PPB CAPITAL PARTNERS

Monthly Market Update

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Alternative Investments can Provide Solutions to Expected Volatility in 2022

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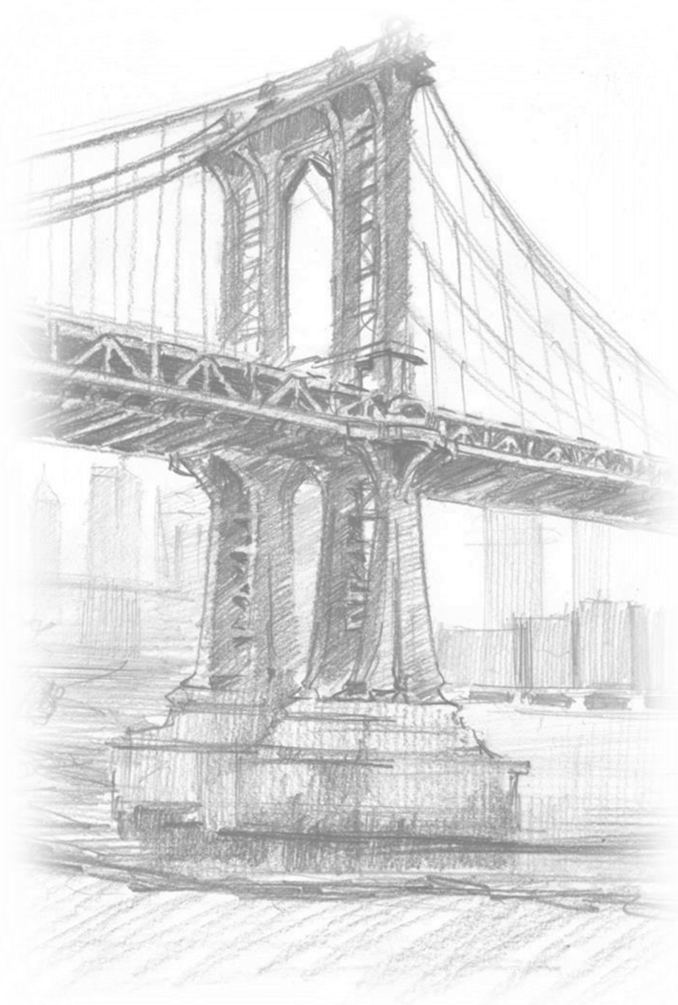


Interest rate spikes and spiraling inflation have dominated the recent headlines, which may trigger a dramatic response from the Federal Reserve in the coming months. Investors are preparing for more aggressive rate hikes to combat rising inflation pressures.

As first quarter numbers continue to report, they remain aware of inflation's potential impact on earnings. To date, corporate profits have held up, as many costs have continued to be pushed onto consumers.

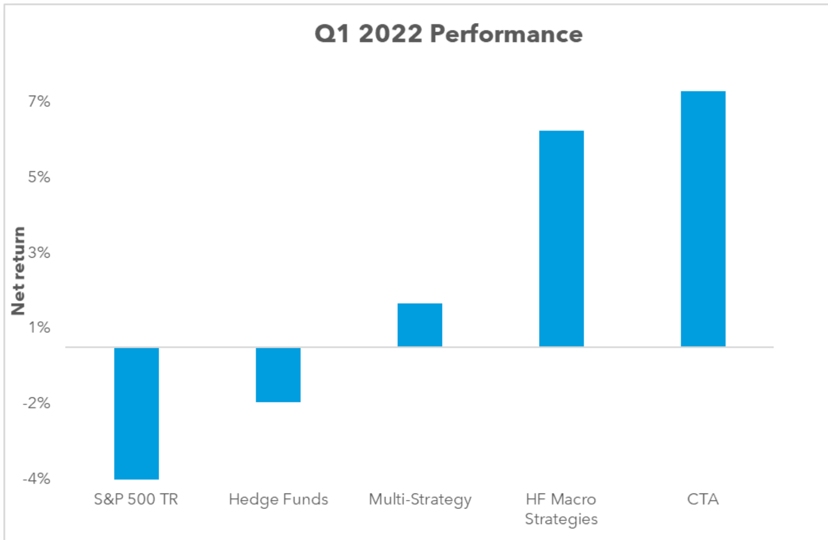
Given the pressure of increased inflation, the war in the Ukraine, and less accommodative central banks, the first quarter was difficult for many asset classes. However, low volatility hedge funds provided excellent diversification and actual positive returns in the multi-strategy, CTA and macro strategies—as indicated in Chart 1. The rapid rise of interest rates can provide a boost for market-neutral managers that use considerable shorting in portfolios.

