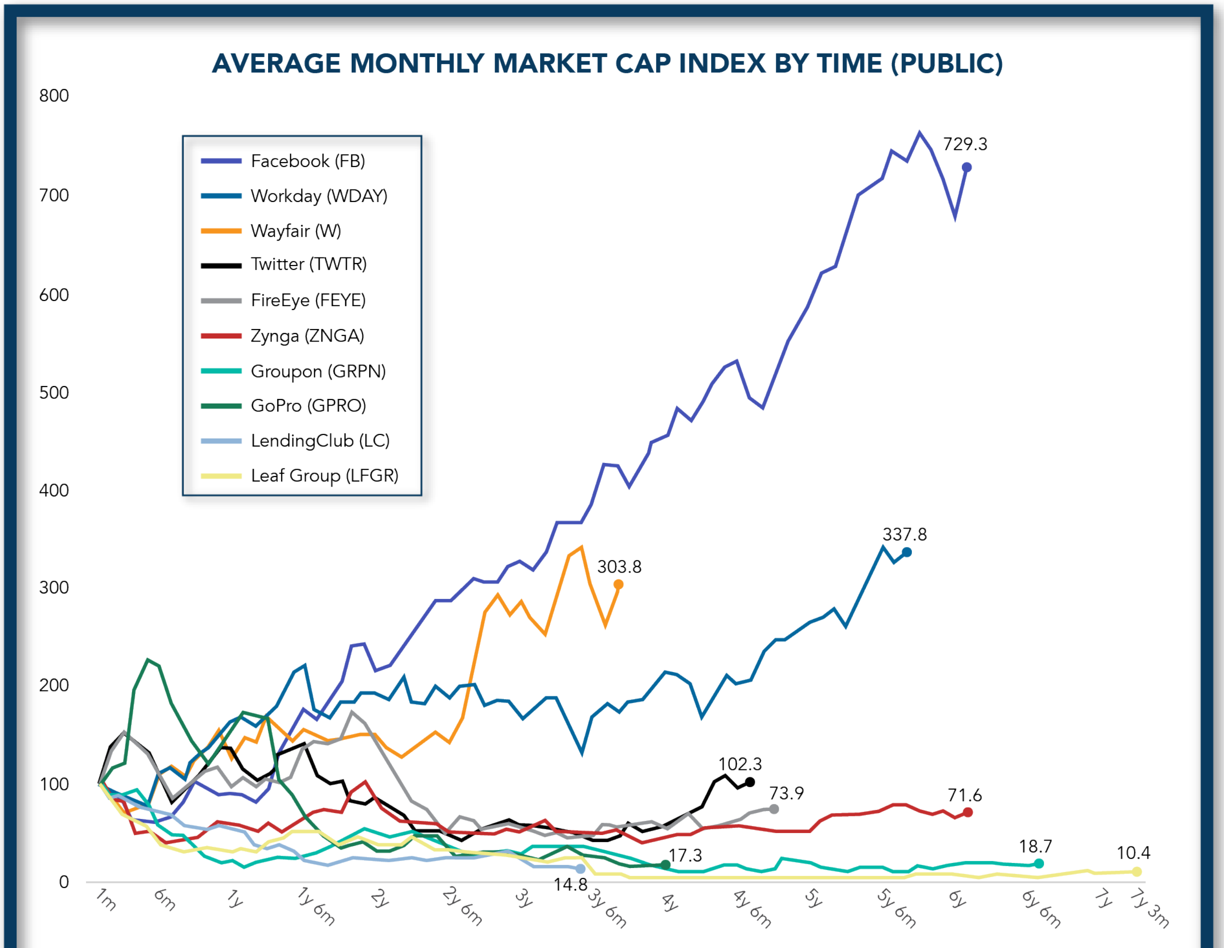




Source: Public Plans Database; Ronald J. Ryan and Frank J. Fabozzi, "The Pension Crisis Revealed," Journal of Investing, Fall 2003, 43-48; National Association of College and University Business Officers (NACUBO); and "Stephen G.Dimmock, Neng Wang, and Jinqiang, Yang, "The Endowment Model and Modern Portfolio Theory," Working Paper, April 23, 2018.

Pension fund managers have led the shift to alternative markets. In 2001, most pension funds were fully funded. As gains from stocks and bonds over the next fifteen years decreased, pension funds were only able to cover a little more than 70% of their liabilities. Pension fund managers were left with a choice, either reduce the commitment of the funds or explore alternative investments.

