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PRIVATE CAPITAL MARKETS - ELEVATED

The Private Capital Paradigm
Dawn of a New Age: Alternatives for the Masses

Q2 2021

INTRODUCTION

This report should be read by anyone responsible for expanding business with firms that support UHNW, HNW & Mass Affluent clients and improving the bottom-line in Wealth Management, Registered Investment Advisor, Private and Trust Bank organizations.

There are several compelling reasons why investors are considering alternative investments. While the century is young, the stock market has already had three severe market declines creating considerable uncertainty, and the feeling that traditional investment options alone may not suffice.

As our research shows, an ever increasing number of UHNW, HNW and now Mass Affluent Investors are seeking alternative investments to find yield, higher returns, or as a haven against market volatility, or any combination of the above.

The bottom line is ALTSMARK believes alternatives represent the next big piece of the allocation puzzle for investors and advisors. In our view, private capital markets, will no longer be the exclusive dominion of large institutional buyers, but will include investors across the entire wealth spectrum.

OUTLOOK

PRIVATE CAPITAL MARKET INVESTING BY UHNW, HNW & MASS AFFLUENT WILL OVERTAKE PUBLIC MARKETS WITHIN 5 YRS. It is already fastest growing segment of UHNW and HNW advisory, and with barriers being removed in the US and Europe the mass affluent segment is next.

Global HNW/UHNW wealth has reached $71 trillion

$30.5 trillion(46%) deployed in private capital with an increasing array of investment options growing by 8% CAGR*

2 Million HNW/UHNW and 18 million mass affluent clamoring for Expanded Private Capital Solutions expanded private capital solutions

Tectonic shifts in regulatory regimes in the USA and around the world

Ever increasing competition for clients behind an explosion of wealth advisors.

A technology and operations puzzle that needs solving, NOW!

**Morgan Stanley/OliverWyman US Markets Report Q3 2020*

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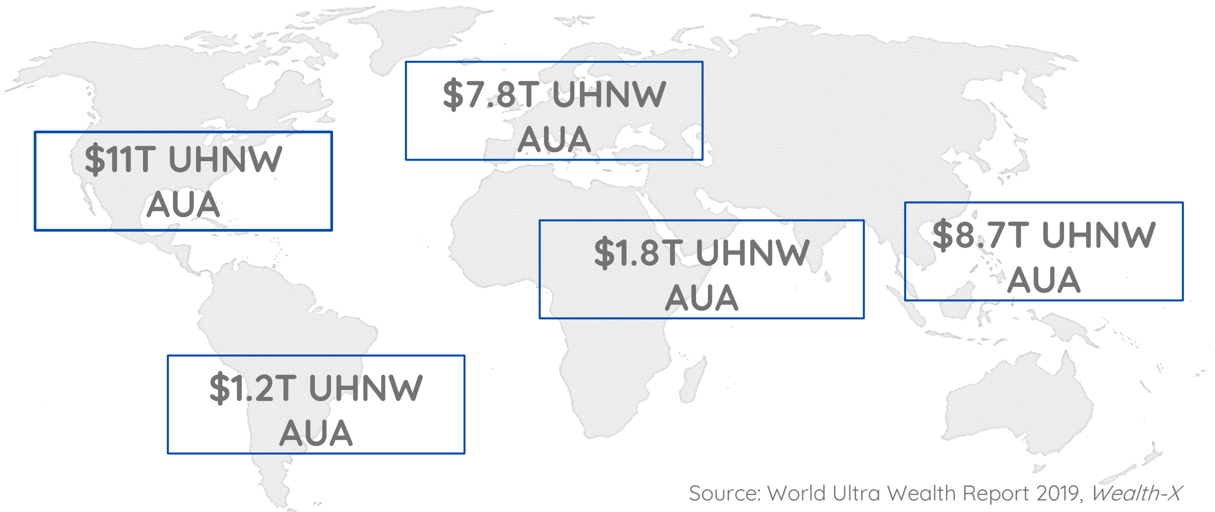
EXPANDING PRIVATE MARKETS

Assets under management (AUM) attributable to private market investments ("Private Market AUM") have grown thirty fold since 2000 to $30.5 trillion today. **Alts are not alternative anymore, but rather private capital is now a mandatory piece of the asset allocation pie.**

