



iCapital

The Luxury of Being Both Defensive and Opportunistic in 2023

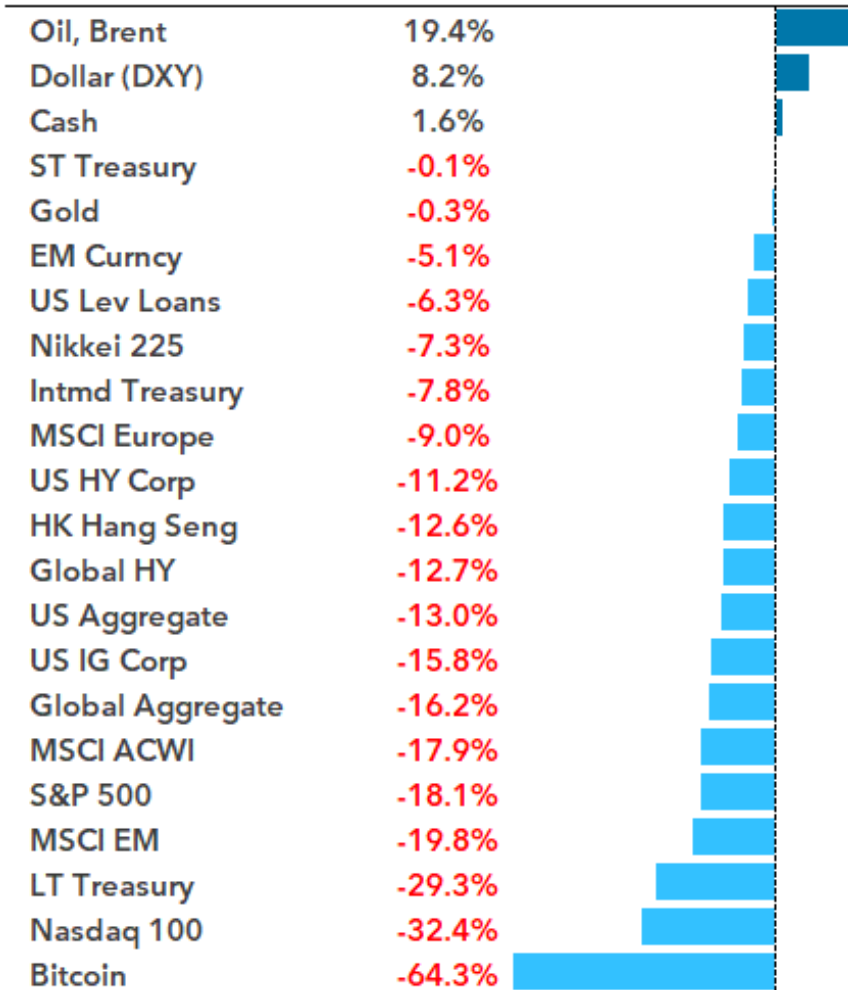
Anastasia Amoroso, CFA

Chief Investment Strategist

Market trends of 2022 are reversing so far in 2023

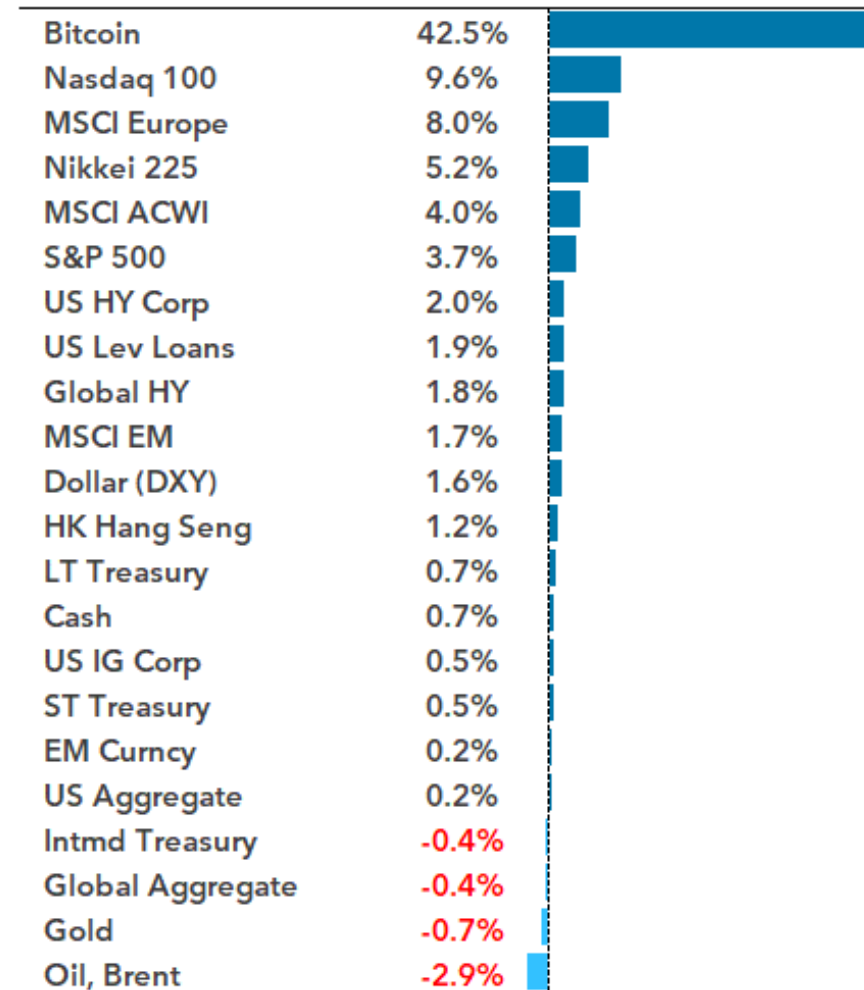
Cross Asset Returns (2022 FY)

% change, through December 31, 2022



Cross Asset Returns (2023 YTD)

% change, through February 27, 2023



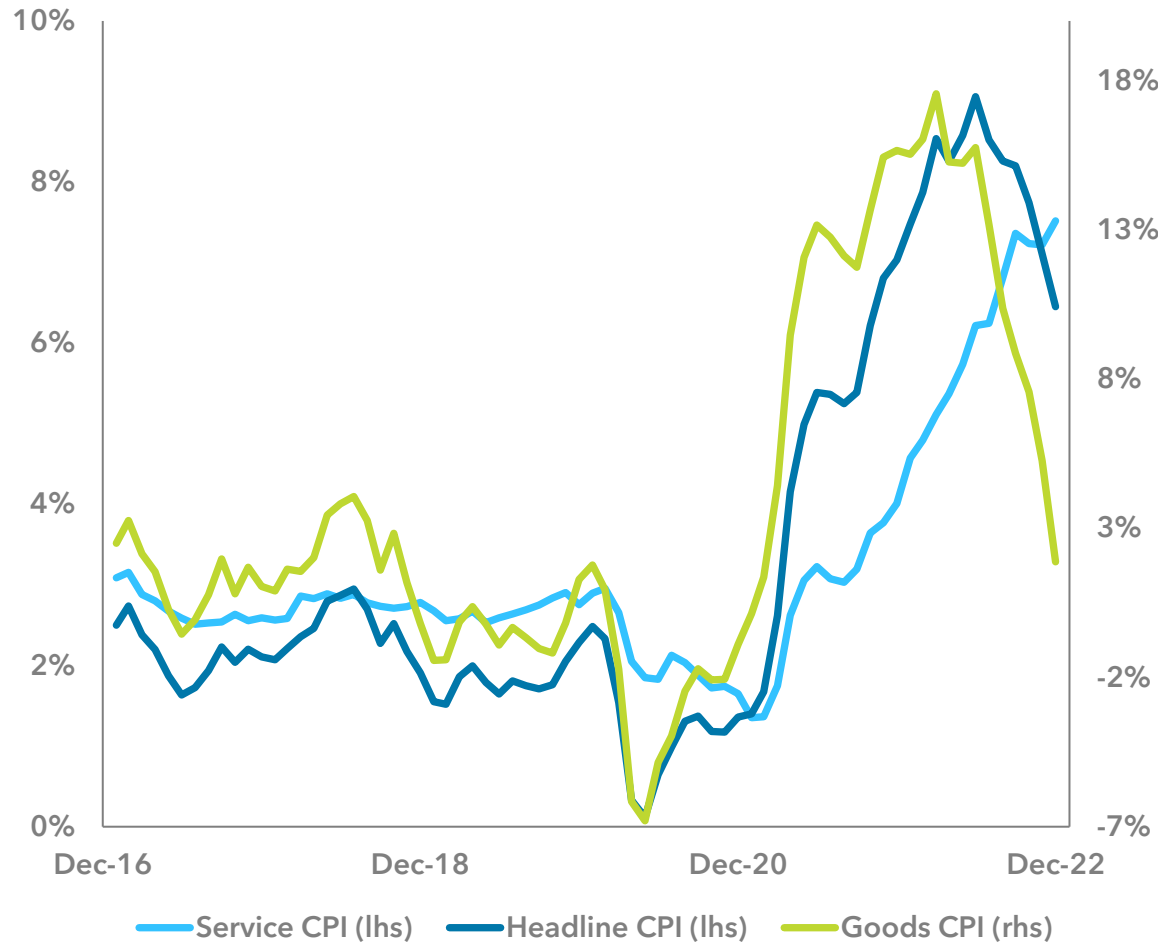
Source: Bloomberg, iCapital Investment Strategy, as of February 27, 2023. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Source: Bloomberg, iCapital Investment Strategy, as of February 27, 2023. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Silver lining #1: a slowdown in inflation is underway

