PPB | CAPITAL PARTNERS

The Bridge to Alternative Investments

REFLECTIONS

The Future of Serving Wealth Advisors

June 2020

Brendan W. Lake, Founder, President & CEO

Frank A. Burke, CFA, CAIA, Chief Investment Officer

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Spring 2020

Our world is in the midst of a global pandemic, bringing with it unprecedented economic devastation, unexpected societal changes, and leaving in its path a heartbreaking death toll and uncertainty of when normalcy will be restored. The current environment has wreaked havoc, while at the same time called upon many businesses, families, and individuals to reflect on their lives and livelihoods in ways many have not considered in a very long time, if ever.

As Founder of PPB Capital Partners, a platform of institutional quality alternative investments which both increases access for wealth advisors and allows fund managers to reach new sources of capital, I am embracing this moment — to reflect on our past, to evaluate our present, and to look forward with anticipation. PPB's Chief Investment Officer, Frank Burke and I are inspired by you, our wealth advisor community, to share these reflections. We offer you a glimpse into our vision, mission and values, our best practices, and our predictions for the private wealth industry in the aftermath of COVID-19. We are optimistic that the alternative investment industry is poised to grow in 2020 and beyond. We thank you for your support, your friendship, your ingenuity and your innovation. We are honored to work alongside you.

–Brendan W. Lake
Founder, President & CEO

Lessons Lead to Culture

In July 2008, from my condo on 3rd and Fitzwater Street in Philadelphia, PPB Capital Partners was created. I was tired of corporate America, its lack of empathy, meritoriousness, and quite frankly, its conflicts of interest. After years of listening to wealth advisors and their frustrations accessing and managing alternative investments, I was inspired to find a better way.

The summer of 2008 quickly transitioned to fall and the Great Financial Crisis that followed. The Madoff Ponzi scheme was exposed in December 2008 and it felt like Wall Street was cratering. Having just launched PPB, a not yet profitable business, I felt incredibly vulnerable. I was a first time entrepreneur with no control over operating costs. PPB's value proposition had not yet gained traction. Wealth advisors were reluctant to invest directly with alternative investment fund sponsors and were more comfortable with fund-of-funds, positioned to invest like an endowment. Yet, I was committed to my vision and knew that by focusing on the things I could control, PPB would persevere.

After feeling like I was making mistake after mistake through the financial crisis, we began to control every cost and wealth advisors began to believe we were staying for the long term. PPB proved its viability and wealth advisors began presenting ways we could help their clients. Within a few short years, we began to experience double digit growth and profitability, but we never lost sight of the financial and emotional pain experienced from 2008–2011. Today, I am proud to share that we not only survived, but are more committed than ever to making alternative investments more accessible by helping eliminate many of the operational challenges typically associated with private investments.

I offer you this background because it provides insight to the benefits of our conservative decision making and the conviction in our beliefs. With the above in mind, **PPB has never borrowed, has zero debt and is 100% owned by employees and strategic partners.** We are a lean organization, with deep wealth advisor relationships across the nation.

Our solvency and growth since PPB's July 2008 launch have given us time to build a rock solid culture. We have controlled costs, stayed conservative and have never forgotten the toll of the financial crisis. As we experience this world health crisis and with it market stress and uncertainty, we are confident that 2020 and beyond will reward this mindset.

Lessons Learned

Managing a Business During a Global Crisis: Be careful of ramping up too quickly. Watch every cost closely both in running your businesses and in the services you provide. Human connections exceed "tech"ish developments. While technology can be used to streamline and simplify processes, the value of personal customer service prevails.

White-Glove Service & Conversation

I have learned that money in the bank creates opportunity and flexibility to make positive decisions, but too much money may not. Growing up in blue-collar Delaware County, Pennsylvania, my goal was to always move slowly and allow others to help me walk before I ran. In 2007 and early 2008, multiple entrepreneurs in the financial services business advised me to grow PPB "one wealth advisor at a time." Much of PPB's success today is a direct result of the time spent, advice received and the support of these financial industry leaders.

Capital intensity is often high, unless you have a long-term vision. As we got out on the road and met with wealth advisors, I realized that the best way to serve them was to listen. Listen to their pain points and find solutions to help them. Be responsive. Provide them with white-glove customer service. Treat every wealth advisor like they are our most important partner. Wealth advisors were cautious of us growing too quickly and potentially making decisions that would compromise service and quality for growth of assets and clients.