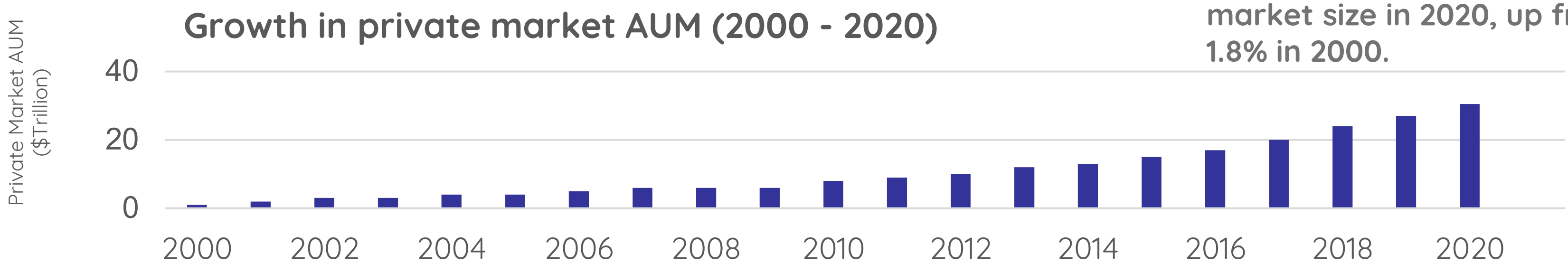


Source: World Ultra Wealth Report 2019, *Wealth-X*

Global HNW/UHNW wealth has reached $30.5 trillion in private assets –

Private capital market AUM made up 39% of public market size in 2020, up from 1.8% in 2000.

Growth in private market AUM (2000 - 2020)



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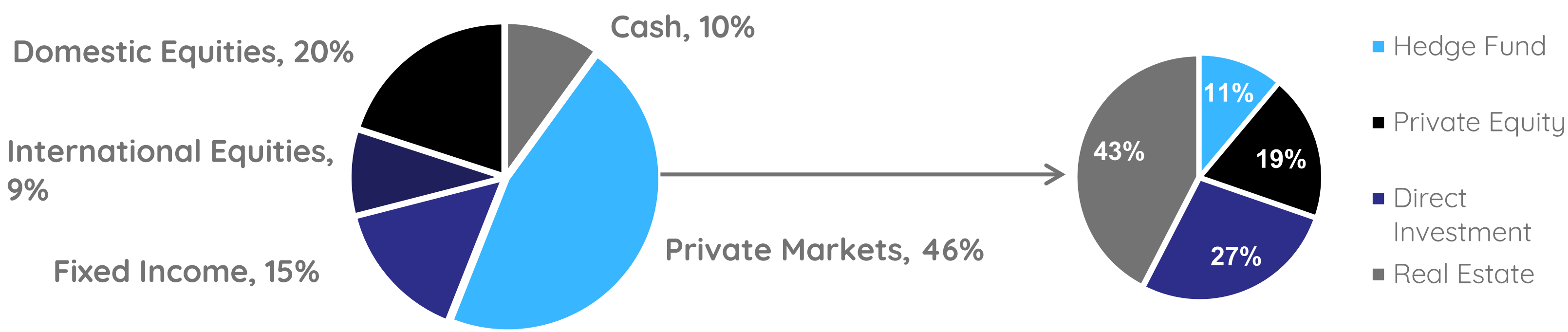
ALTS AREN'T "ALTERNATIVE" ANYMORE

Without a comprehensive plan to include Private Capital Solutions in their client portfolio's, competitive pressure will kill off 35% of RIAs within 10 Years.

Private Market Investments have grown dramatically:

- In 2019, over 35% of hedge fund investments were held by ultra-high net worth investors
- Between 2015-2020, an estimated 197,024 private funds and partnerships were formed globally
- 40% of wealth advisors report using alternatives (excluding liquid alternatives)
- Use of alternatives is particularly strong within wirehouses (57%), hybrid RIAs (43%) and retail bank broker-dealers (64%)

Among ultra high net worth investors, private capital allocations dominate:



Given the decline in the number of public companies, achieving true diversification without an allocation to private markets is impossible.