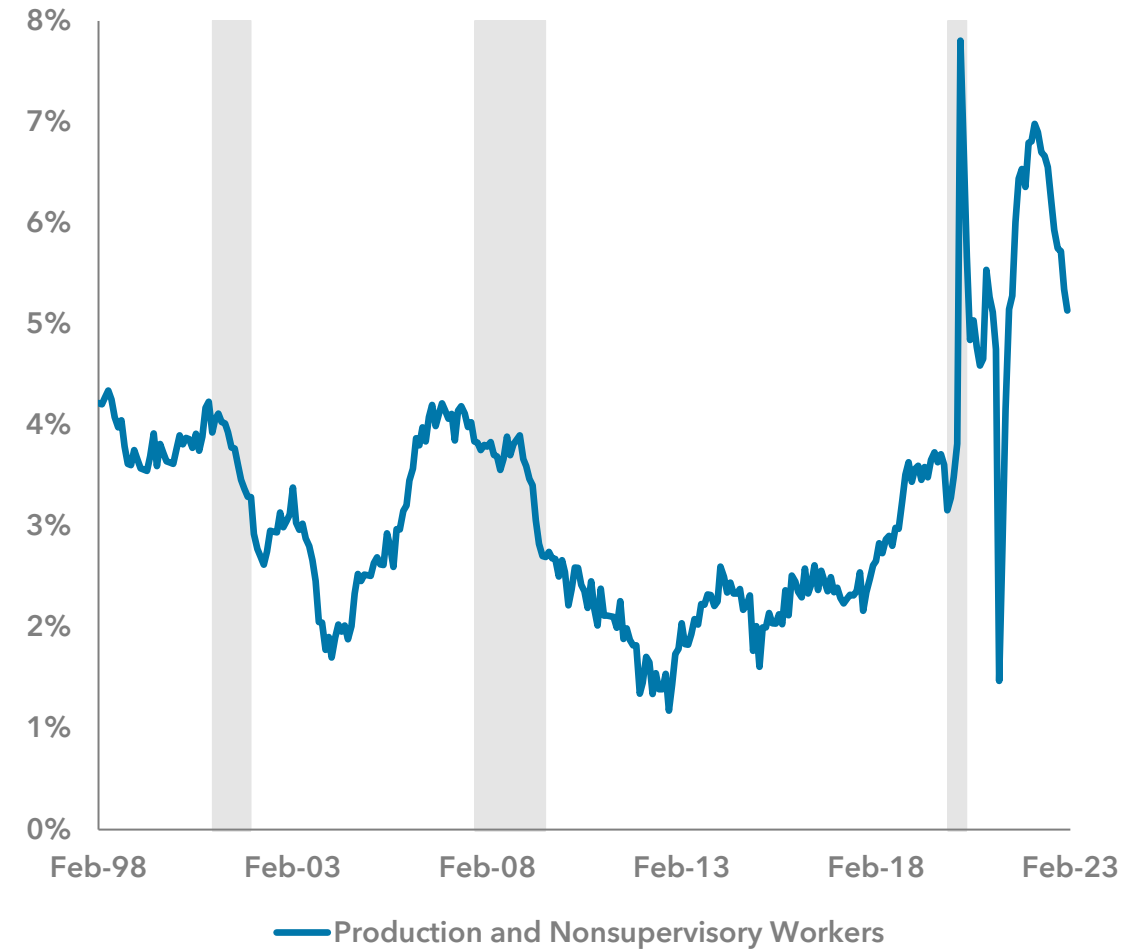
Goods inflation has moderated while services inflation remains high

Headline, Goods*, and Service CPI inflation, year-over-year (%)



Average hourly earnings continue to trend lower

Average hourly earnings (% chg., YoY)



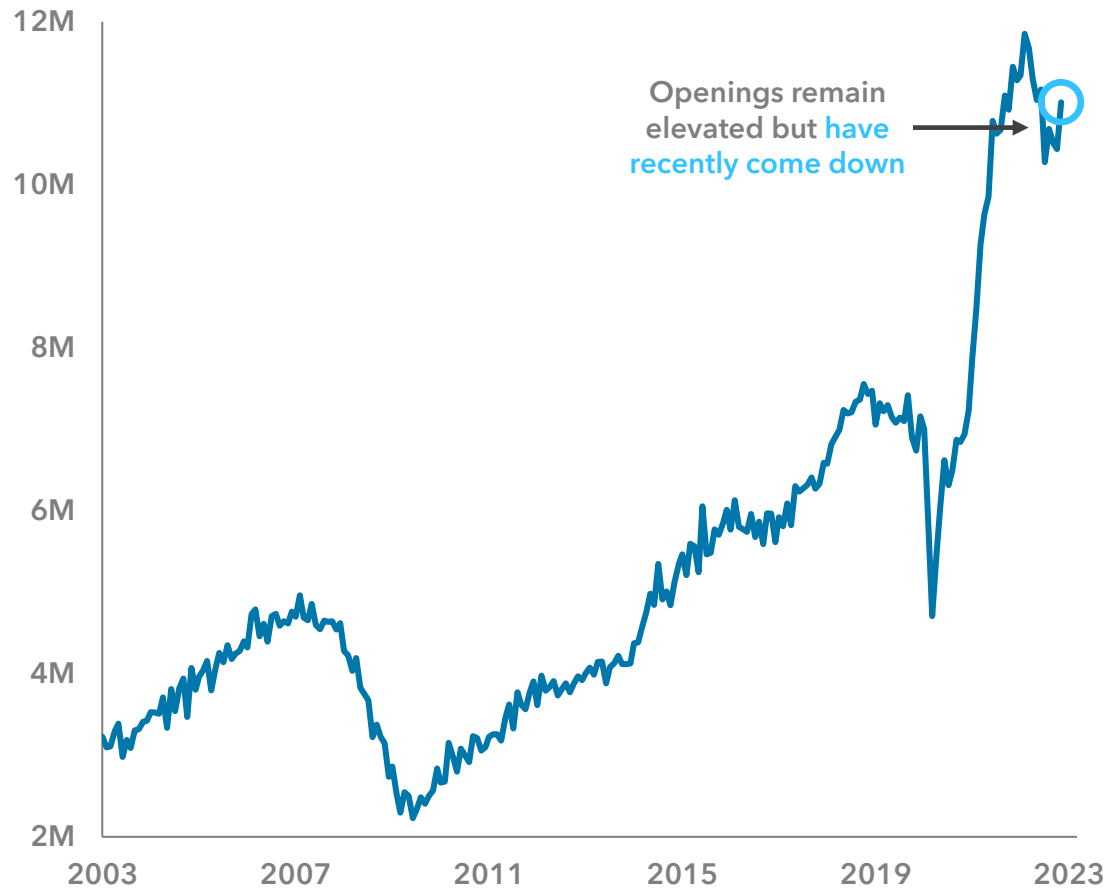
Source: Bloomberg, Bureau of Labor Statistics, iCapital Investment Strategy, as of December 31, 2022. Note: Goods inflation is expressed as durables and non-durables ex-food inflation. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Source: Bloomberg, Bureau of Labor Statistics, iCapital Investment Strategy, as of February 27, 2023. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

News articles of layoffs are likely capping wage growth, but not leading to joblessness

Job openings are historically elevated and should retrench

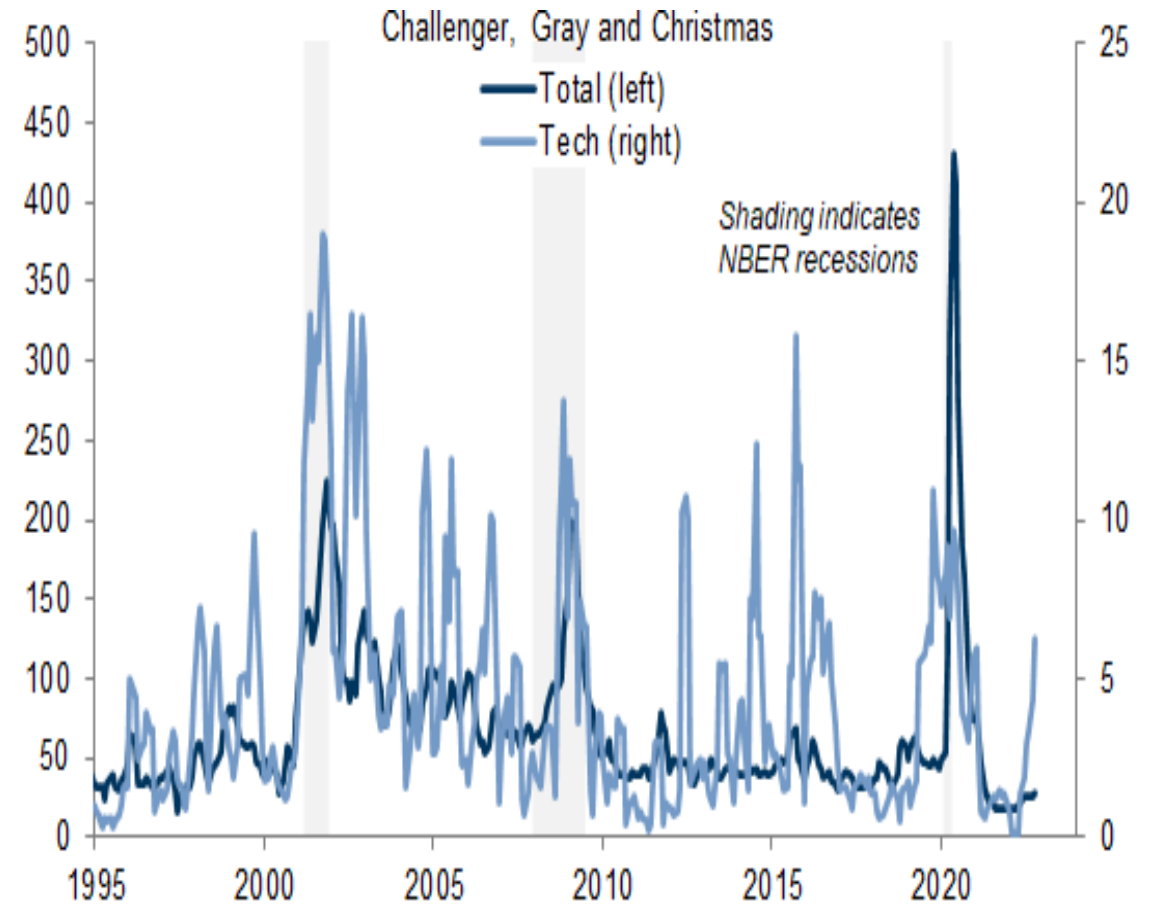
U.S. Job Openings, seasonally adjusted



Source: Bloomberg, Bureau of Labor Statistics, iCapital Investment Strategy, as of February 27, 2023. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Job cuts are also expected to rise with Tech already experiencing it

