

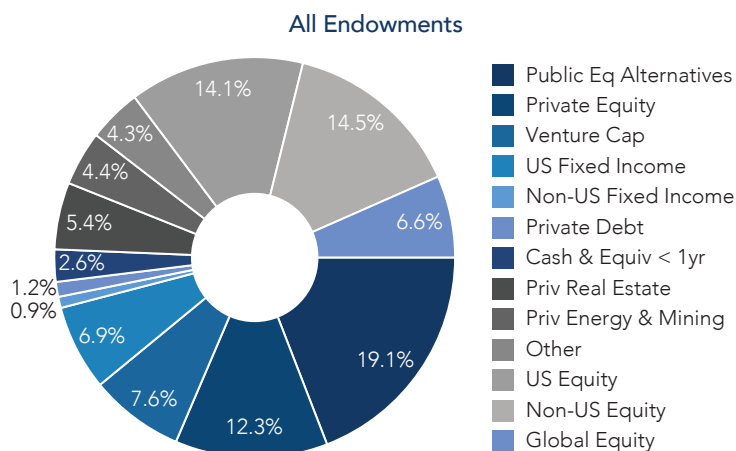
## MOVING BEYOND 60/40 WITH PRIVATE EQUITY: HOW QUICK SERVICE RESTAURANTS MAY BENEFIT YOUR ALTERNATIVE INVESTMENT PORTFOLIO

Traditionally, investors built their portfolios on the classic 60/40 model: 60 percent equities and 40 percent bonds. The stocks are meant to provide growth, while the bonds help to reduce the effects of volatility. This model started to fall out of favor after the dot-com boom of the 1990s however, and today many investors have migrated to the more modern endowment model.<sup>1</sup>

The endowment model is a style of investing inspired by David Swenson and the Yale University endowment portfolio. By primarily shifting funds to illiquid assets, such as private equity and real estate, Swenson has been able to grow Yale's endowment to \$31.2 billion.<sup>2</sup>

Today, many investors work to simulate this model by incorporating long-term investment strategies that focus on diversification and assets with limited liquidity that, in return for a certain level of risk, have the potential to provide higher performance and lower volatility.

Quick service restaurants ("QSR") have many of these traits which may make them an attractive addition to an endowment model portfolio.



AN EXAMPLE OF  
DIVERSIFICATION IN  
AN ENDOWMENT  
MODEL PORTFOLIO.<sup>3</sup>

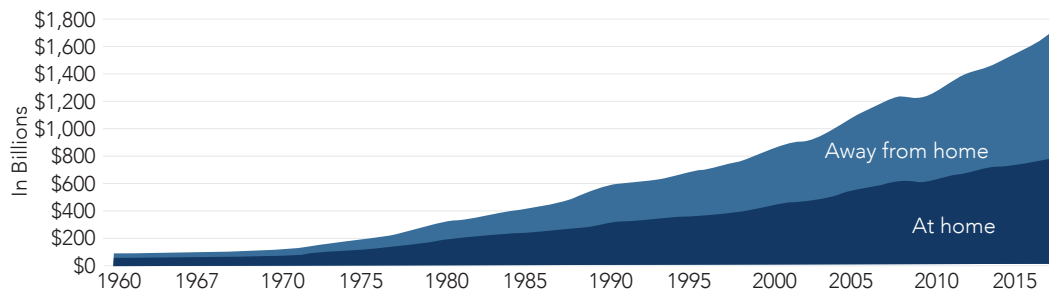
1. Stalter, Kate. "Time to Rethink the Classic 60/40 Portfolio?" Forbes. March 13, 2021. <https://www.forbes.com/sites/katestalter/2021/03/13/time-to-rethink-the-classic-6040-portfolio/>  
 2. "Investment Return of 6.8% Brings Yale Endowment Value to \$31.2 Billion." Yale News. September 24, 2020. <https://news.yale.edu/2020/09/24/investment-return-68-brings-yale-endowment-value-312-billion>  
 3. Warren, Randy. "Maximizing Your Portfolio Benefits Via Asset Allocation." Forbes. August 6, 2020. <https://www.forbes.com/sites/randywarren/2020/08/06/maximizing-your-portfolio-benefits-via-asset-allocation/>

## THE POTENTIAL BENEFITS OF QUICK SERVICE RESTAURANTS

QSRs, also known as “fast food,” typically provide fast service with a limited menu of low-cost food. They usually do not provide table service, but often have a drive-thru option available.

The most well-known characteristic of QSRs might be their ability to serve affordable food very quickly. Today, most consumers are busier than ever with technology keeping workers tethered to their jobs at all hours of the day, and many other extracurricular activities keeping individuals and families away from the home. One solution for time-pressed consumers has been to spend less time cooking and more time eating away from home. QSRs provide a great option for those looking to save time and money. Consumers are sensitive to the prices they pay for food, and with inflation growing at the fastest rate in 13 years, affordable food offered by QSRs is a distinct advantage.<sup>4</sup>

**Time-Pressed Consumers Are Increasingly Dining Out**  
Food-at-home and away-from-home expenditures in the United States, 1960-2018



Today, more people are eating away from home than ever before.<sup>5</sup>

Source: USDA, Economic Research Service, Food Expenditure Series.