Sources: Bain, NASDAQ, FT, Pitchbook, Cerulli, ,KKR , Morgan Stanley & Oliver Wyman

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LOOSENING OF THE REIGNS

Seismic shifts in regulatory regimes in the US and Europe, signal "mass adoption" at the HNW and mass affluent levels is right around the corner

- Department of Labor green lights" PE in 401K and Direct Contribution retirement plans LINK
- SEC shifting from a $ based accreditation standard, to suitability approach for private capital LINK
- Government of France with state-backed BPI launched access for retail investors to private equity LINK

And the street takes notice…..

- Schwab & Pershing jump back into the pool with CAIS and iCapital
- Vanguard announced a partnership with global private equity investor HarbourVest in February 2020 launching its first fund in the asset class.

> *"When retail investors participate in our markets, how broad a spectrum of investments do they have? I think that spectrum has been getting relatively smaller. Because we have fewer public companies, companies are waiting much longer in their lifecycle to go public, which by definition means that retail investors have less access to the market as a whole. And I fear, less access to companies that are well-established, but still growing."*
>
> –Jay Clayton, Chairman of the SEC 2017-2020

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WE'RE NOT THE ONLY ONE'S

Blackstone summed it up quite nicely in a recent report entitled " Seeking an Alternative". They equated public market volatility to a form of PTSD, and rightfully so. Blackstone also notes that "True" diversification is harder to accomplish. Given the reality of rising correlations across many asset classes, which is challenging efforts to truly diversify client portfolios.

Blackstone data suggests that today only investment grade fixed income remains a compelling diversifier to equities. But that's cold comfort for most investors today because the role of bonds as the traditional anchor to windward for equities is shifting, given the paltry yields they provide.

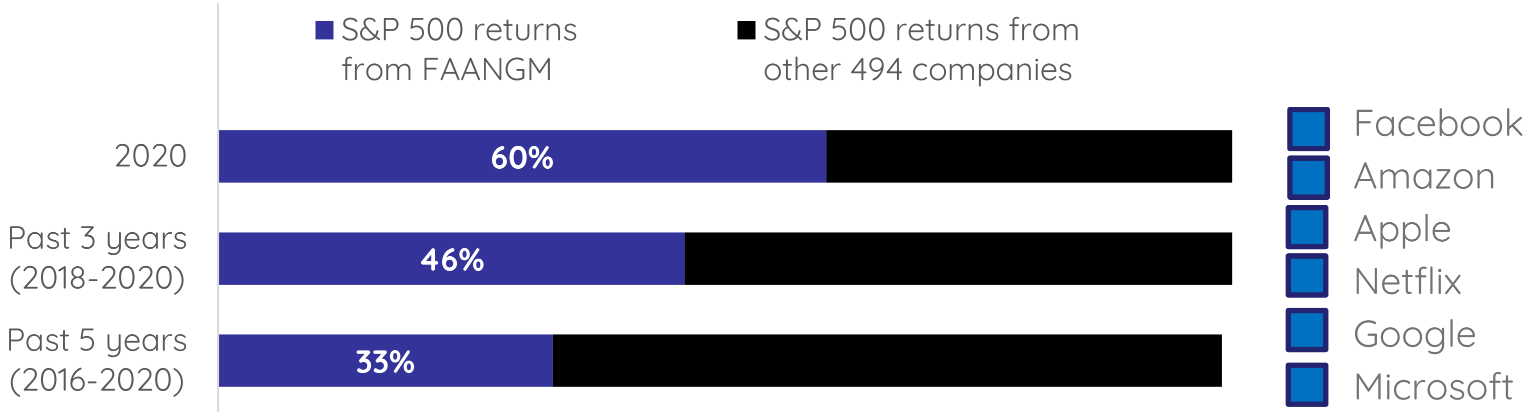
Additional data from BlackRock demonstrates, this condition is compounded by over concentration, of investor bets "crowding" into an ever smaller basket of names.

Brian Moss, CFA Founder and CEO of Soaring Capital Management, LLC "The reality today is that sophisticated investors are increasingly demanding access to alternative investments which can, in many situations, provide access to niche arbitrage opportunities that are generally unavailable in public financial markets. Smart investors are seeking a curated portfolio of alts and an advisor who can manage, analyze and report on them together with their traditional investments holdings."

BEWARE FAANGM!

FAANGM represents 6 out of 500 stocks in the S&P 500, but drove 60% of returns in 2020.