However, one thing that has remained constant and continues to be our primary focus is our commitment to provide the highest level of service to our wealth advisory partners. PPB's service-centered model is the cornerstone of our culture, built on a foundation of trust, one conversation at a time.

Rather than pushing products, PPB's team is active and consistently involved in discussions with wealth advisors. Developing deep and personal relationships with wealth advisors all over the country is an authentic and organic component of PPB's DNA. Discussions evolve from foundational tales of entrepreneurship and the history of wealth management, to dialogues about today's topics in asset classes and strategies, to fund structuring, terms and investor suitability.

Some alternative investment platforms have chosen to make significant investments in technology to provide quick-fix, flashy, web-based tools. While we make use of technology in simplifying and streamlining processes, we believe that human connections matter and we have chosen to prioritize personalized support for the high net worth investors looking to access alternative investments through our platform. We believe the void that technology creates can only be filled with the core tenant of our mission — a white-glove service-centered model. So, while today's technology solves the need for precise, time-sensitive tasks and functional complexities, it will never replace the importance of providing personalized service.

Many have asked, "what does a white-glove business model mean?" If we are building a custom fund for a wealth advisor, we hold your hand in partnership from start to finish. For alternative fund sponsors looking to launch an "access" fund and be added to our curated platform, we expedite and manage the entire process, from fund structuring and registration, to launch and investment, to daily operational management. With a seasoned and experienced team and respected Board of Managers, PPB's deep roots in operations and alternative investments bring a depth of expertise and confidence in our ability to deliver solutions to the wealth advisors with whom we partner.

Lean, Cost Controlled & Transparent

Beyond our commitment to white-glove service, we strive to deliver investors with the investment results they are seeking. Often, that translates into a return that is as close as possible to the results that an institutional client achieves by investing directly with a manager. Fee consideration is paramount. Before we make any business decision that will incur an additional expense, we think first about the impact on wealth advisors and their clients. PPB runs a lean business model, which translates to better investment returns.

Accordingly, we provide full transparency into our structures and we share every detail with anyone considering partnering with us. There are no hidden fees or expenses buried deep in our fund documents. The result is a simple solution increasing investors’ access to alternative investment strategies in streamlined, transparent, and cost controlled structures.

Access funds can be expensive if too many costs are pushed into the structures and funds fail to achieve scale. Every fund expense impacts the IRR (internal rate of return) and MOIC (multiple on invested capital) and thus ultimately impacts investors' returns and their investment experience. PPB is highly cognizant of this fact and has made significant efforts to keep costs controlled within our funds.

These best practices can’t be merely a vision. Best practices must be experienced, learned, tested and tried. Operating private funds as cost efficiently as possible was a key lesson learned following the Great Financial Crisis of 2008. We believe and we have proven that true success comes forth when you blend vision with execution.

One Size Does NOT Fit All

Personality, culture, investment process, and client experiences vary from firm to firm. Add to that a variety of clients that wealth advisory firms serve, and you have a painted canvas of bright shapes in all sizes and colors, rich with diversity.

It is these differences and unique attributes that bring depth and ingenuity to the wealth advisor community. PPB strives to reflect that individuality and uniqueness, through listening, first and foremost. Through collaboration, we provide customized solutions that lead to deeper and more authentic relationships between PPB, wealth advisors, investors, and the integration partners that we engage in this intricate process.

Often, wealth advisory firms come to us with a strategy or fund identified but are seeking a solution to aggregate assets or simplify the asset allocation process. Working together, we build the most appropriate structures for firms and the necessary strategies for clients. PPB firmly believes that a "one size fits all" approach is not a best practice.

Learning from our extensive history of partnering with advisory firms, we understand wealth advisors are seeking strategies that suit their clients' diverse needs, and developing or structuring funds that are an ideal solution takes customization, communication and collaboration. Whether it's a niche, feeder strategy or a customized fund-of-funds, PPB embodies working together to make this vision a reality.