Total and Tech-only announced job cuts, 3-month avg (thousands)

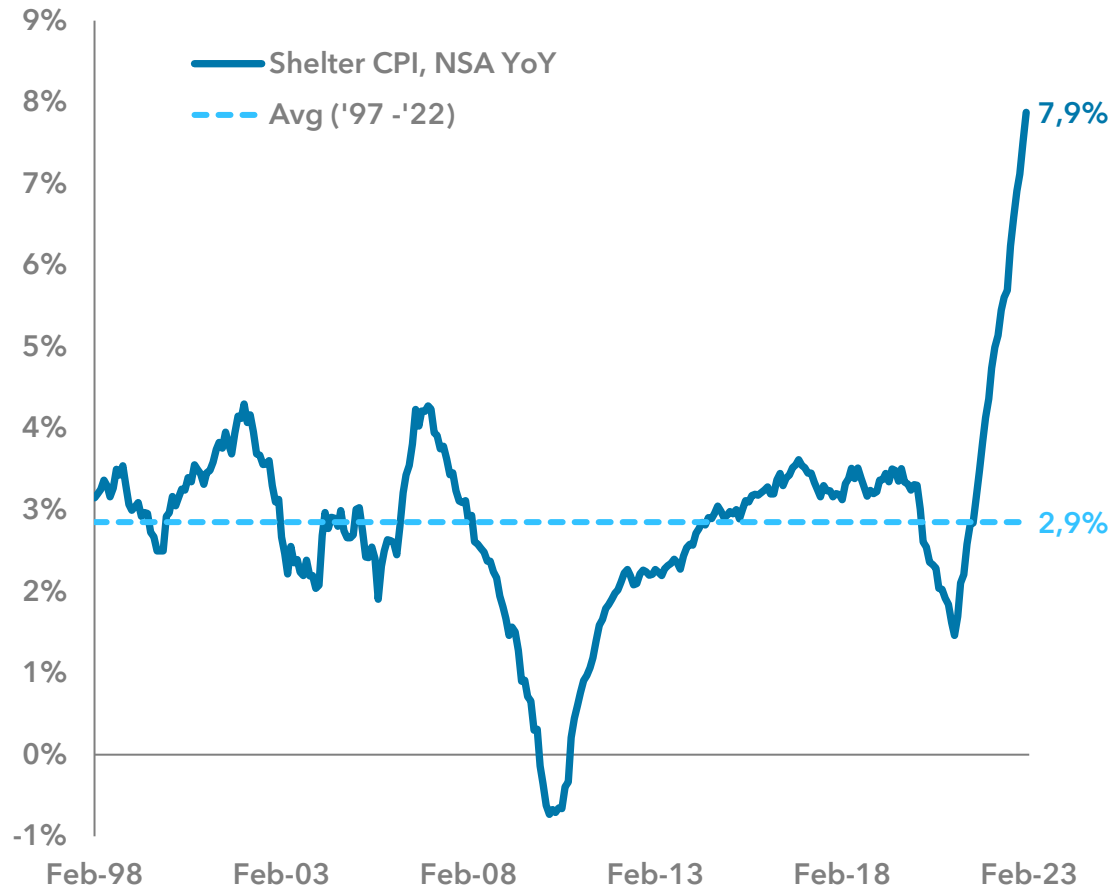


Source: JPMorgan, Bloomberg, Bureau of Labor Statistics, iCapital Investment Strategy, as of November 2022. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

From food & fuel inflation to sky-high shelter costs, but those too are starting to ease too

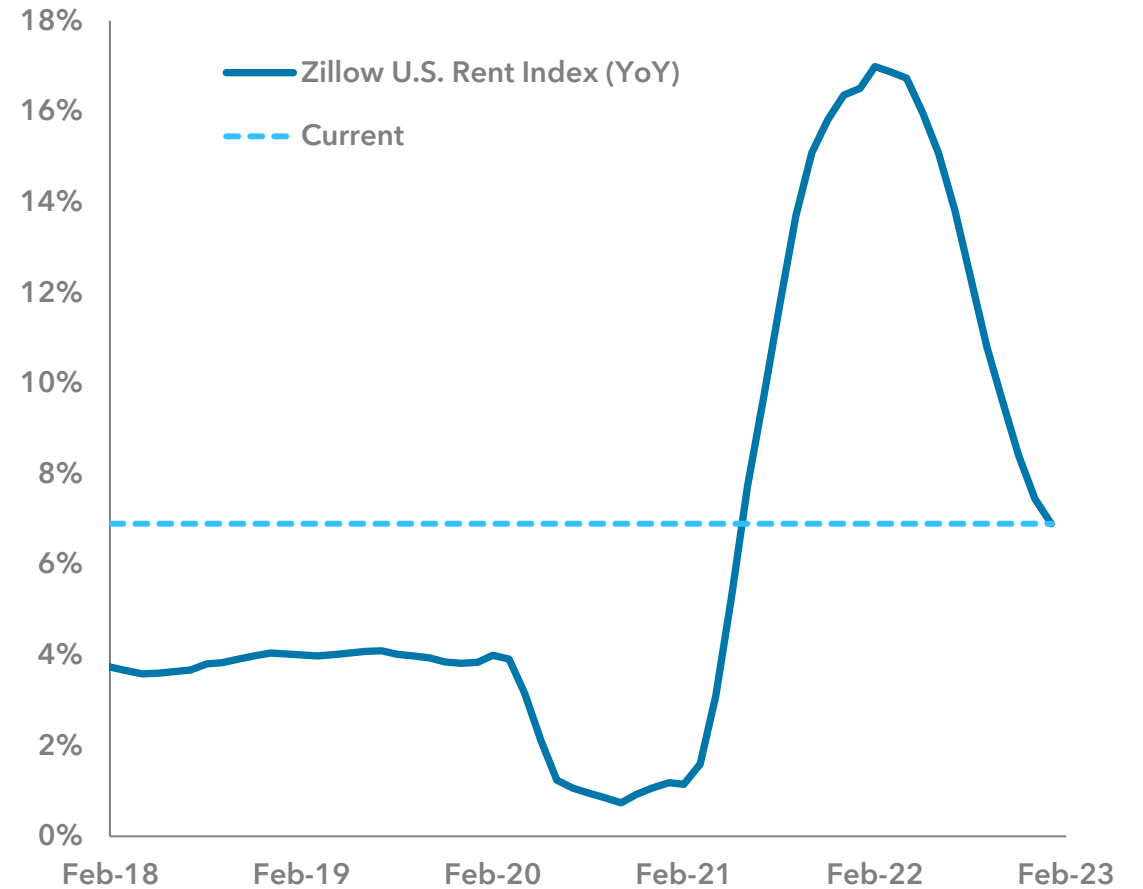
Shelter Inflation at Multi-Decade Highs

Shelter CPI Inflation, year-over-year (%)



Zillow U.S. Rent Index YoY

U.S. Rent Index, All Homes, year-over-year (%)