Relative to private equity, the impact of a changing macro environment could be seen in first quarter aggregate fund-raising numbers across the industry. Investors turned to the private markets to mitigate some market noise, which spurred a demand for new offerings.

As Chart 2 illustrates, the post-pandemic surge in fund closings from the end of 2020 through to the end of 2021 clearly began to subside in the first quarter of 2022. At the same time, the rising interest rate environment likely pressured demand for buyout funds that rely on significant leverage to employ their strategies.

Despite the decreased number of fund closings, the amount of new fund launches and funds currently in the market remains high. Investor demand prompted many new funds into the market over the last 12 months, and strategies such as

CHART 1



Source: Preqin Pro

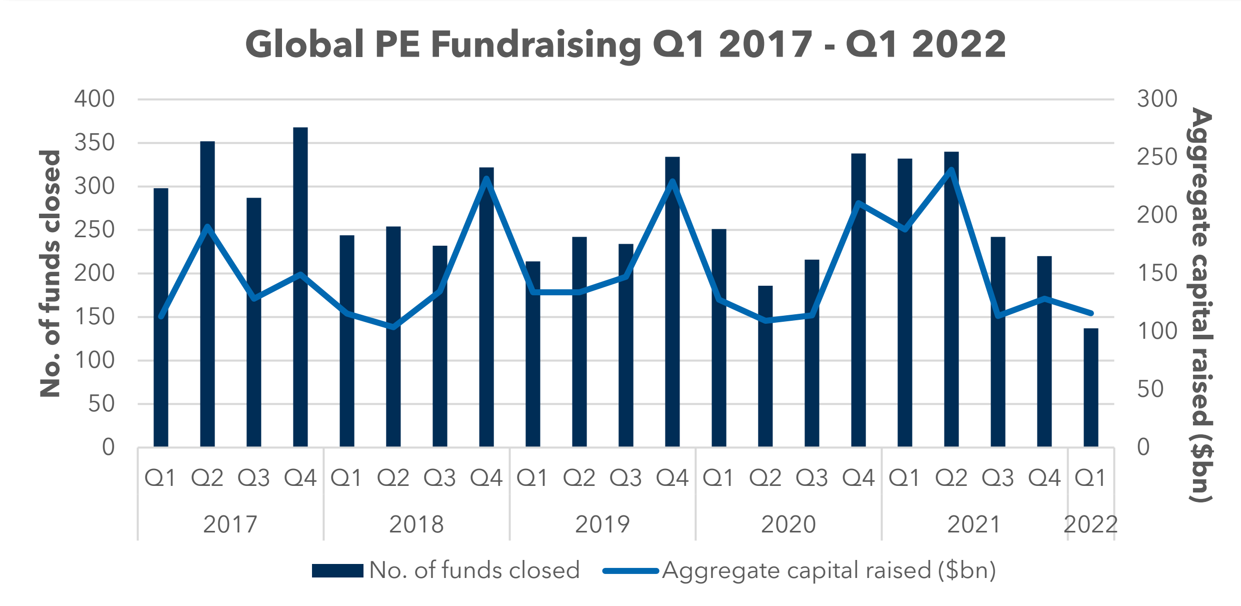
growth equity remain popular, even in this high inflationary environment. Given the continued demand, investors remain extremely bullish on the long-term trends that catapulted the valuations of these sectors in the public markets before the current correction.

This recent dislocation makes a compelling entry point. Private valuations have been forced to adjust, aligning more with their public counterparts, and the appetite for growth private equity should remain high.

The immediate exit environment has clearly dried up for companies that were not mature enough to come to market in 2021. That does not mean their window of opportunity has closed, however. Many of these businesses represent the next wave of innovation. And patient investors will profit.

The start of 2022 has been challenging for investors. Commodities have understandably performed well. We are

CHART 2



Source: Preqin Pro

beginning to see a more robust appetite for hedged approaches to combat volatility, and the demand for private equity—especially growth equity—remains. Geopolitical unrest and rapid rate increases from central banks aimed at combatting ongoing inflationary pressures point to longer periods of volatility. These factors reinforce the notion of staying properly diversified with a sizable allocation to alternative investments is a viable strategy to help investors navigate what may be a difficult remainder of 2022.

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