QSRs have also been able to pivot during the COVID-19 pandemic and function efficiently with a smaller labor force, while many other industries have struggled to find workers. When the pandemic forced many businesses to close, QSRs were able to function through the use of drive-thru lanes and mobile orders. By adding additional drive-thru lanes and utilizing curbside pickup, QSRs were able to create a new model that captured sales and kept margins high.

Many QSRs have also been able to utilize technology to provide even more revenue opportunities. Several QSRs now offer delivery services, through the use of meal delivery apps such as DoorDash and Postmates. This allows consumers to eat fast food without leaving their house.

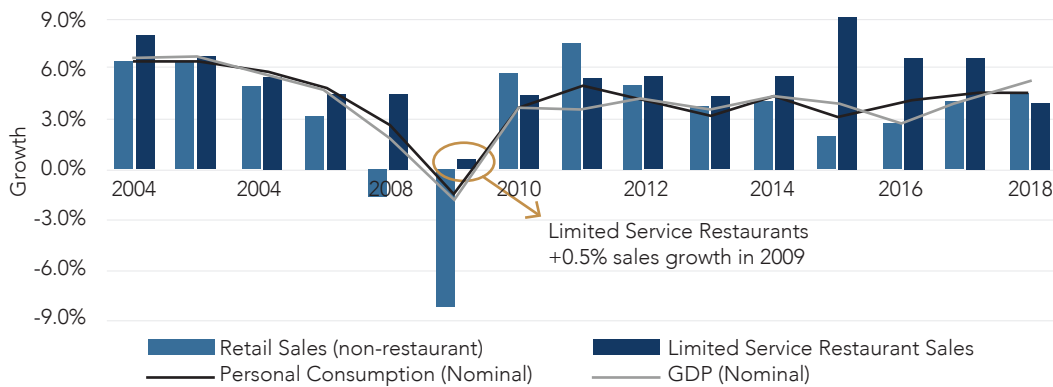
Finally, one of the most desirable characteristics of QSRs is that they are **e-commerce resistant**. Many brick-and-mortar retailers and large malls were struggling before the pandemic due to the rise in popularity of online retailers, like Amazon, and the pandemic only seems to have exacerbated the issue. In 2020, 12,000 major retailers closed stores, and another 80,000 stores are expected to close over the next five years.<sup>6</sup>

QSR foods, however, cannot be sold by prominent big box retailers or online stores, and this makes them potentially one of the best available investments. Business competition matters, and when your products or business model cannot be replaced by other stores, this provides a growth potential greater than other businesses with more competition and may be a bonus for attracting investors.

All of these aspects combine to make QSRs popular, even during economic downturns. During the global financial crisis, Quick Service Restaurants showed low correlation to the market and continued to exhibit sales growth, while much of the rest of the economy declined.

4. "Inflation Accelerated in September, with Consumer Prices Growing 5.4%." CBS News. October 13, 2021. <https://www.cbsnews.com/news/inflation-consumer-prices-september-cpi-5-4/>  
5. Fletcher, Dan. "Quick Service Restaurants Belong on Investment Menu." Family Wealth Report. January 29, 2020. <https://www.fwreport.com/article.php?id=186182#YYGsudbMKHG>  
6. "The 'Retail Apocalypse.'" The Week. August 7, 2021. <https://theweek.com/feature/briefing/1003385/the-retail-apocalypse>

### Limited-Service Restaurants Are Stable and Resilient to Economic Cycles



QSRs have a track record of growth, even during volatile market cycles.<sup>5</sup>

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

Similarly, the COVID-19 pandemic affected nearly every industry, but “actually benefitted a lot of quick service restaurants.”<sup>7</sup> Some QSR chains saw a same store sales increase of over 20% during the pandemic, and QSRs were the first restaurant segment to move into positive sales territory.<sup>7</sup>

## HOW QSRs MIGHT WORK IN AN ENDOWMENT MODEL PORTFOLIO

“Today, perhaps more than ever, investors are realizing the value of a diversified portfolio,” said Brian D. Buehler, president and CEO of Triton Pacific Securities, LLC. “When market volatility occurs, a diversified portfolio has an increased chance of seeing greater returns with the same or lower volatility in their portfolio due to the presence of low-correlated assets.”

QSR investments may fit well into the private equity bucket. As such, in addition to providing diversification, private equity also has a great exclusivity factor, as only certain investors may gain access and invest in private equity.

## CONCLUSION

QSRs are a durable and resilient investment that have the potential to provide returns in any economic environment. They’re also highly consumer driven and embraced across many demographics. They offer easy access to busy people at a low price, they have the ability to function very efficiently with a small labor force, and they cannot be replaced by online retailers. While not every American may be familiar with commodities or emerging markets, 84.8 million American adults consume fast food daily.<sup>8</sup>

7. Klein, Danny. “Why Coronavirus Will Spark a Fast-Food Takeover.” QSR. June 2020. <https://www.qsrmagazine.com/fast-food/why-coronavirus-will-spark-fast-food-takeover>  
 8. Howard, Jacqueline. “Here’s How Much Fast Food Americans are Eating.” CNN. October 3, 2018. <https://www.cnn.com/2018/10/03/health/fast-food-consumption-cdc-study/index.html>

While past performance is never predicative of future results, QSRs have historically performed well in volatile markets as a low-correlated asset. Despite market fluctuations, consumers often turn to fast food as a reliable food source. Today, with more investors questioning the performance of the traditional 60/40 model and seeking out more low-correlated investment options, QSRs may provide a return enhancement option for any diversified endowment model portfolio

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