The shift towards alternative markets is evidenced by the sharp decline in public equities investments. Publicly traded stocks peaked in the late 1990s as the dot com boom exploded with 8,000 companies. Currently, there are around 3,640 companies trading on the NYSE and Nasdaq, while there are approximately 7,200 firms owned by private equity.[8] This shift demonstrates the growth in companies staying private due to the liquidity of the market.



Source: Pitchbook: Adley Bowden and Andy White "Private vs. public market investors: Who's reaping the gains from the rise of unicorns?" June 19, 2018

TRENDS IN PRIVATE EQUITY

While economic markets of the last two decades have been rocky, most investors in PE have been rewarded with the strong performance of their investments. In fact, according to a recent Preqin study, 86% of those PE investors intend to commit at least the same amount of capital to PE in the following year. The same study identified 87% of PE investors were happy with their investments while only 59% of hedge fund investors were satisfied.[9]

COVID-19 IMPACT

While the global pandemic created a shift in alternative markets investments, once investors recovered from the Q2 2020 shock of COVID-19 the back half of 2020 was deal heavy. By November 2020, alternative investments were up 5% from 2019.[10]

The recession caused by COVID-19 is quite different from the recession following the 2008 financial crisis. Like the 2008 financial crisis, some industries regained their footing quickly while others may likely take years to recover. Private equity manages tend to have an advantage as they can focus on long term value creation. Public companies management have a tendency to focus on quarterly earnings and the markets extreme reaction in a disruption like COVID-19 subjects public companies shareholders to poor outcomes such as predatory acquisitions by larger companies or 'go private' transactions by private equity firms at their depressed prices.

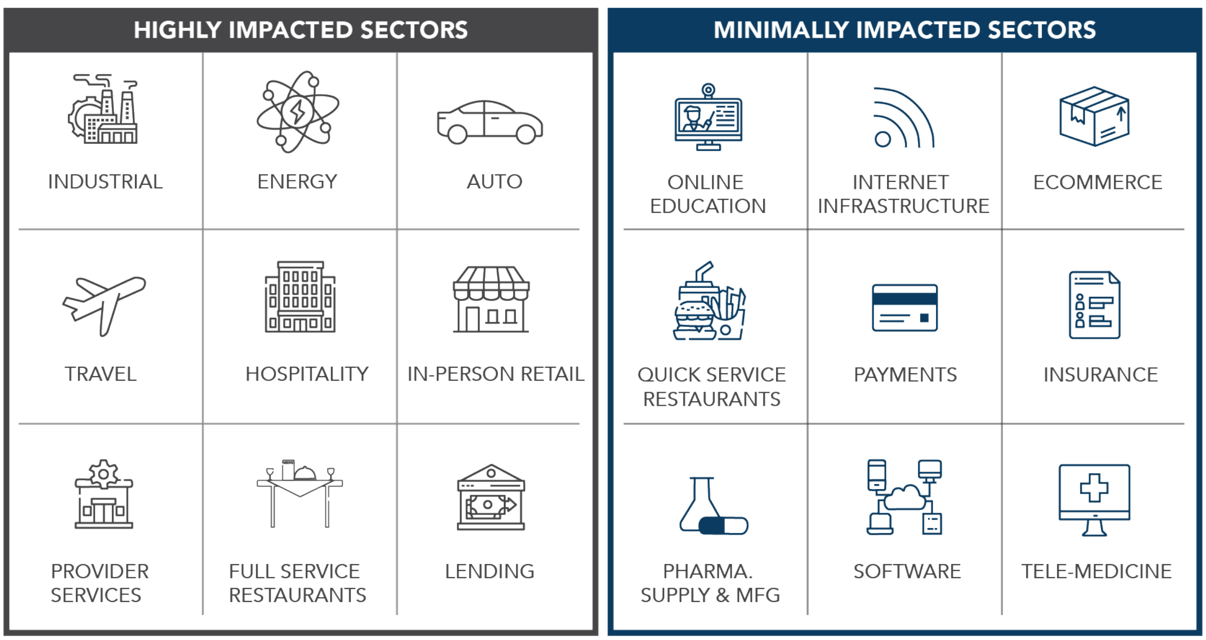
Furthermore, private equity can often capitalize on shocks to the market with the hundreds of billions of dollars available to investment through commitments from their investors. For existing portfolio companies, these shocks to the economy and the markets also create opportunities to acquire 'add-on' acquisitions from smaller businesses at very attractive pricing.

