

UNDERSTANDING PRIVATE MARKETS

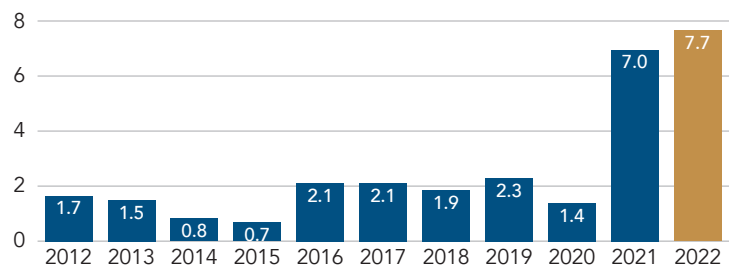
"It's important to recognize that when private equity firms do well, companies become better capitalized, more efficient and have the potential to become more profitable."

— BRIAN BUEHLER | PRESIDENT & CEO, TRITON PACIFIC SECURITIES

For much of the last couple of years, individual investors have endured great economic uncertainty. In June 2022, inflation increased to 9.1%, the largest annual increase in more than 40 years.¹

Even though inflation has cooled slightly since then – down to 7.7% as of October 2022 – it still remains higher than levels seen in years. In response, the Federal Reserve has raised interest rates by 75 basis points four times in a row to a target range of 3.75% to 4%. Geopolitical events, such as the war in Ukraine and COVID-19 variants, have left many individual investors searching for solutions.

U.S. Annual Inflation Rates²



For many individual investors, the path to these solutions often goes through the public markets. While the public markets are easily accessible, they may also have potential disadvantages. As stated, public markets are subject to market volatility, which leaves investors fully exposed to unforeseen events. This market volatility, combined with the idea that many public market investments often have a more short-term focus, may not provide investors with the greatest possible returns. Also, they may leave individual investors less diversified than they originally thought. There is another potential solution however – private market investing.

Private market investing can be an important complement to public market investments. Private markets may enhance returns, generate income, provide a hedge against inflation and provide true diversification. Additionally, with recent updates to the accredited investor definition, private markets may now be more accessible than any other time.

Private market investments may be an important complement to public market investments.

1. "U.S. Inflation Reached a new 40-Year High in June of 9.1%." Politico. July 13, 2022. <https://www.politico.com/news/2022/07/13/us-inflation-new-40-year-high-june-00045541#:~:text=Year%2Dover%2Dyear%20inflation%20hits,largest%20annual%20increase%20since%201981>.

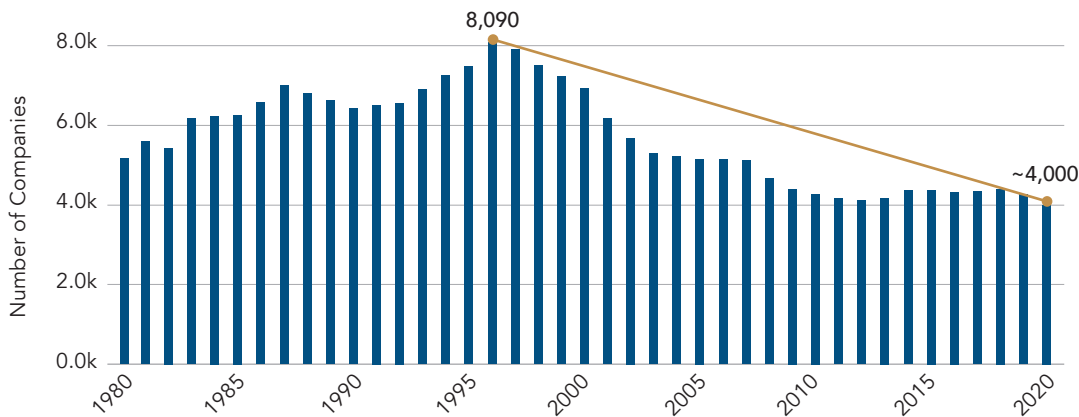
2. As of October 2022; U.S. Inflation Calculator. <https://www.usinflationcalculator.com/inflation/current-inflation-rates/#:~:text=The%20annual%20inflation%20rate%20for,ET>.

