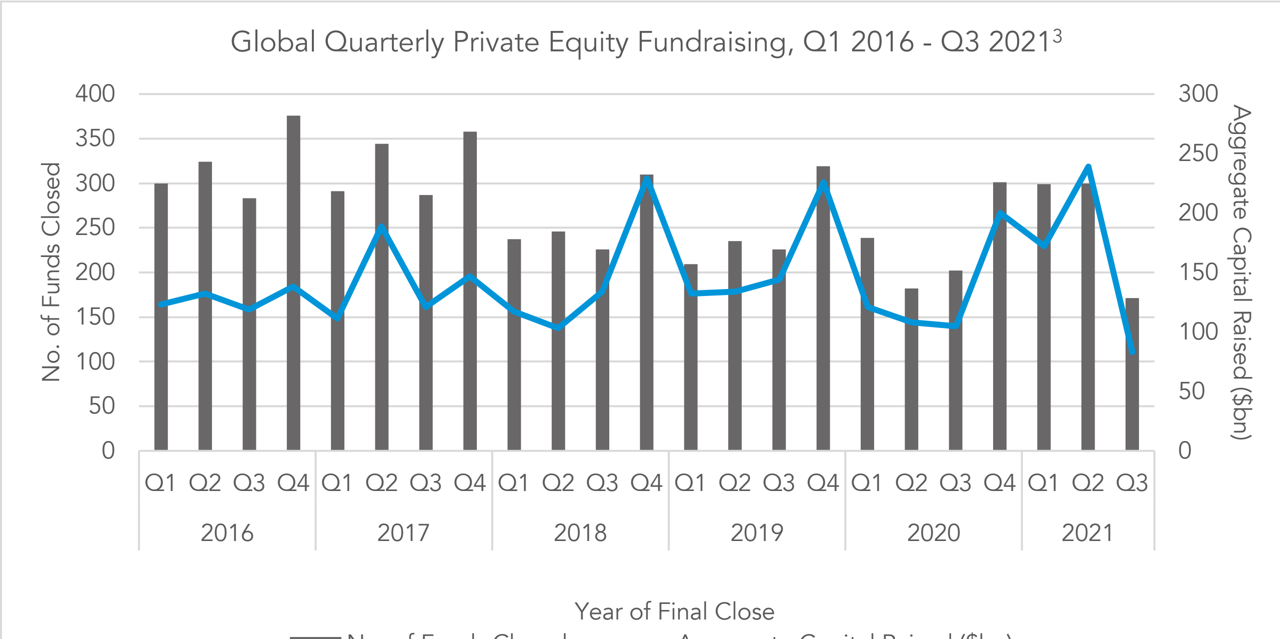

## Investors turn to Alternatives in this Inflationary Environment

**Conshohocken, PA, October 20, 2021** - As we move into Q3, markets have begun to experience volatility once again as the S&P 500 dropped nearly 5% in September[1] as investors prepared for expected rate increases from the Fed. Beyond the escalating fears of inflation becoming more than just transitory (CPI rose again to 5.4% for September[2]), China related risks have pressured the markets in the form of additional government intervention in the Chinese private sector and the Lehman-like real estate shock from Evergrande.

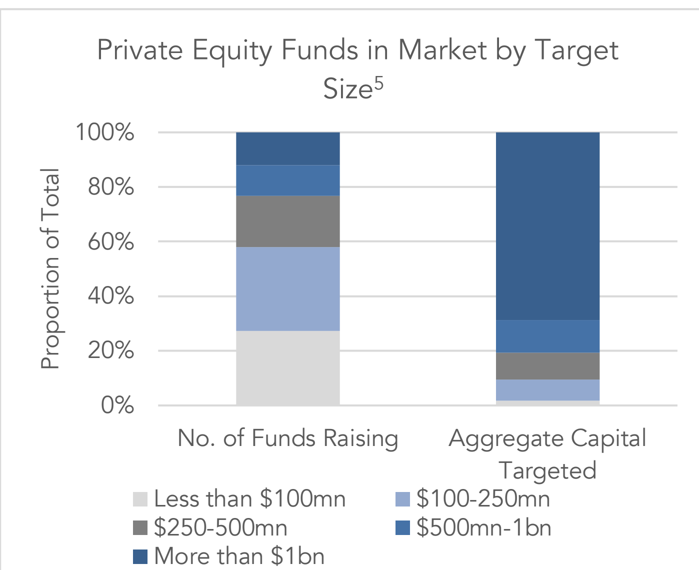
With volatility back in the markets, advisors continue to turn their attention to alternative investments in the search for uncorrelated return streams and less market beta. While rates are under pressure, there remains a significant disconnect between the market's pricing of bond yields and the underlying inflation data. Investors have been forced to take on more credit risk, but even high yield bonds are failing to produce positive real returns in this inflationary environment. As such, direct and asset backed lending strategies are providing one of the few areas to generate a positive real return for investors turning to the private markets for help.