Stay the Course During Uncertain Markets

By Frank A. Burke, CFA, CAIA, Chief Investment Officer

Mitigating Volatility

The unpredictability of the public markets has been on full display since the outbreak of COVID-19 and the oil supply shock rattled the US markets. While we are still trying to process the economic ramifications and the damage done to the global economy, the US markets rallied strongly in early April despite overwhelming negative economic news and thought leaders such as Jamie Dimon warning investors of a "bad recession" ahead. In addition, it can be argued that much of the stock market's growth coming out of the Great Recession stemmed not from any significant fundamental business growth, but rather from an abundance of liquidity that resulted from record low interest rates and central bank support. As a result, excessive borrowing and corresponding share buy-backs supported much of the market's gains. With that in mind, wealth advisors are emphasizing to their clients the importance of staying disciplined and adhering to the investment policies they put in place when they were not driven by fear. Sticking to a well-developed investment plan will be crucial to navigating much of the uncertainty ahead.

Accordingly, in our experience wealth advisors that build well-thought-out asset allocation strategies for their clients are less concerned about immediate market volatility. The inclusion of alternative investment strategies is a key risk mitigating tool in their portfolios, as they can provide return streams that are relatively uncorrelated to the broader financial markets. Areas such as pharmaceutical or film royalties, litigation finance, and catastrophic risk residential reinsurance have diversification benefits with little to negative broader equity correlation.

PPB's reinsurance fund was one of the few strategies to post positive returns every month of the first quarter of 2020.[1] Of course, there were other alternative strategies with uncorrelated return streams that produced positive quarterly returns during the recent market dislocation. Some investors may have lost patience with these risk mitigating strategies when the markets were delivering the longest bull market on record that stemmed out of the Great Financial Crisis. Wealth advisors who recognized the role that alternatives play in risk management were rewarded when volatility finally returned.[2]

The Benefits of the Illiquidity Premium

The other aspect that alternative investments can provide is return enhancement through the illiquidity premium, a reward for locking up capital in private structures. The amount of this premium is not guaranteed and will always vary over time, but over full market cycles private investments have typically outperformed the public markets by 300 to 500 basis points.[3] Much of this outperformance can occur during periods of public market dislocation. While many investors crave liquidity as markets sell off, having illiquid positions can protect investors from behavioral finance biases that hurt them during times of market stress. As we saw in mid-March, even high-quality senior debt positions are subject to massive selloffs when they are the only source of liquidity in a portfolio.

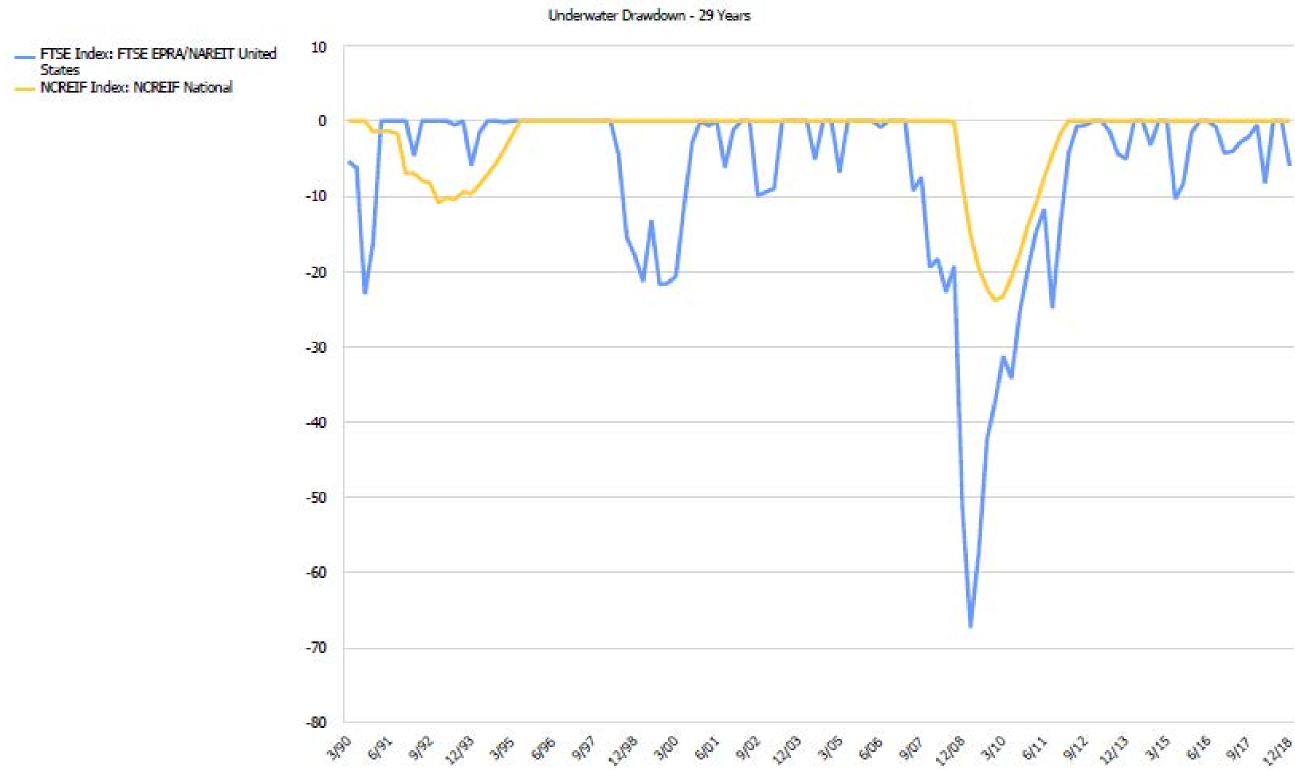
The addition of private investments in portfolios can have tangible benefits regarding the way their values are reported. The chart on the following page depicts the performance of public and private real estate in the form of the NAREIT and NCREIF indices during their drawdown periods. You can see historically that the private real estate index, the NCREIF, has lagged in the timing of its drawdown vs. the public REIT index. It also recovered its losses significantly quicker coming out of the Global Financial Crisis. In addition, public REITS also suffered significant drawdowns during the late 90's and post financial crisis period that never materialized in private real estate.