WHAT IS PRIVATE MARKET INVESTING?

Private market investing occurs when an individual makes an investment in the equity or debt of a company that is not listed on a stock exchange. This form of investing aids in increasing the value of the company and provides an opportunity for the investor to realize gains through a trade sale, buyout, recapitalization or IPO.

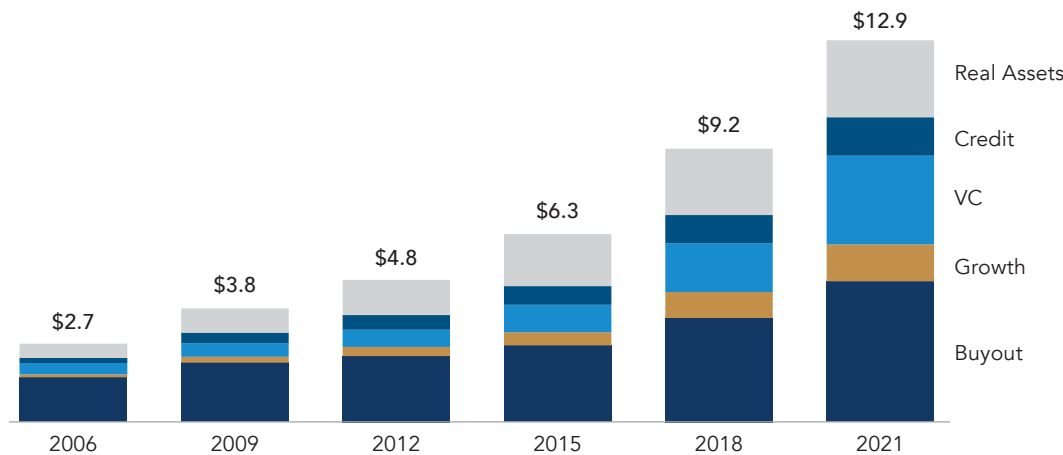
This type of investing may be especially important today as the size of the public markets continues to shrink. As of 2020, there were only about 4,000 companies listed on the U.S. stock exchanges, less than half of the 8,090 listed in 1996.³

Number of Companies Listed on U.S. Stock Exchanges³



With more companies staying private longer and banks shying away from potentially riskier investments, private market funds are growing rapidly. In the last six years alone, private capital has grown from \$6.3 trillion in 2015 to nearly \$13 trillion in 2021.⁴

Private Market Value: Total Net Asset Value & Dry Powder⁴
(US\$ Trillion)



As public markets shrink, private market funds are growing rapidly.

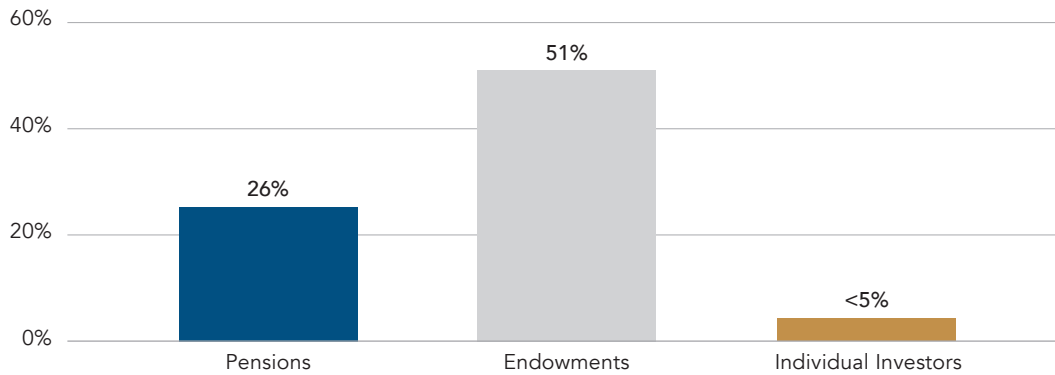
3. World Bank. The World Federation of Exchanges Database. <https://data.worldbank.org/indicator/CM.MKT.LDOM.NO?locations=US>; Gupta, Vartika, et. al. "Reports of Corporates' Demise Have Been Greatly Exaggerated." McKinsey & Company. October 21, 2021. <https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/reports-of-corporates-demise-have-been-greatly-exaggerated>; Data as of October 2021. Reflects most current available data as of November 2022.