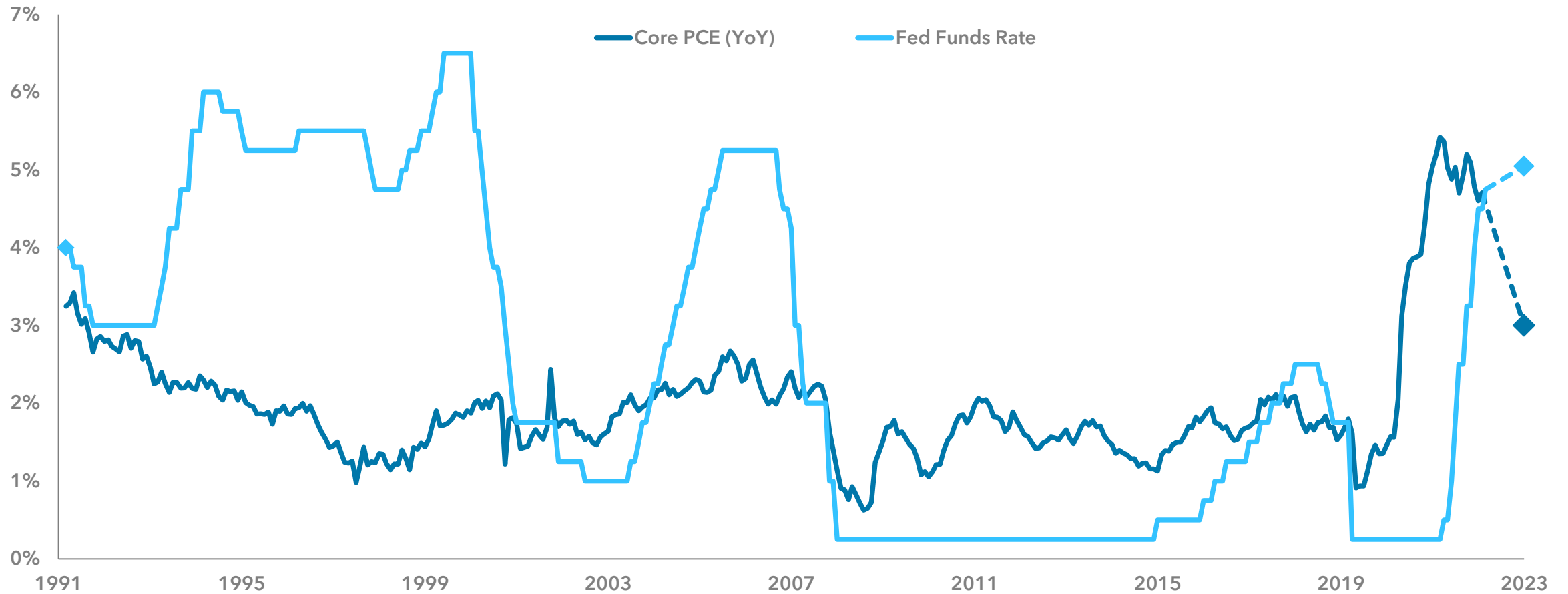
Source: Bloomberg, Bureau of Labor Statistics, iCapital Investment Strategy, as of February 27, 2023. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Source: Bloomberg, Zillow, iCapital Investment Strategy, as of February 27, 2023. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

By mid-2023 core inflation could decline and finally be below the fed funds rate

Rates are expected to reach 5% and finally rise above inflation

Fed Funds rates and year-over-year core PCE inflation with year-end 2023 forecasts (%)

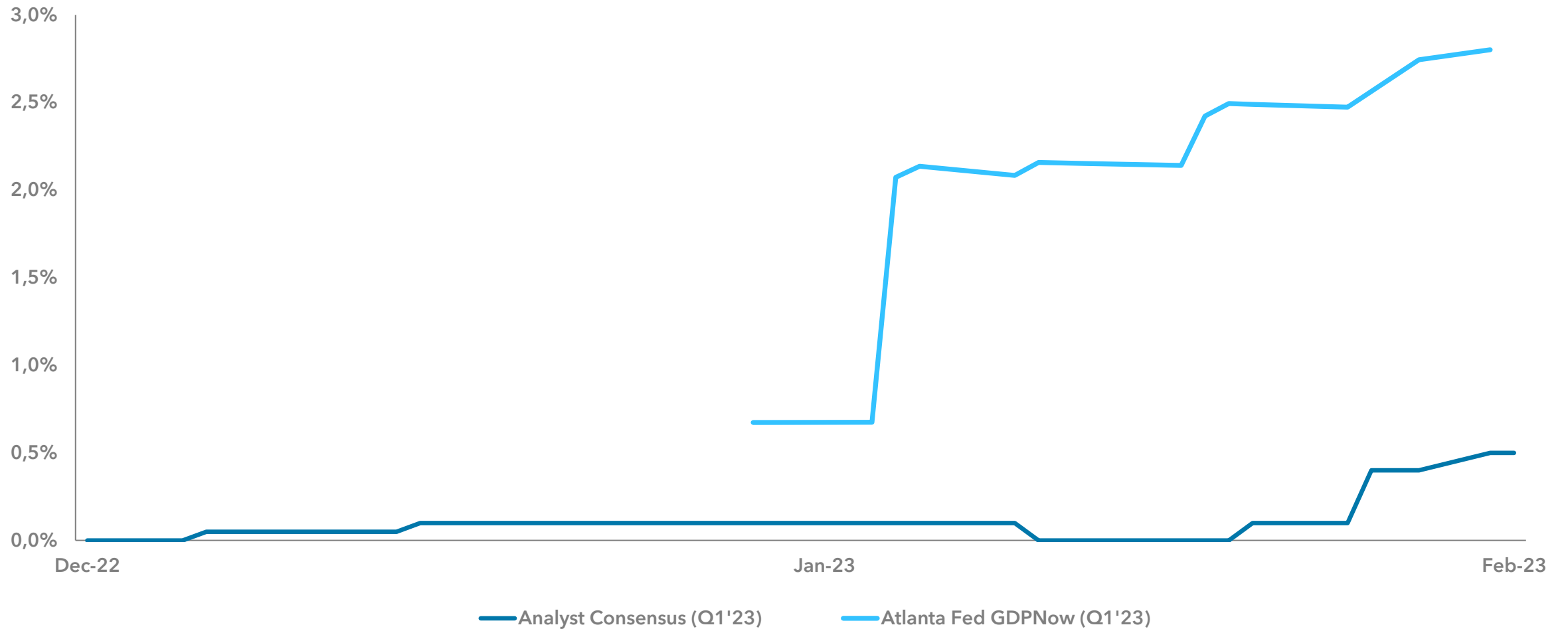


Source: Bloomberg, Bureau of Economic Analysis, Federal Reserve, iCapital Investment Strategy, as of February 27, 2023. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Silver Lining #2: Recent economic data has been showing stability and a rebound

Recent economic data suggest upside to current GDP consensus estimates

Evolution of Q1 '23 Atlanta Fed GDPNow vs analyst consensus (%QoQ SAAR)

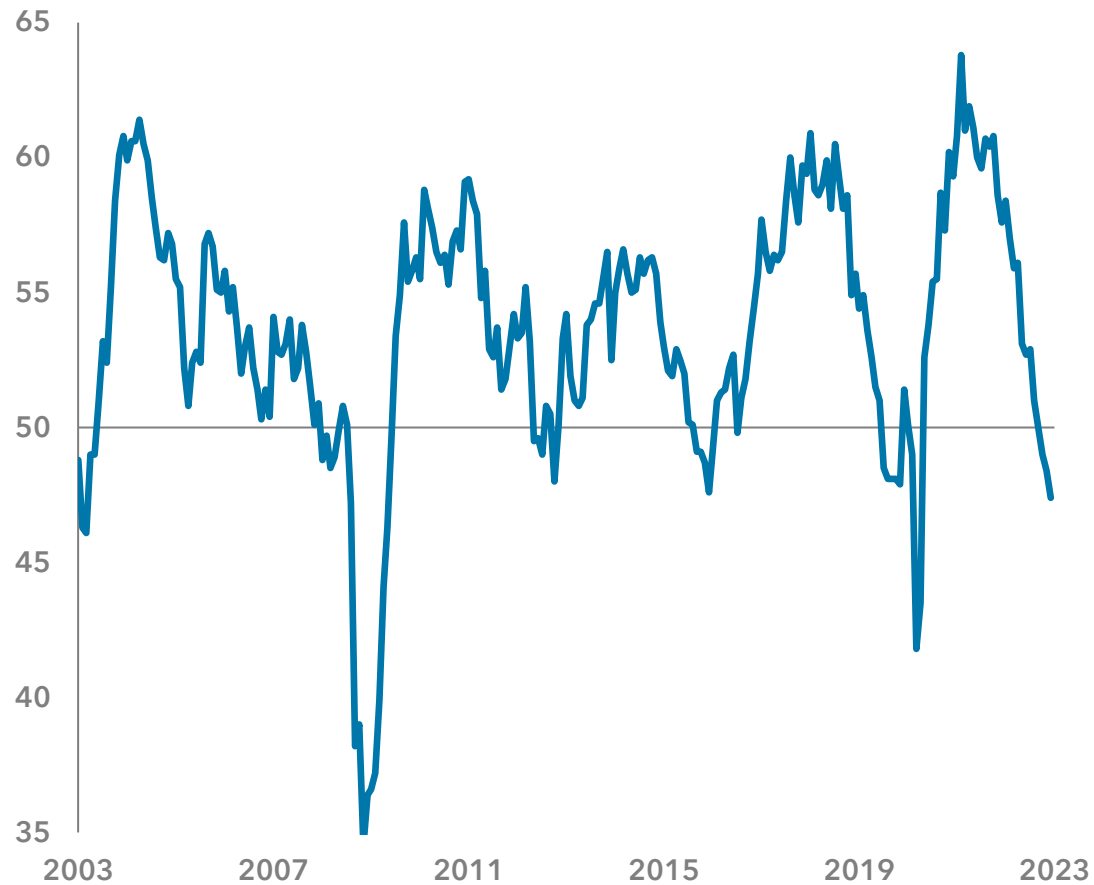


Source: Bloomberg, Federal Reserve of Atlanta, iCapital Investment Strategy, as of February 28, 2023. Note: Atlanta Fed GDPNow GDP Tracker is a nowcasting model that forecasts real GDP growth by aggregating 13 components that make up GDP with the chain-weighting methodology used by the U.S. Bureau of Economic Analysis. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Economy has already slowed, which markets had anticipated, but now is perking up