PRIVATE EQUITY SUCCESS

Relatively stability among PE portfolio companies may be attributed to the other ways in which PE firms have leveraged their assets to provide management guidance and industry connections. The successful PE portfolio companies strengthened their relationships with their PE backers, including drawing from their deep industry expertise.

PE firms are likely to be winners during the economic recovery. Differing from other financial vehicles such as hedge funds, mutual funds and ETFs, PE investors can patiently wait until the right time to deploy capital in the market while skillfully guiding portfolio companies through the crisis. Pitchbook empirically demonstrated this in a study which compared PE firms with vintage years from 2008 to 2011 enjoyed an IRR of 13% while PE firms from 2004 to 2007 only achieved an IRR of
9.2%.[11]

OPPORTUNITIES IN ALTERNATIVE INVESTMENTS



At this moment in the economy with the pandemic (hopefully) in the middle of the final surge, there are some clear winners and losers. Like many things in life which look one way on the surface, if you dig deeper you might find things are a bit different.

Restaurants have suffered some of the largest losses in the pandemic. Approximately 17% of restaurants in the US permanently closed in 2020.[12] Every community has been saddened by the permanent closure of longtime local favorites. While restaurants in aggregate have been battered by the impacts of the need to social distance during the pandemic, one sector of the restaurant industry has thrived.

Quick Service Restaurants ("QSRs") are historically a relatively stable sector of the restaurant market. After the initial March/April 2020 pantry hoarding phase of the pandemic ended, Americans returned to their preference for eating out. QSRs, which are already conducive to social distancing with rapid in-store consumption, take out and drive through options, were the first in the restaurant industry to resume somewhat normal business in April 2020 and continue to show the same consistency into 2021.

QSRs sustained value was supported when Inspire Brands purchased Dunkin' Brands for a 20% premium over the company closing price on October 23rd, 2020, the day it was announced. This represents a 30% premium over Dunkin's 30-day volume-weighted average share price. The price gives Dunkin' Brands a valuation of $11.3 billion. Despite the pandemic and the recession, Inspire Brands clearly believes there is substantial upside in the Dunkin' QSR model.

In Q4 2020 Moody's upgraded its outlook for the US restaurant industry. Moody expects profits to rise by about 15% in 2021.[13] Much of this optimism is likely due to the nimble innovations of the QSR sector. QSRs, unlike other dining options in a recession, have multiple methods to serve the customer. Unsurprisingly, QSRs saw a 25% increase in drive-thru restaurant visits in Q2 2020 from the prior year. This trend continued into Q3 2020. In July 2020 as more restaurants were reopened, drive-thru visits still increased 13% from the prior year. Those QSRs without a drive through option were more impacted by the pandemic.[14]