4. Private Markets: Evolution and Opportunity. Savvy Investor. November 2022. https://www.savvyinvestor.net/sites/default/files/node/article/file/private_market_special_reports_savvy_investor_november_2022.pdf

While private markets continue to grow, it has been challenging for individual investors to gain access to them. Private market investing is only available to accredited investors, which traditionally has meant high-net-worth individuals. This lack of access may be why individual investors are so under exposed to private markets compared to institutional investors.

Until recently, individual investors could not access the private markets.

Alternative Allocation: Institutions vs. Individuals⁵



In 2020, however, the U.S. Securities and Exchange Commission (SEC), amended the accredited investor definition to include those with certain professional credentials and business entities, such as limited liability companies (LLCs) and family offices that meet the criteria. This means that, today, there are more accredited investors than perhaps ever before.

THE POSSIBLE ADVANTAGES OF PRIVATE MARKET INVESTING

Private markets encompass several different asset classes, including private equity, real estate, private credit and more. Depending on the chosen asset class, private markets may have the ability to help investors to achieve many of their common goals.



Enhance Returns



Hedge Against Inflation



Generate Income



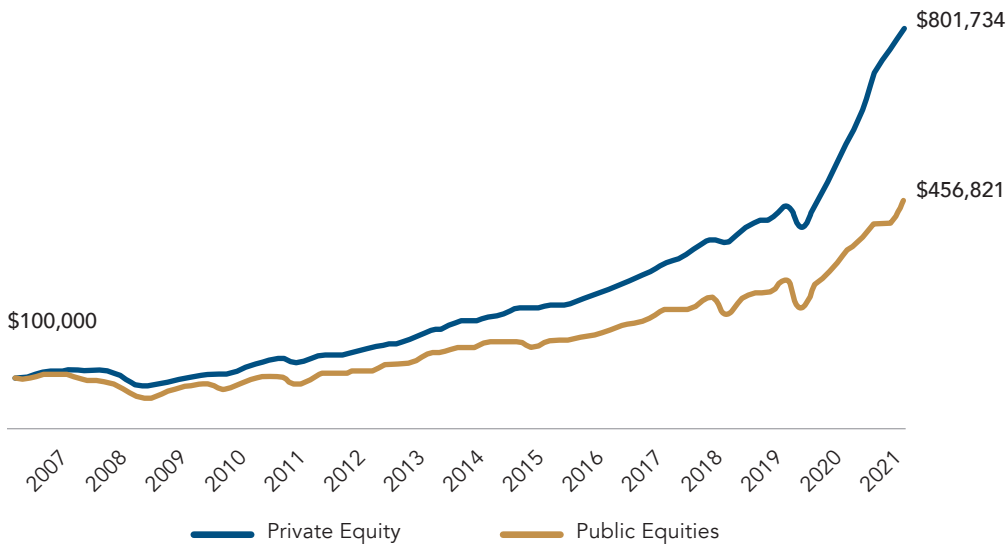
Increased Diversification

5. Willis Towers Watson. "Global Pension Assets Study." 2021. National Association of College and University Business Officers. "TIAA Study of Endowments." 2021. Cerrulli. "U.S. Intermediary Distribution 2020." 2020. For endowments, the alternative asset allocation is for the public college, university or system only and represented by allocations to other equities (includes marketable alternatives, private equity and venture capital) and real assets (includes TIPS, REITs, commodities/futures, publicly traded master limited partnerships (MLPs), public traded natural resource equities, private energy and mining and private agriculture and timber). Averages provided are dollar-weighted. For individuals, the alternative asset allocation includes "alternatives" (e.g., long/short, market neutral, currency) and "other" as defined as UITs, listed and unlisted closed-ended funds and private funds. Responses are weighted based on the average asset allocation of a moderate client.