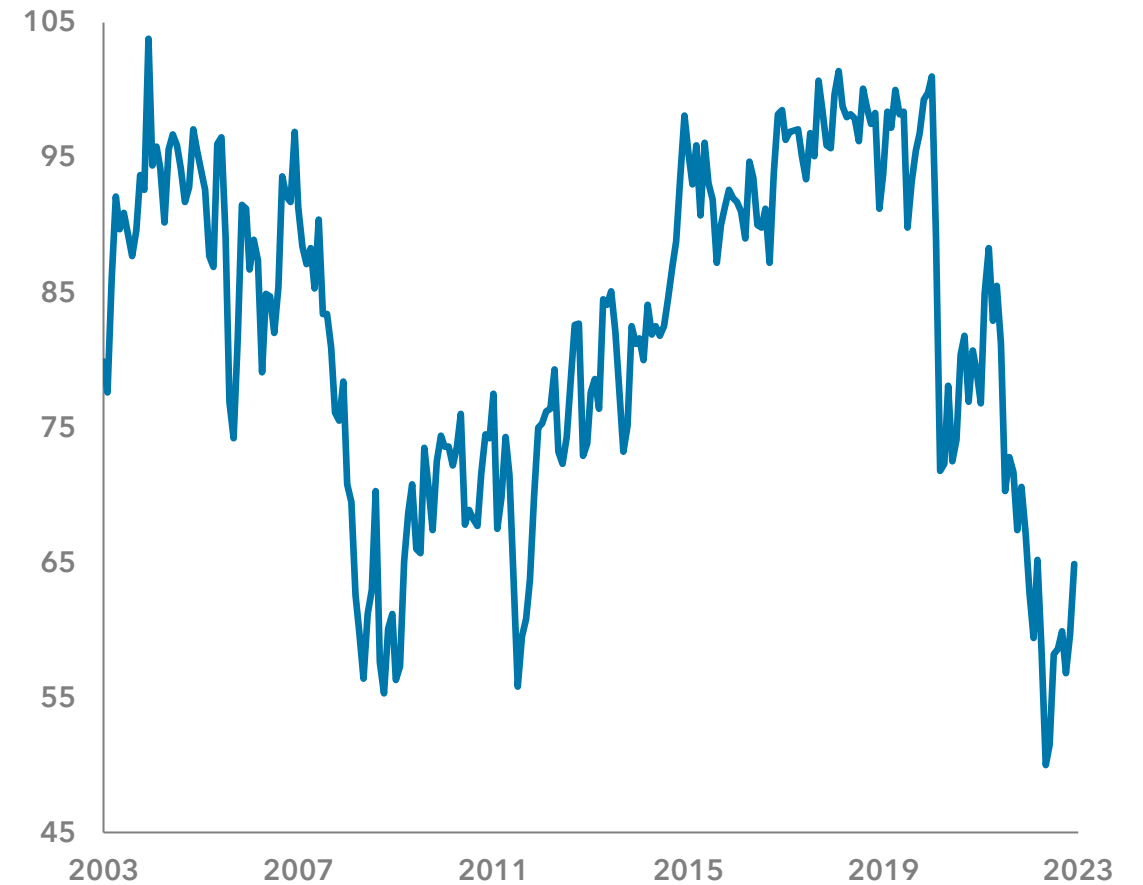
ISM U.S. Manufacturing PMI

>50 Indicates Improvement Since Prior Month



U.S. Consumer Sentiment

University of Michigan Consumer Sentiment Index



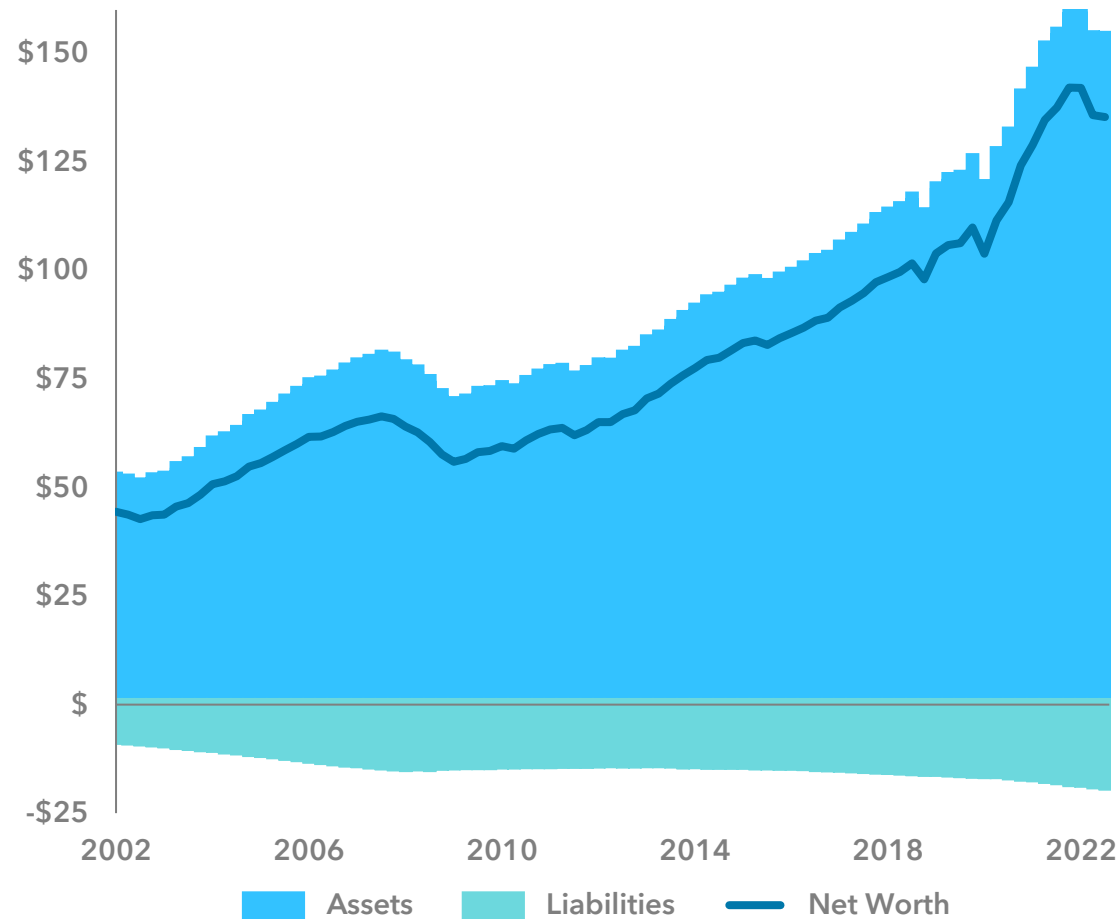
Source: Bloomberg, Institute of Supply Management, iCapital Investment Strategy, as of February 27, 2023. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Source: Bloomberg, University of Michigan, iCapital Investment Strategy, as of February 27, 2023. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

The reason behind resiliency - the U.S. economy can handle 5%+ rates

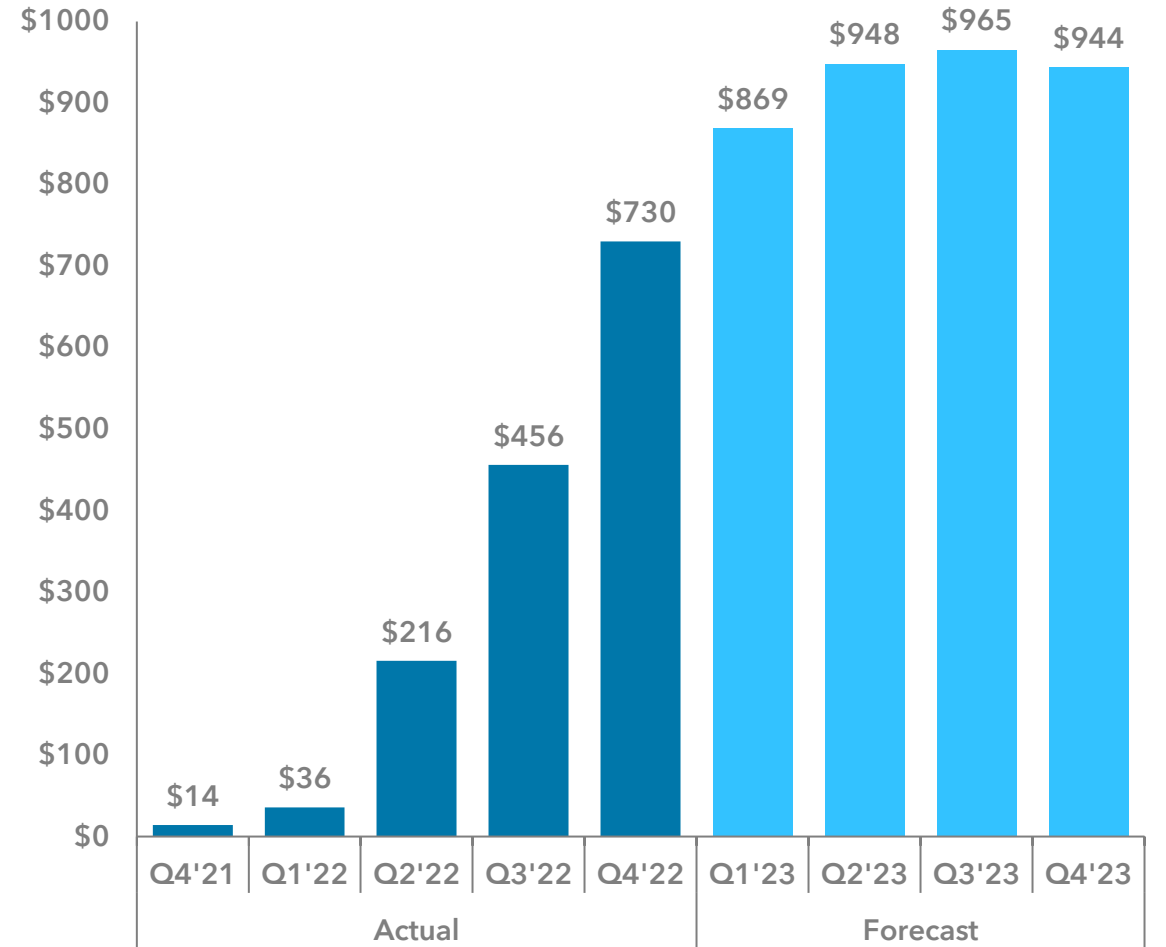
Household net worth has risen well-above pre-pandemic trend