S&P 500 return contribution from FAANGM as of 12/31/201



Source: Blackrock & Bloomberg, as of 12/31/2020, based on the S&P 500 index

There is no simple approach to building a comprehensive, diversified allocation to alternative investments—one that considers investors' distinct liquidity, return goals, and varied time horizons. However, by allocating across the major alternative asset categories in both liquid and less liquid vehicles, advisors and investors may establish and maintain a comprehensive and strategic exposure to alternatives to complement their traditional allocation.

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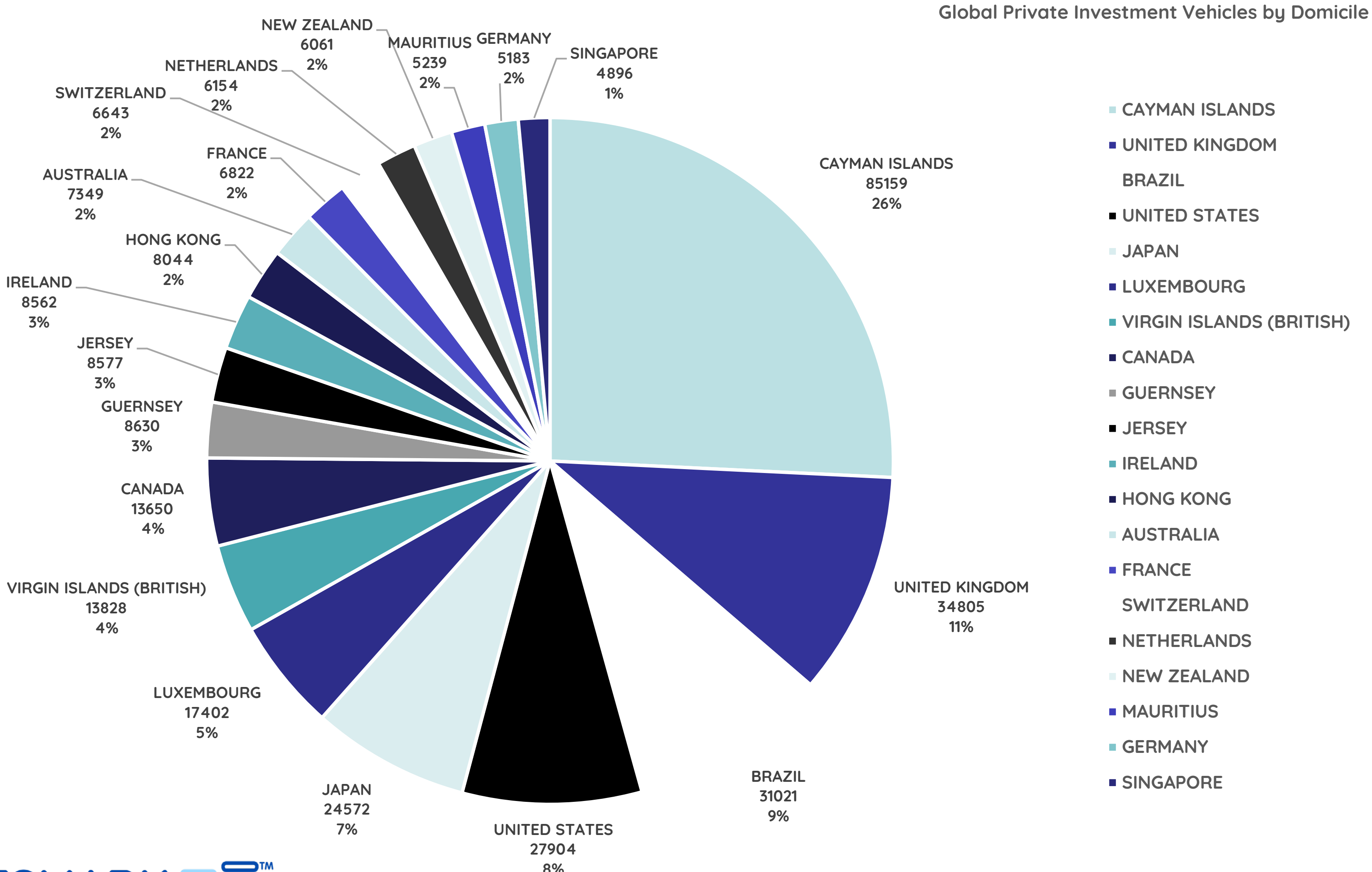
GLOBAL PRIVATE VEHICLES ALTSMARK KNOWS

Private Entity Issuance is a staggering 414,791 Vehicles



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STAGGERING SHIFT IN ISSUANCE

The number of private funds and partnerships created YE2015-YE2020 increased 110%.