Enhance Returns

Perhaps the greatest reason why many investors turn to private markets is the opportunity for enhanced returns or “alpha.” Private equity, for example, is often able to take advantage of market inefficiencies and earn greater returns. Private equity also may provide an illiquidity premium for investors. Historically, private markets have outperformed public markets due, in part, to a more long-term focus.

Historical Performance: Private vs. Public⁶



**Historically,
private
markets have
outperformed
public markets.**

Generate Income

Investing in private markets also has the ability to generate income through interest payments, dividends, realized capital gains and more. One asset class in the private markets that has been known to generate reliable income is real estate. Real estate is often able to generate income through long-term leases and fixed rent payments and has historically delivered higher yields than many other asset classes.⁷

6. Cambridge and Morningstar. 2021. Growth of \$100,000 is based on quarterly returns over the 15-year period from 1/1/2007-12/31/2021. Private equity is represented by the Cambridge U.S. Private Equity Index, composed of growth and buyout funds. The Cambridge Associates Index is not transparent and cannot be independently verified because Cambridge Associates does not identify the funds in the index. Because Cambridge Associates recalculates the index each time a new fund is added, the historical performance of the Cambridge Associates Index is not fixed and will differ over time from the data presented in the chart. Funds included in the Cambridge Associates U.S. Private Equity Index report their performance are voluntary, are unidentified and unaudited and therefore the index may reflect a bias towards funds with track records of success. The returns reflect a combination of fees including carried interest and data sets change and therefore cannot be replicated. Public equities is represented by the S&P 500 Index. The S&P 500 is the most widely cited single gauge of large-cap equities on U.S. stock exchanges. The index is market cap-weighted and includes only common stocks incorporated in the United States and its territories. The Index is adjusted for dividends, weighted towards stocks with large market capitalizations and represents approximately two-thirds of the total market value of all domestic common stocks. The index returns do not represent Fund performance. Direct investment in an index is not possible. Past performance is no guarantee of future results.

7. "The Fundamentals of Private Real Estate" [Video]. Blackstone University Online. June 30, 2019. <https://pws.blackstone.com/education-insights/blackstone-university/real-estate/>

Hedge Against Inflation

Additionally, investors may seek out private markets as a potential safe harbor during inflationary markets, as many assets under the private markets umbrella have the ability to act as a hedge against inflation.

With private equity, for example, managers often have the opportunity to actively manage their portfolio companies. Managers may have greater ability and flexibility to find solutions given their longer-term view, as compared to public companies which must report stable earnings each quarter. Other unique private equity assets may have additional potential benefits. Quick service restaurants, or “fast food” restaurants, have the potential to absorb the impact of inflation by raising prices or by utilizing technology to function with a smaller workforce.

Real estate also may be considered as an inflation hedge. Similar to quick service restaurants, real estate may be able to “ride-up” with inflation, as rents can increase more quickly due to the relatively short lease periods. Furthermore, real estate is a real tangible asset which has intrinsic value, and, according to a study by Parajuli and Chang, real assets “are positively correlated with inflation.”⁸

Many private market assets may function as an inflation hedge.

Increased Diversification

Many investors are not as diversified as they may believe. While it is possible to diversify in equities, for example, by investing in large or small cap stocks, these are still public companies which may behave similarly during certain market conditions. Private markets have the ability to serve the same role, while providing differentiated returns and serving as a complement to traditional investments.