U.S. household assets, liabilities, and net worth (\$ trillion, quarterly)



Consumers interest income is set to grow even further

U.S. household interest income from cash balances (\$million)



Source: Bloomberg, Federal Reserve, iCapital Investment Strategy, as of February 22, 2023. Note: Liabilities shown as negative value below the zero line. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Source: Bloomberg, Federal Reserve, iCapital Investment Strategy, as of February 22, 2023. Note: Interest income is found by taking the effective fed funds rate * U.S. household cash balance. For forecasted numbers, takes the market implied forward fed funds rate and uses the most recent U.S. household cash balance level. Illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Multiples and earnings estimate may not have to price in an imminent recession

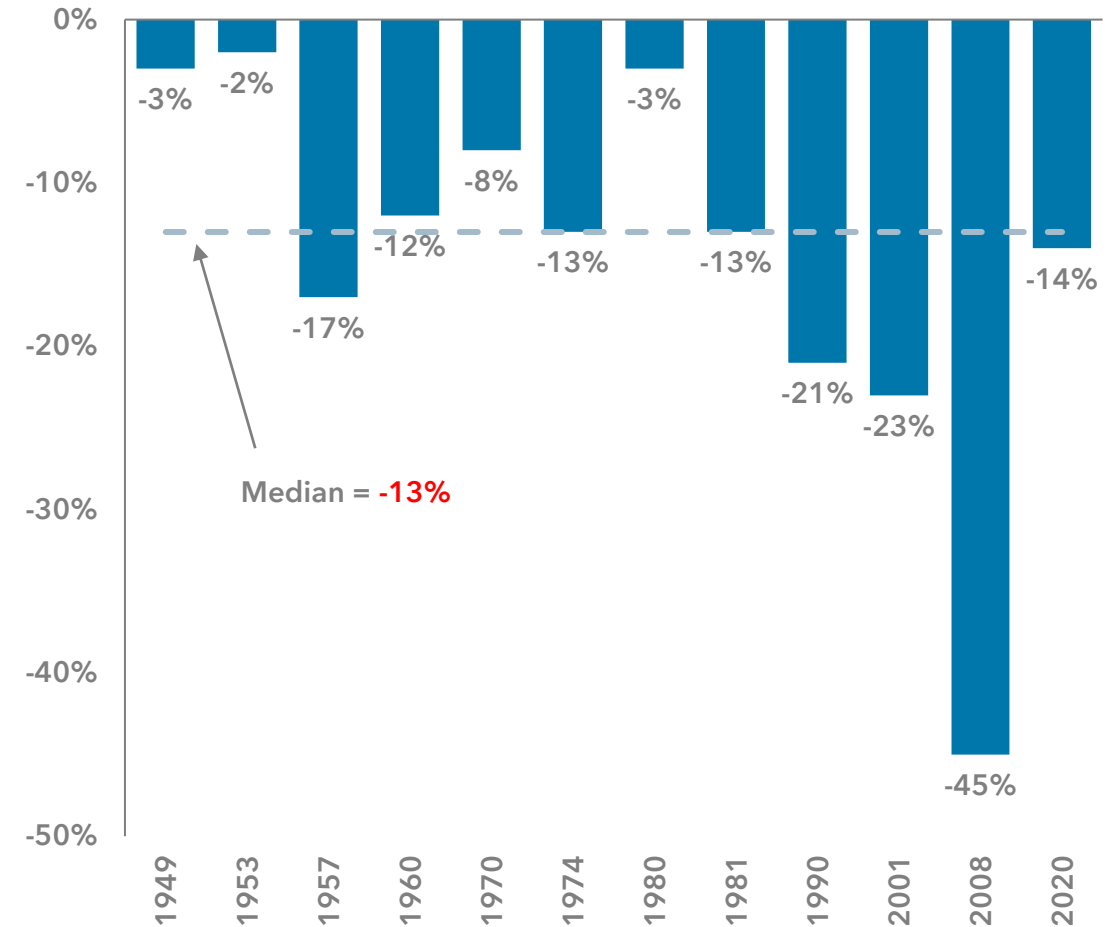
S&P 500 EPS vs. Valuation Matrix

Forward 12-Month P/E/ and EPS

		S&P 500 NTM EPS				
		\$ 220	\$ 225	\$ 230	\$ 235	\$ 240
S&P 500 NTM P/E Ratio	13.5x	2,970	3,038	3,105	3,173	3,240
	14.5x	3,190	3,263	3,335	3,408	3,480
	15.5x	3,410	3,488	3,565	3,643	3,720
	16.5x	3,630	3,713	3,795	3,878	3,960
	17.5x	3,850	3,938	4,025	4,113	4,200
	18.5x	4,070	4,163	4,255	4,348	4,440
	19.5x	4,290	4,388	4,485	4,583	4,680
	20.5x	4,510	4,613	4,715	4,818	4,920
	21.5x	4,730	4,838	4,945	5,053	5,160

S&P 500 EPS have dropped by a median of 13% during recessions

Peak to trough decline in LTM S&P 500 EPS during the past 12 recessions



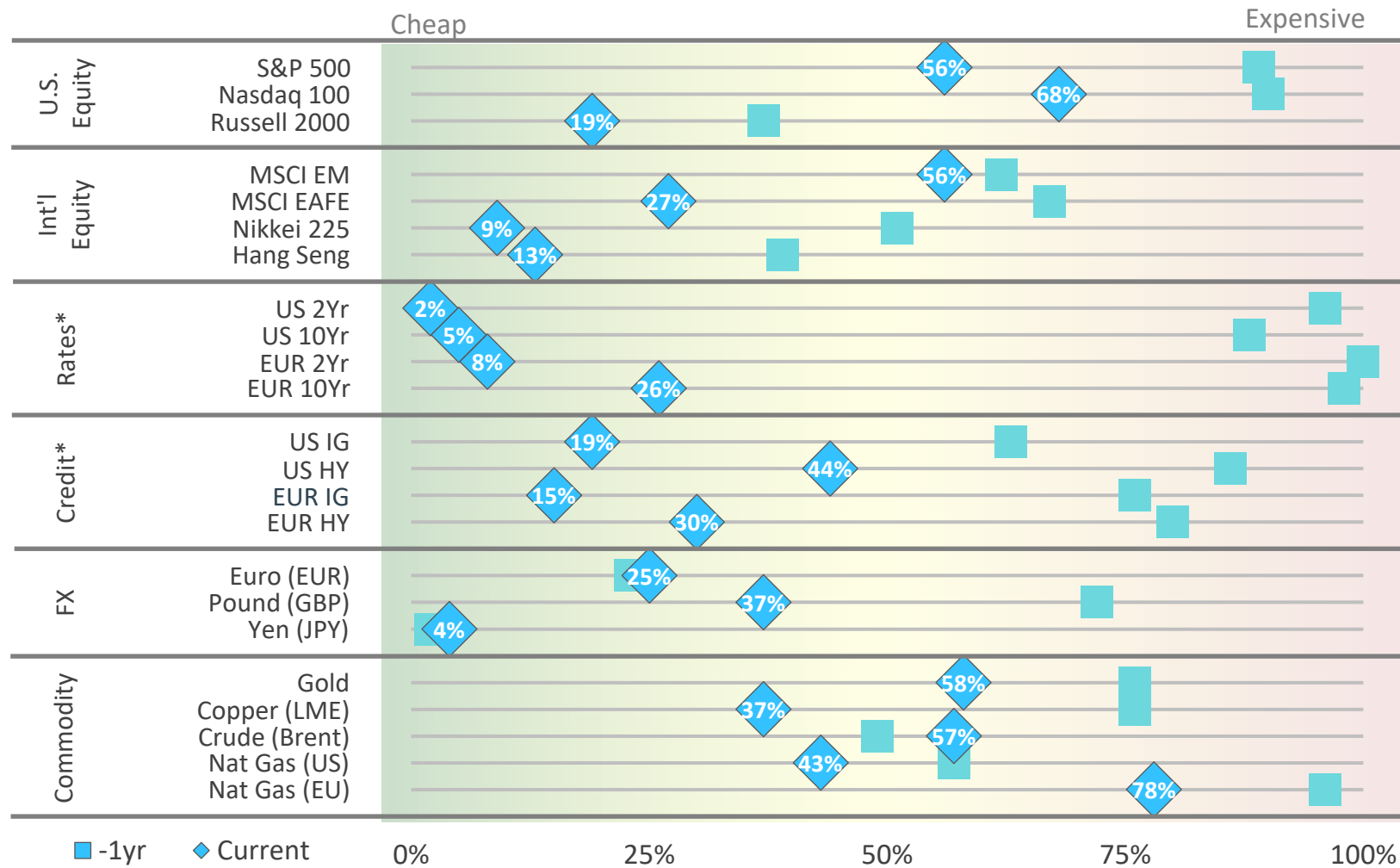
Source: iCapital Investment Strategy, Bloomberg, as of February 27, 2023. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Source: Goldman Sachs, iCapital Investment Strategy, as of February 27, 2023. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Silver lining #3: a better entry point into many public/private opportunities after the '22 reset