- Compared to only 43,342 listed companies on all major exchanges worldwide per The World Bank.
- Number of publicly traded US companies fell by -45% between 1996 and 2018, going from 8,090 to 4,397.
- Private capital vehicles outnumber listed companies by almost a 10 : 1 ratio.
- The USA has 27,904 private capital vehicles versus 4,397 companies. A 6:1 ratio.
- Global ETF issues only tally 6,970 names and just 2,096 in US.
- Mutual Funds globally tally 122,528 and with only 7,945 in the US.
- **Bottom line the number of all listed companies, plus overlapping mutual funds and ETFs total 172,840 unique names, or just 42% of all registered private hedge,, PE, RE and other private asset focused issuances.**

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TIMES ARE A CHANGING

Institutional investors in general, including pensions, endowments, and foundations, have long used alternatives to help achieve their target returns. Institutions on average have 38.5% of their portfolios allocated to alternatives.

By comparison, individual investors continue to allocate substantially less of their portfolios to alternatives. Some believe that's about to change, with individual investors embarking on an allocation shift akin to the one institutions have made over the last 5–10 years. But for that to happen, investors and advisors need to overcome a key impediment: their awareness of and comfort with alternative investments.

Again our friends at Blackstone articulated it far better than we could. "A common mistake investors make is to treat alternative investments as a homogeneous category."

The reality is alternatives are not a single asset class. Alternatives include an array of assets, strategies, and structures and should not be construed as some monolithic investment or a single slice in the allocation pie. It's these varying strategies and their unique characteristics that make them the perfect compliment to traditional public market strategies.

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MILLIONS OF INVESTORS

Global number of individuals per wealth band (2019) and growth (2018–2019)

	Number of individuals 2019 (thousands)	Number of individuals 2019 % of Total	HNWI population		HNWI wealth		
			CAGR 2012–2018	Growth 2018–2019a	CAGR 2012–2018	Growth 2018–2019a	% of HNWI wealth 2019
Ultra-HNWI USD30m+	183.4	0.94%	7.20%	9.1% (+12.9PP)	5.90%	8.2% (+14.5PP)	33.60%
Mid-Tier Millionaires USD5m-USD30m	1757.6	8.96%	7.10%	8.9% (+11.2PP)	7.10%	8.8% (+11.4PP)	22.60%
Millionaires Next Door USD1m-USD5m	17666.6	90.10%	7%	8.8% (+8.9PP)	7.10%	8.8% (+9.2PP)	43.80%
TOTAL	19607.6	100.00%	7.1%		6.7%		100.00%

Note: PP represent Prior Period 2017-2018 percentage change , Source: Merrill Lynch-CapGemini World Wealth Report 2020

"**We project UHNW allocations to illiquids/alternatives will grow to $24 trillion by 2024**"
UHNW investor interest in private market investments has grown substantially in recent years, a trend we expect to continue despite near-term headwinds from Covid-19. Over the next 5 years, we see illiquid/alternative investments growing by 8 percent annually to $24 trillion by 2024.

Morgan Stanley/OliverWyman US Markets Report Q3 2020

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ABOUT ALTSMARK

ALTSMARK provides a low cost, scalable, end-to-end solution for managing, reporting and risk analysis of private capital market portfolios. Our clients include wealth management , RIA's, private and trust bank businesses.

ALTSMARK is focused on one challenge: helping propel the growth of private capital investing by non-institutional investors. We do this by providing immediate improvement in high-value business functions to our clients; and defending their economics with our flexible, low-cost subscription model.

We make managing, analyzing & reporting on alternative portfolios easy and cost effective for our advisor clients.

This information is provided by ALTSMARK for educational purposes.
No sales. Just good old fashioned sharing of information. What we see in the market, views on private capital/alts going main stream, challenges and more.

We'd love to discuss any feedback or questions you have.

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