Alternatives May Complement Traditional Investments⁹

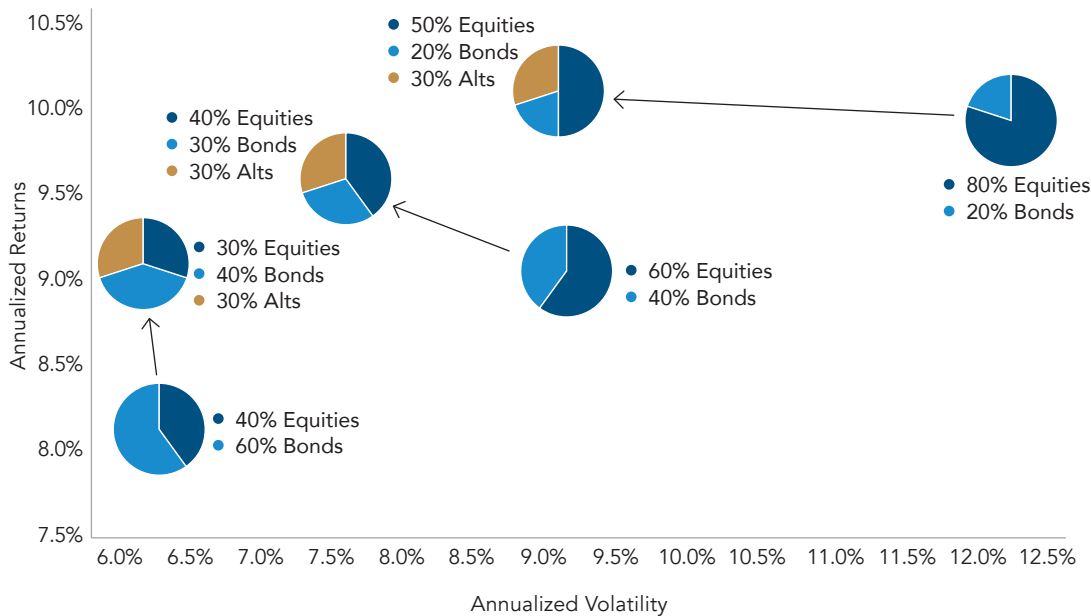


8. Parajuli, Rajan and Chang, Sun Joseph. Real Assets and Inflation: Which Real Assets Hedge Inflation? School of Natural Resources. Louisiana State University. 2015. <https://ageconsearch.umn.edu/record/205283/?ln=en>

9. For illustrative purposes only. There is no assurance that an allocation to alternatives would yield higher returns or protect capital. Diversification does not assure a profit nor does it protect against loss of principal.

With the diversification that private market investing may be able to provide, portfolios with an alternative allocation have demonstrated the ability to improve risk/return when compared to a more traditional 60/40 type of portfolio.

Alternative and Portfolio Risk/Return (1989-2021)¹⁰



HOW TO ACCESS PRIVATE MARKETS

As stated, until recently, private markets could only be accessed by high-net-worth individuals, denying many individual investors the potential alpha, income and diversification advantages that the private markets work to provide. Recently, however, certain changes such as the updated accredited investor definition, have made the private markets more accessible. Depending on the asset, private markets may be accessed in different ways.

Private equity, for example, is usually accessed via private, closed-end fund structures. Investors may also directly invest in unlisted companies or gain exposure through secondary markets.

Real estate can also be accessed in a variety of ways. Investors may purchase real estate directly or through a fund structure, in which capital is committed to a manager who then invests in different classes of real estate over time. Real estate may also be purchased through a real estate investment trust (REIT). In a REIT, investors own shares of the real estate and are then entitled to distributions generated by that real estate property.