Over the past year, valuations have reset materially across asset classes

15-year percentile of cross-asset valuation metric, current and 1-year ago (%)

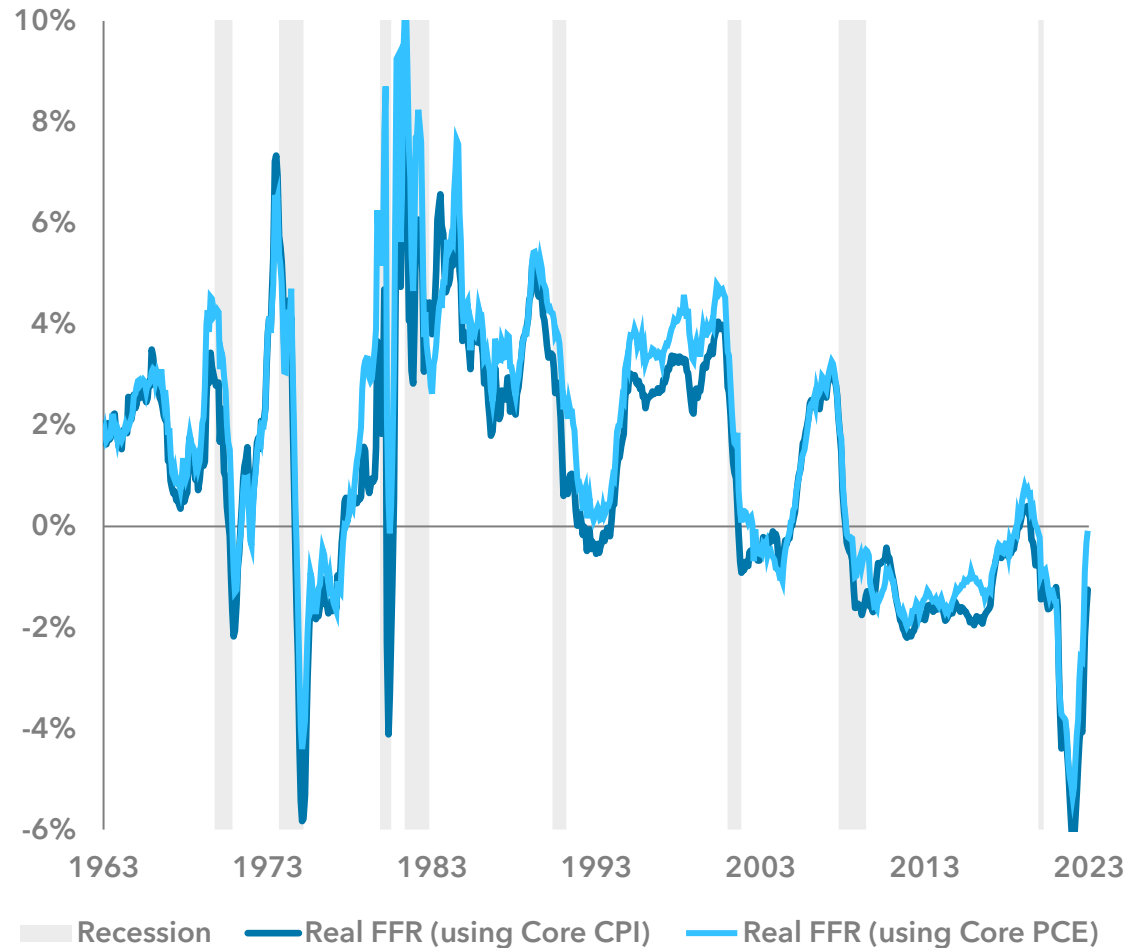


Source: Bloomberg, iCapital Investment Strategy, as of January 9, 2023. Note on valuation metrics used: Equities - NTM P/E; Rates - real yields (derived from nominal yields less inflation swap rates); Credit - OAS spreads; FX - real effective exchange rate (REER); Commodities - inflation-adjusted spot price (excludes U.S. and EU natural gas which use generic spot prices). For Rates and Credit, percentile is reversed to reflect correct valuation signal. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

The key market risk is - the Fed may have to re-think the ultimate terminal level of rates

Real Fed Funds Rate

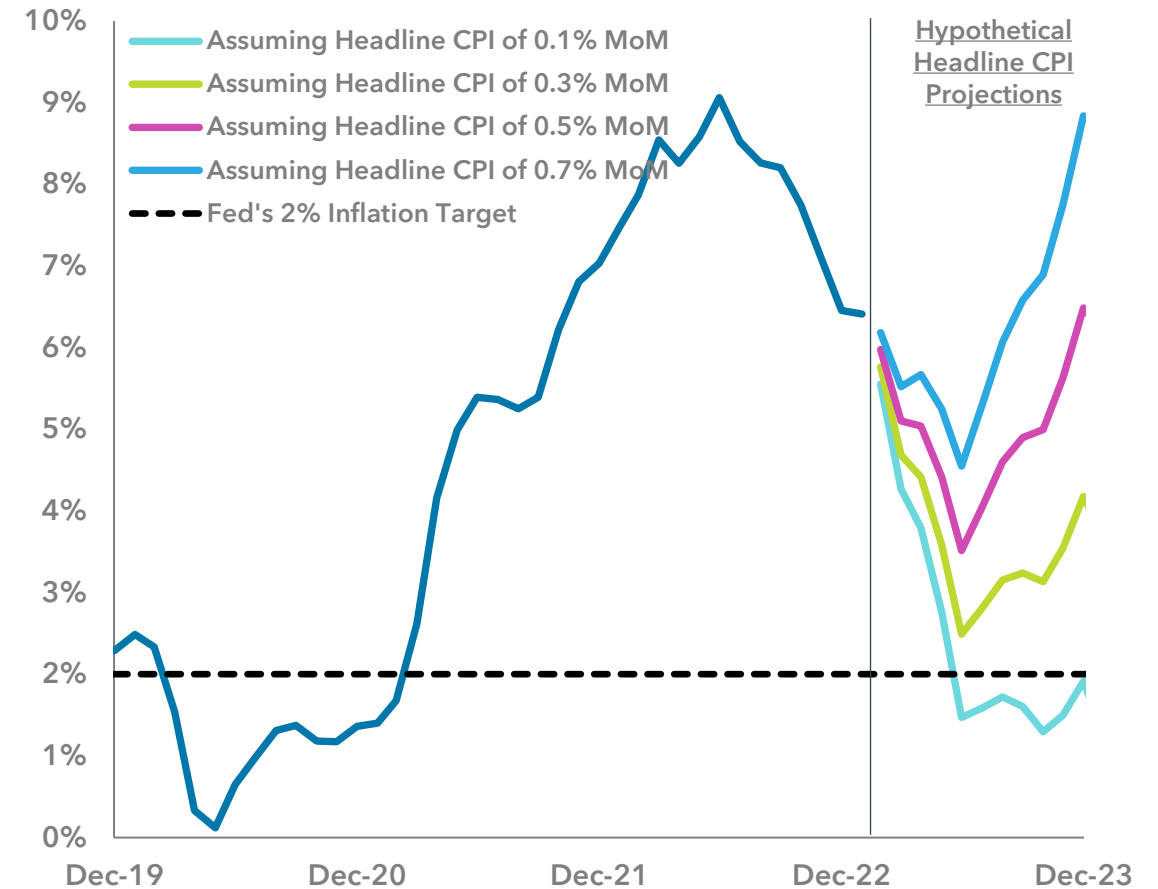
Effective Fed Funds Rate less YoY Inflation Gauge (%)



Source: Bloomberg, iCapital Investment Strategy, as of February 27, 2023. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

