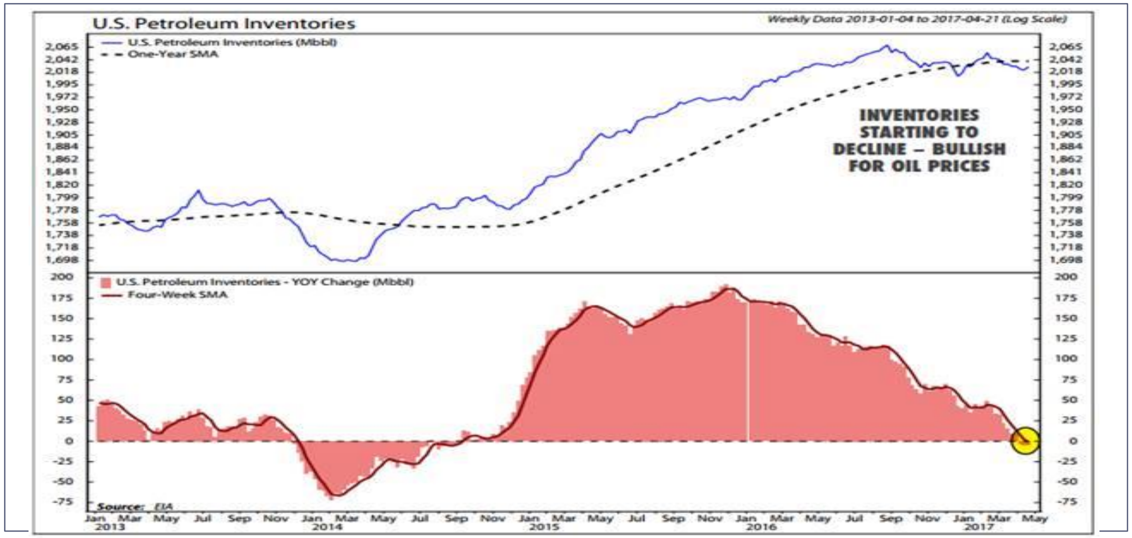
Market Recap

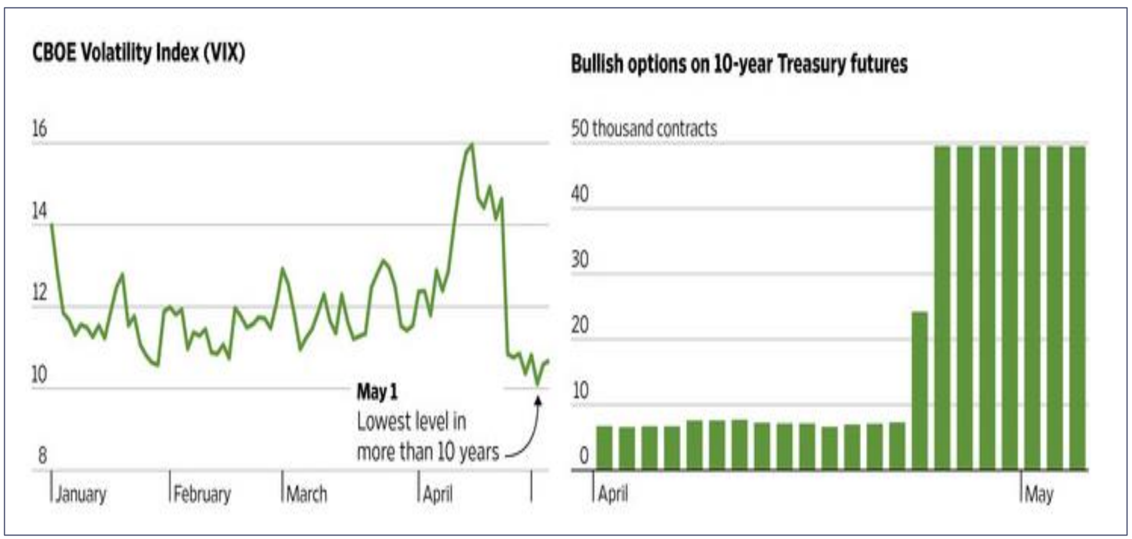
Supply & Demand – Sticking to the Fundamentals



Source: Ned Davis Research Group

Members of OPEC are widely expected to extend production cuts (equating to ~2% of daily global output) for an additional nine months as they seek to bolster crude oil prices. Given the severe price declines experienced over the past few years, the fact that oil has stabilized in the $50 range is welcome news. OPEC's efforts to rebalance the supply/demand dynamics have largely been thwarted, however, by the nimble efforts of U.S. shale producers who are able to quickly ramp up production in step with higher commodity prices. With large stockpiles built up around the globe, the outlook for future prices is increasingly dependent on disciplined output beyond the cartel. Recent market trends suggest that investors remain unconvinced about a near-term breakout to the upside as Energy has been the worst-performing sector in the S&P 500 this year, trailing the index by -19%.

Market 'Fear Index' is Missing Underlying Investor Anxiety



Source: Wall Street Journal

The CBOE Volatility Index (VIX) – a measure of the implied volatility behind S&P 500 options – has historically been cited as the gauge of fear and pessimism in the stock market (a higher VIX means a higher level of fear). Recently, the VIX has approached all-time lows, indicating minimal investor fear. However, this indicator, alone, may be misleading. Investors may no longer be buying S&P 500 options to protect their portfolios, instead managing risk by buying call options on 10-Year Treasury Bonds. A spike in volume on Treasury options just as the VIX plunged to new lows, indicates that the decline in the 'fear index' is not necessarily reflective of the risks inside the system. While the outlook for the U.S. Economy has improved materially this year, concerns around geo-political uncertainties and the ability of the Trump Administration to enact its pro-growth policies have limited investor optimism.