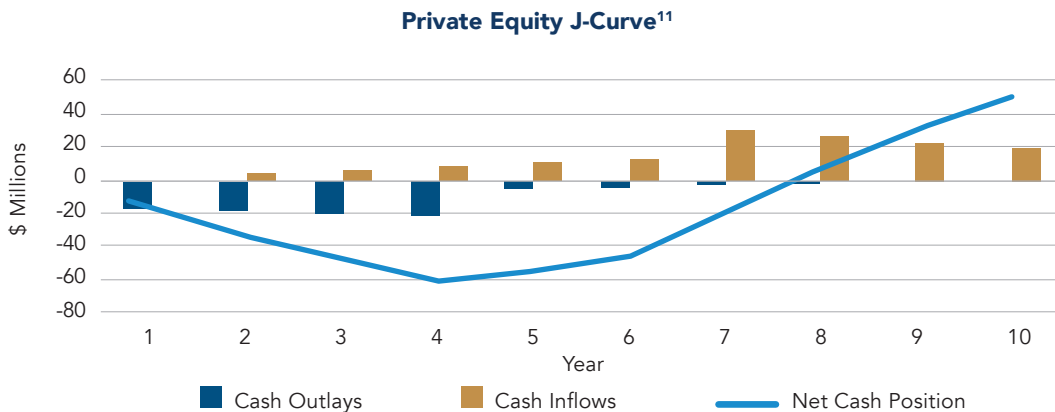
Today, private markets are more accessible than perhaps ever before.

10. Source: Bloomberg, Burgiss, HRFI, NCREIF, Standard & Poor's, FactSet, J.P. Morgan Asset Management. Alts include hedge funds, real estate and private equity, with each receiving an equal weight. Equities are based on the S&P 500 Total Return Index. Bonds are based on the Bloomberg U.S. Aggregate Total Return Index. The S&P 500 Total Return Index is an unmanaged free-float capitalization-weighted index that measures the performance of 500 large-cap common stocks actively traded in the United States. The Bloomberg U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. This includes Treasuries, government-related and corporate securities, mortgage-backed securities, asset-backed securities and collateralized mortgage-backed securities. Portfolios are rebalanced at the start of the year. Data is based on availability as of May 2022.

THE POSSIBLE RISKS OF PRIVATE MARKETS

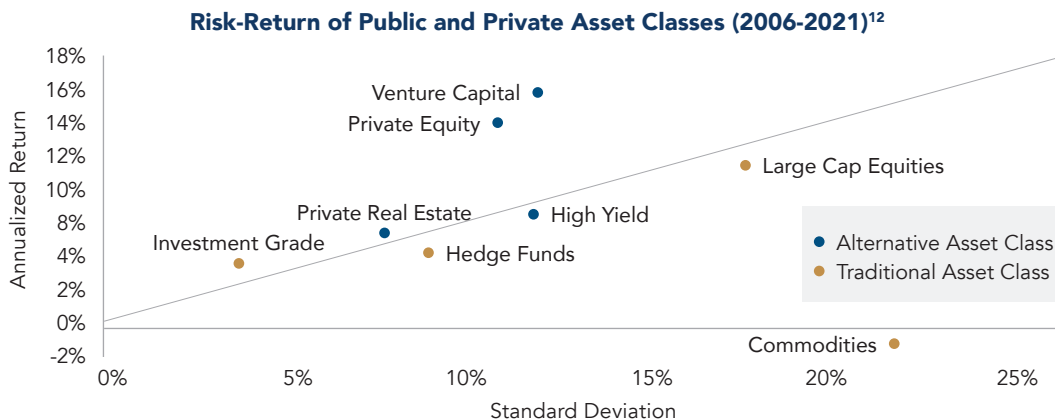
All investments carry risk, and private markets are no exception. In private markets, there may be little or no information available to investors regarding the companies in which they are investing. This is one reason why management can be so critical in private markets.

Additionally, private market investments are generally illiquid. While these investments do tend to provide an illiquidity premium, investors need to understand that they may be unable to access these funds quickly and that some investments take time to produce returns. This results in the "J-curve effect," in which it may take several years for an investor to realize a positive return. Also, unlike public markets, where stocks and mutual funds can be sold quite easily, it may be difficult to find someone to buy an investor out of a private market investment.



Private markets are generally illiquid and may provide an illiquidity premium over time.

While they may not be right for everyone, and past performance is never indicative of future results, private market investments have historically performed well and have the potential to enhance portfolio returns.