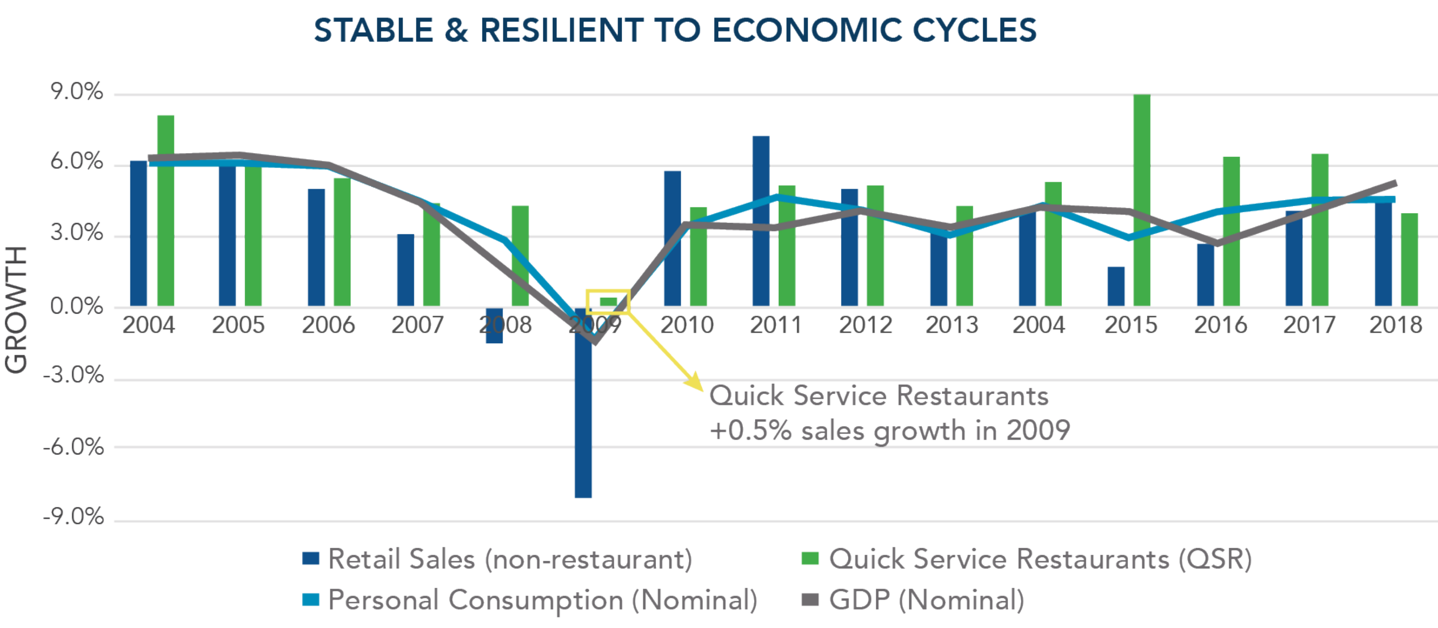
> "Drive-thru operations are delivering a high ROI during the pandemic, offering convenience, speed, and the comfort of social distance to consumers using them."
>
> - David Portalatin, NPD food industry advisor

In the current recession, QSRs moved fast to accommodate the sudden shift to social distancing and delivery demands. Unlike other industries, these changes will likely continue after the pandemic and result in stronger profitability. QSRs identified apps and customer loyalty programs as key initiatives. QSRs successfully poured resources into strengthening mobile ordering systems, predictive ordering, and touchless pickup.

Some QSRs saw an increase in first time customers. These customers tended to be more affluent and purchased higher dollar items on the menu. To accommodate, QSRs added higher dollar items on the menu such as family packs. The enhancement of the apps and digital ordering systems enable QSRs to offer customers a more customized menu.

A few QSR chains moved quickly to redesign their operations for a more social distance dining experience. Starbucks redesigned shops in urban cities for curbside, drive-thru and walk-up windows. Taco Bell introduced restaurant designs with almost 50% reduction in square footage as well as doubling of drive-thru lanes. Pizza Hut was the first pizza franchise to offer a curbside pickup option. Burger King launched two new restaurant designs with a 60% smaller footprint and "100% touchless experience." Additionally, Burger King's touchless designs encourage customers to download an app for touchless service, expanding the relationship.

Exhibit 1:
Quick-Service Restaurants Are Stable and Resilient to Economic Cycles



Source: US Census Bureau, BEA.gov, and Restaurant Research. For illustrative purposes only.

In addition to the nimble nature of QSR, they historically have fared much better than many other sectors including the rest of the restaurant industry. QSRs invested in touchless pickups, predictive ordering, and enhanced loyalty programs. Not only do QSRs fare better in a recession, but there also tends to be growth post-recession.

Most of us are eager to return to normalcy, where we can enjoy a meal at a restaurant again. Prior to the pandemic, 51% of food spending in the US was at restaurants. After a deep dip, the number has increased to 45% of food spending. Much of this spend is in the QSR segment. There is plenty of pent-up demand for restaurants. The recent survey by the National Restaurant Association concluded 71% of adults report they are not dining on-site as often as they would prefer.[15]

The National Restaurant Association reports 17% or over 110,000 restaurants have permanently closed due to the pandemic. Of these restaurant owners only 48% believe they will be able to return to the industry once the pandemic is over.[15] This leaves fewer options for consumers to choose when it is finally safe to return to eating out.

The logical conclusion is behind the curtain of the battered restaurant industry. The QSR segment has been able to weather this serious recession relatively well with greater potential for growth through this otherwise challenging economic cycle.

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