Private equity ("PE") demand cooled, as the number of funds closed fell to a five year quarterly low after three consecutive quarters of robust demand following the lockdown. Valuation concerns coupled with inflation fears have impacted overall private equity demand.



*Source: Preqin Pro*

While the broader PE market is slowing, the demand for mega funds and venture capital remains as strong as ever. Funds that have strong track records and the ability to raise big funds are attracting the most capital. There are over 148 of these funds in the market today with target raises of at least $1B. However, while these funds represent only 12% of the total private equity funds in the market, they account for nearly 70% of the aggregate target capital raise.[4]



*Source: Preqin Pro. Data as of September 2021*

Venture capital also continues to thrive and hit new valuation targets. Stemming from many of the technological advances needed for virtual learning, work, and online retail during the pandemic, assets in venture capital continue to set new highs as have the median net IRRs achieved by venture funds. The question is how much of these unrealized values will venture capital funds be able to capture when rates finally start to rise again, and the exit environment changes. Since 2009, the unrealized value of venture capital assets under management has increased over 7x from $180B to over $1.3T.[6]

In this market where valuations in all risk assets are stretched, some of the larger firms have been drawn to situations like China, where competition has become less fierce for private deals, but where they can potentially wield influence. In addition, having true boots on the ground locally will position the larger global hedge funds to capitalize on any short-term volatility. As such, the demand for these mega funds and larger fund managers should remain high.

With inflation continuing to run higher than expected, volatility is likely to remain elevated as the Fed and other central banks become less accommodative. Compelling opportunities can arise as a result with a more fundamental market continuing to take root that is less dependent on less expensive capital from the low-rate environment. Hedge funds and the larger fund managers focused on private equity and venture capital will be best positioned to deploy capital in this environment.

For more information on PPB's alternative fund platform, please contact Frank Burke, CFA, CAIA, Chief Investment Officer, PPB Capital Partners, 484.278.4017 Ext. 108 or at fab@ppbadvisors.com.

### About PPB Capital Partners, LLC

Launched in 2008, PPB Capital Partners, LLC (or "PPB" or "the Firm") brings premier alternative investment solutions and streamlined processing to the wealth advisor community. PPB Capital Partners provides a roster of alternative investment managers, as well as builds and operates feeder funds and customized fund of funds for wealth advisory firms.

### Important Footnotes and Disclosures

1. *Source: https://www.usnews.com/news/business/articles/2021-09-30/asian-shares-mostly-gain-after-mixed-session-on-wall-street*
2. *Source: https://www.marketwatch.com/story/consumer-prices-rise-at-5-4-yearly-pace-in-september-and-stay-at-30-year-high-11634129045*
3. *Source: Preqin Pro.*
4. *Source: Preqin Pro.*
5. *Source: Preqin Pro. Data as of September 30, 2021*
6. *Source: Preqin Pro. Data as of March 31, 2021*



The statements included in this material may constitute "forward-looking statements" and are subject to a number of significant risks and uncertainties. Some of these forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "will", "should", "seeks", "approximately", "intends", "plans", "estimates", or "anticipates", or the negative thereof or other variations thereof or other variations thereon or comparable terminology. Due to these various risks and uncertainties, actual events or results of the actual performance of an investment may differ materially from those reflected or contemplated in such forward-looking statements and no assurances can be given with respect thereto. Hedge Funds are Private entities and are not required to file with Preqin. The data given in this document is composed of all data that has been filed with Preqin but is not composed of every Hedge Fund.

Certain securities offered through Registered Representative with Vigilant Distributors LLC (Member FINRA/SIPC), which is not affiliated with PPB Capital Partners or its affiliates.