11. BBH Analysis. For illustrative purposes only.

12. Morningstar Direct for the 15-year period ending 6/30/2021. The returns and volatility of the asset classes presented are based on the following indices: for U.S. stocks, S&P 500 Index; for private equity: Cambridge Assoc. U.S. Private Equity; for venture capital: Cambridge Assoc. U.S. Venture Capital; for commodities: Dow Jones Commodity; for investment grade bonds: Bloomberg U.S. Aggregate; for private real estate: NCREIF ODCE; for high-yield bonds: Bloomberg High Yield Corporate. The S&P 500 is the most widely cited single gauge of large-cap equities on U.S. stock exchanges. The index is market cap-weighted and includes only common stocks incorporated in the United States and its territories. The index is adjusted for dividends, weighted towards stocks with large market capitalizations and represents approximately two-thirds of the total market value of all domestic common stocks. The Cambridge Associates LLC US Private Equity Index[®] is a horizon calculation based on data compiled from 1,468 US private equity funds (buyout, growth equity, private equity energy and subordinated capital funds), including fully liquidated partnerships, formed between 1986 and 2017. The Cambridge Associates LLC U.S. Venture Capital Index[®] is an end-to-end calculation based on data compiled from 1,569 U.S. venture capital funds (1,002 early stage, 175 late & expansion stage, 386 multi-stage and 6 venture debt funds), including fully liquidated partnerships, formed between 1981 and 2014. The Dow Jones Commodity Index is a broad measure of the commodity futures market that emphasizes diversification and liquidity through a simple, straightforward, equal-weighted approach. The 23 potential commodities eligible for inclusion currently are aluminum, cocoa, coffee, copper, corn, cotton, crude oil, gold, heating oil, lead, live cattle, lean hogs, natural gas, nickel, platinum, silver, soybeans, soybean oil, sugar, tin, unleaded gasoline, wheat, and zinc. The Bloomberg U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. This includes Treasuries, government-related and corporate securities, mortgage-backed securities, asset-backed securities and collateralized mortgage-backed securities. The NCREIF Fund Index - Open-End Diversified Core Equity (NFI-ODCE) is an index of investment returns reporting on both a historical and current basis the results of 36 open-end commingled funds pursuing a core investment strategy, some of which have performance histories dating back to the 1970s. The NFI-ODCE Index is capitalization-weighted and is reported gross of fees. Measurement is time-weighted. The Bloomberg U.S. Corporate High Yield Bond Index measures the USD-denominated, high-yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on the indices' EM country definition, are excluded. The US Corporate High Yield Index is a component of the US Universal and Global High Yield Indices. The index was created in 1986, with history backfilled to July 1, 1983. Past performance is not necessarily indicative of future results. There can be no assurance any alternative asset classes will achieve their objectives or avoid significant losses. These indices have been selected as generally well-known and widely recognized indices and not as a benchmark for any specific fund. Equity indices include reinvestment of dividends. It is not possible to invest directly in an index.

At Triton Pacific, we believe that private market investments offer a solution which may enhance returns, generate income, hedge against inflation and provide diversification with less volatility. Investors should, however, be comfortable with the illiquidity and the time it may take to generate a positive return. This is why we believe it is important for individuals interested in private markets to remain disciplined and work with top quality managers.

KEY TAKEAWAYS

1	Private market investing occurs when an individual makes an investment in the equity or debt of a company that is not listed on a stock exchange.
2	Private market investments may be an important complement to public market investments.
3	Historically, private markets have outperformed public markets, offering the opportunity for enhanced returns.
4	Private markets may have the ability to generate income through interest payments, dividends, realized capital gains and more.
5	Many assets under the private markets umbrella may have the ability to act as a hedge against inflation.
6	Portfolios with an alternative allocation have demonstrated the ability to improve risk/return when compared to a more traditional 60/40 portfolio.
7	With updates to the accredited investor definition, private markets are more accessible than perhaps ever before.

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