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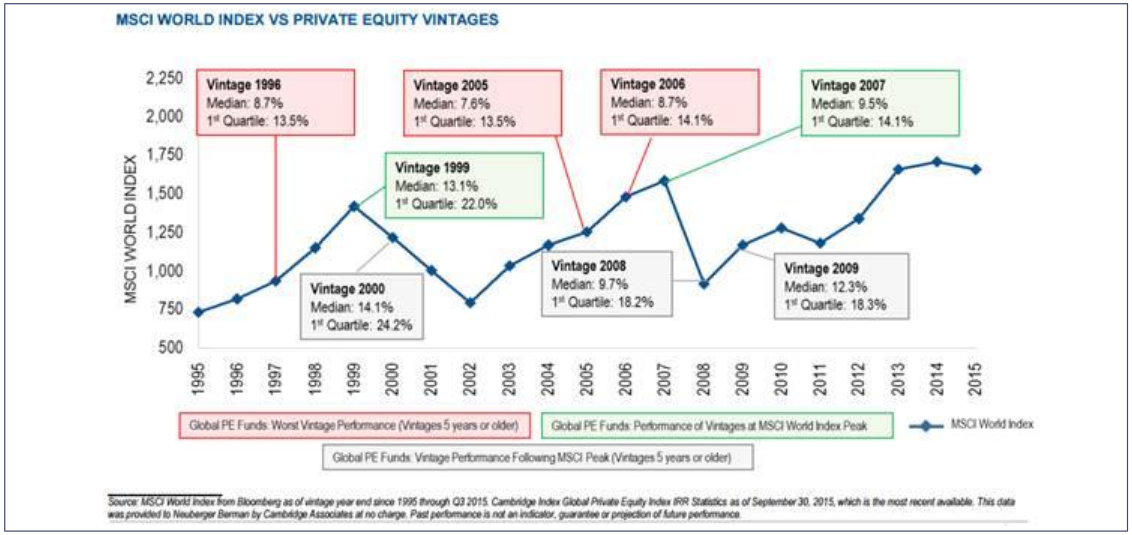
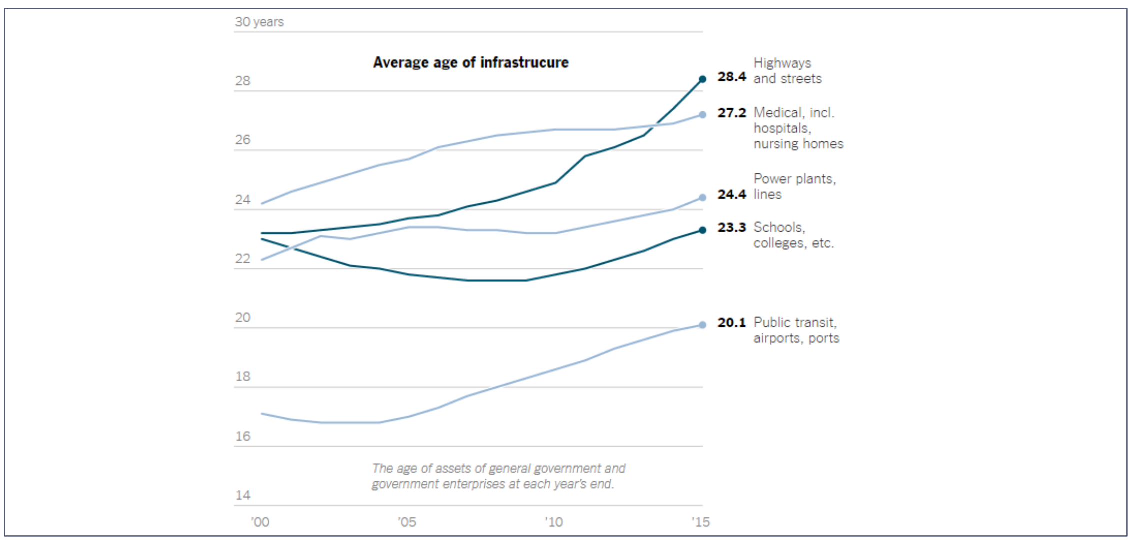
Private Equity Returns Throughout the Cycle



Source: Neuberger Berman

Our Aging Infrastructure



Source: The New York Times

As an asset class characterized by long-term lock-up periods (typically 5-10 years), the cyclical backdrop is an underappreciated element of private equity investments. The vintage year timing plays an important role in a fund's ability to take advantage of market conditions throughout the business cycle. Key factors in play include the supply and demand of distressed assets, the availability of cheap (or more expensive) debt financing, and prevailing market conditions around the eventual exit (frequently via IPO). Based on historical figures, as an asset class, private equity returns have provided strong absolute returns relative to public equities over full market cycles. Diversification is a lesser known, but nonetheless important, benefit of this alternative vehicle. Largely due to the ability to invest in distressed assets at discount prices, private equity funds have generated some of their best returns when the public markets are at their worst.

At an average age of 24 years old, America's infrastructure has been pushed long past its intended lifespan. In March, the American Society of Civil Engineers assessed the quality of the country's infrastructure at a dismal grade of D+. Our railway systems fared the best, earning a B, while our transit infrastructure received a D-. On average, the nation's highways and streets are 28.4 years old, with one in every five miles of highway considered to be in "poor condition." Among other things, the deterioration of the country's roadways results in increased traffic congestion, which cost Americans an estimated $160 billion in time and fuel in 2014. The ASCE estimates that America's infrastructure budget is underfunded by $2 trillion and that failure to adequately fund these projects would cost the U.S. economy $3.9 trillion and 2.5 million jobs over the next 8 years, and nearly $14 trillion by 2040.

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