The extent of the drawdown for public REITS was also dramatic during the financial crisis with the NAREIT losing nearly 70% of its value. While still steep, the total drawdown for the NCREIF totaled less than 24%. After the dislocation in March 2020, it will be interesting to compare the NCREIF returns (when returns are released) with the NAREIT already drawing down over 40%. Illiquid private investments with similar underlying sector exposures to publicly traded securities can help mitigate drawdowns and provide more stability to client portfolios during times of market stress.

[1]Pillar Capital Management, JOIF Class D Fund as of 3/31/2020.

[2]**PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.**

[3]JP Morgan, Investment Insights, August 2016, https://am.jpmorgan.com/blobcontent/1383370279325/83456/II_PE_Potential%20Source%20for%20Enhanced%20Returns_r4.pdf



	VT	RM	Depth	Length	Recovery	Peak	Valley
FTSE Index	IX	IX	-67.40	8	15	3/2007	3/2009
NCREIF Index	IX	IX	-23.88	6	9	6/2008	12/2009

Results displayed in base currency. *Q1 1990 - Q4 2018

Source: eVestment Alliance, LLC and its affiliated entities (collectively, "eVestment" collect information directly from investment management firms and other sources believed to be reliable, however, eVestment does not guarantee or warrant the accuracy, timeliness, or completeness of the information provided and is not responsible for any errors or omissions. Performance results may be provided with additional disclosures available on eVestment's systems and other important considerations such as fees that may be applicable.

Forging Ahead

As we forge ahead to a "new normal," it is more important than ever to remember the lessons we have learned during other times of market stress and uncertainty. The world around us is changing quickly, but one thing remains true: flashy technology will never replace personalized service and relationships.

Just as wealth advisors have put in place well thought out financial plans for their clients to weather uncertain times, PPB has consistently made conservative, thoughtful, cost controlled business decisions allowing us to not only survive but thrive through all market environments.

We are committed to listening to you. We will continue to provide white-glove service as we work alongside you to create more alternative investment solutions, providing better access, at better prices so your clients can maximize their experience investing in alternatives and you can simplify, streamline and scale your business.

Thank you for your continued partnership and support.

Index Definitions

FTSE Index: FTSE EPRA/NAREIT United States — The FTSE EPRA Nareit US Dividend+ Index represents stocks that have a one-year forecast dividend yield of 2% or greater. The index is then weighted by market capitalization in line with the free-float adjusted EPRA Nareit United States Index.

NCREIF Index: NCREIF National — The NCREIF Property Index is a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. As such, all properties are held in a fiduciary environment.

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