U.S. Headline CPI Inflation Projections

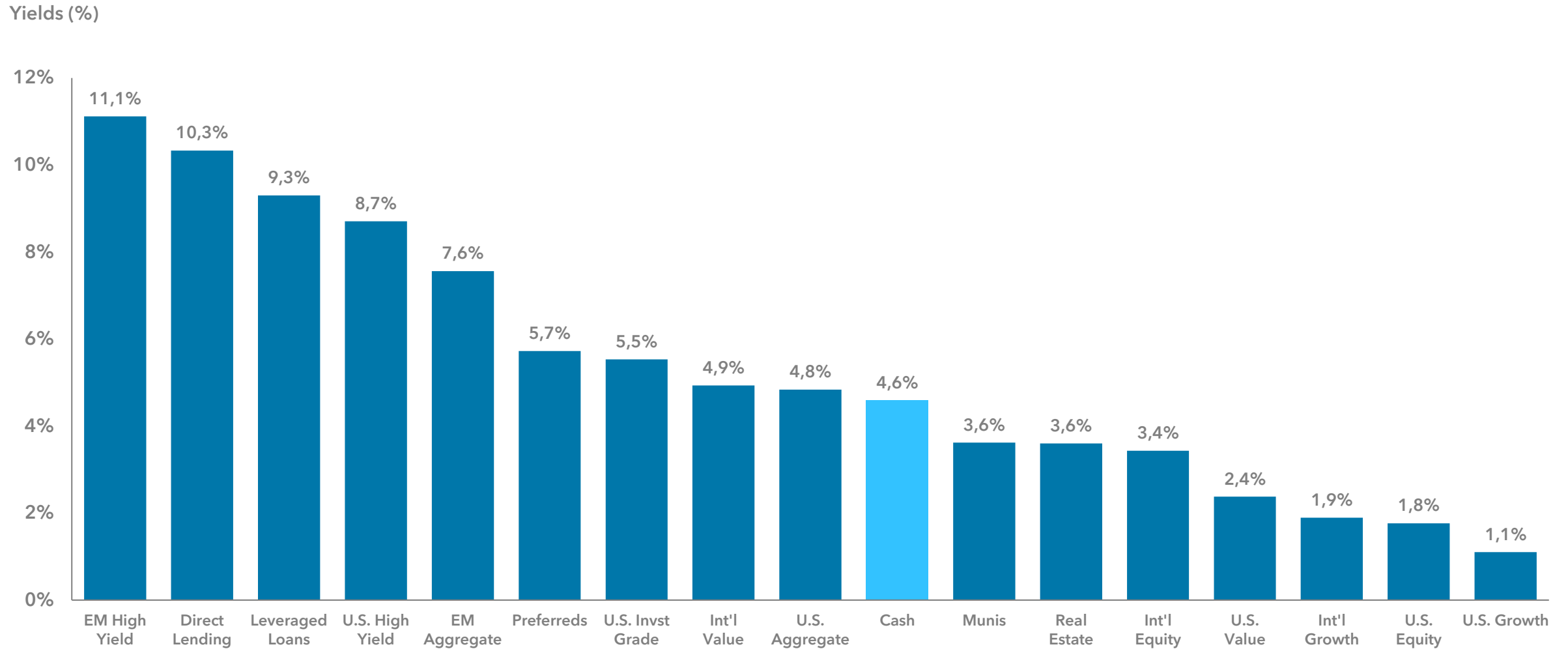
Projected Δ YoY headline CPI assuming various Δ MoM



Source: Bloomberg, Bureau of Labor Statistics, iCapital Investment Strategy, as of February 27, 2023. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Theme #1 - Defense: get paid while you wait out the economic uncertainty

Cross-Asset Class Yields

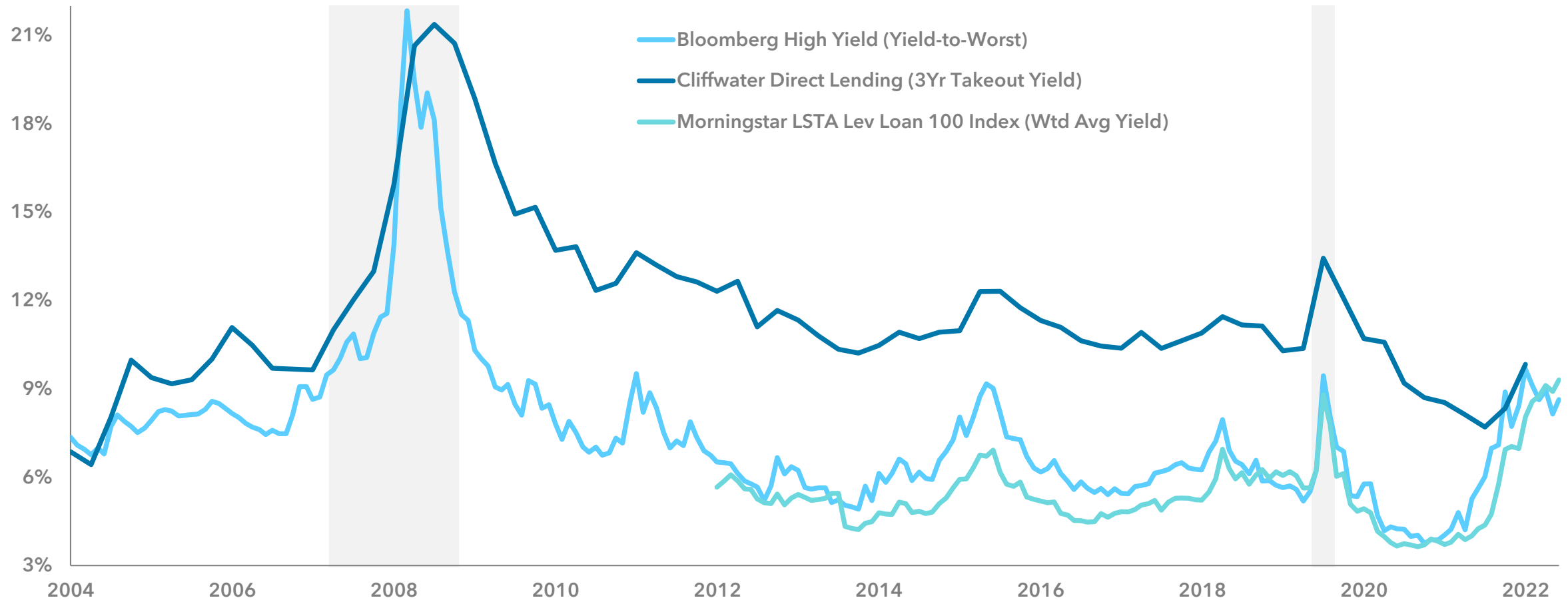


Source: Bloomberg, Cliffwater, LSTA, NCREIF, iCapital Investment Strategy, with data pulled on January 31, 2023. Note: Equity yields shown are estimated dividend yields and bond yields, unless otherwise noted, are indicated as yield-to-worst. All asset class yields are as of February 27, 2023 except Real Estate which is as of September 31, 2022. *Real Estate yield is based on NCREIF Index and we use the cap rate as a generally indication of yield **Direct Lending yield is based on Cliffwater BDC Index which we use as a real-time proxy for Cliffwater Direct Lending Index. ***Preferred yield is based on the Invesco Preferred ETF. ****Cash yield is based on the Fed Funds Effective Rate. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed..

Private credit offers an attractive yield and floating rate exposure

Private credit yields have compared favorably to public fixed income

Yield (%)

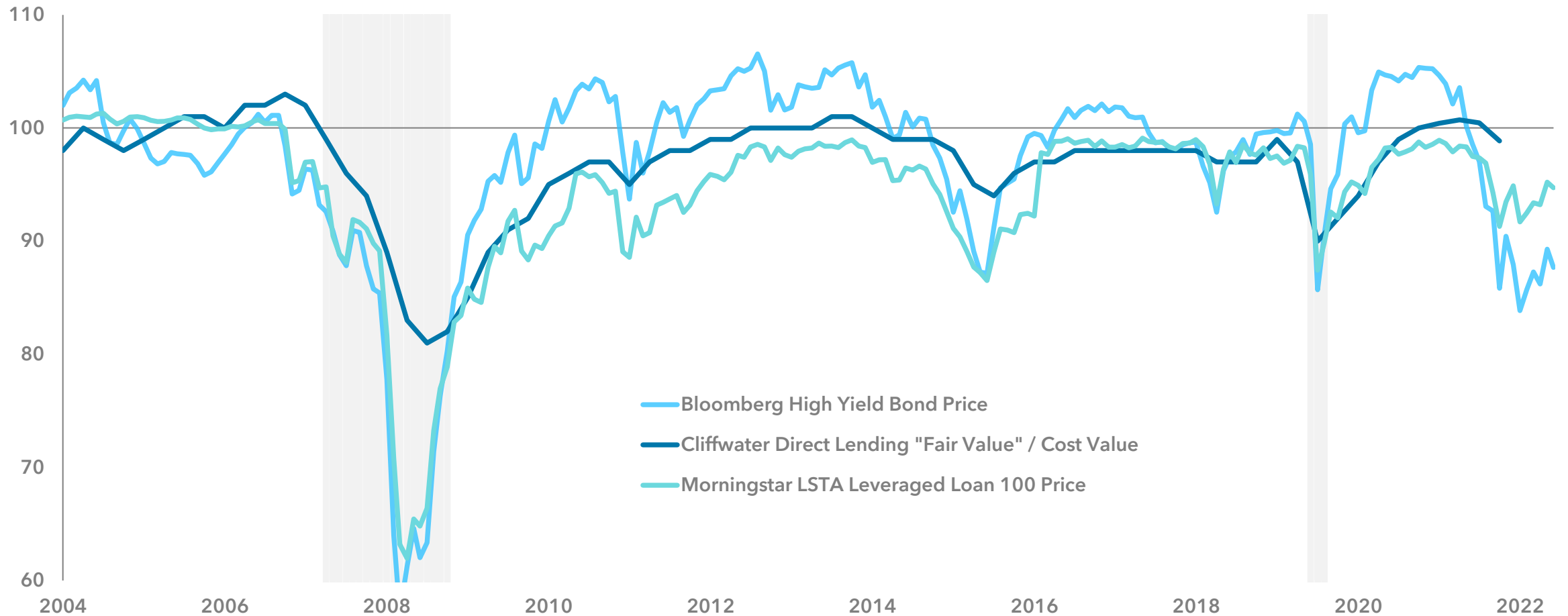


Source: Bloomberg, Cliffwater, Morningstar LSTA, iCapital Investment Strategy, as of February 28, 2023. Note: Bloomberg High Yield yield-to-worst and Morningstar LSTA Lev Loan 100 Index weighted average yield are both monthly figures with data through February 28, 2023. Cliffwater Direct Lending 3yr takeout yield is quarterly data through September 30, 2022. The 3Yr Takeout Yield is calculated by assuming loans will be repaid at par in three years, the average life of direct loans For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed..

Private credit drawdown risk moderated by less frequent valuations, less “technicals”

Fair Value to Cost

Market value to cost for direct lending with high yield bond and leveraged loan prices (Cost = 100)

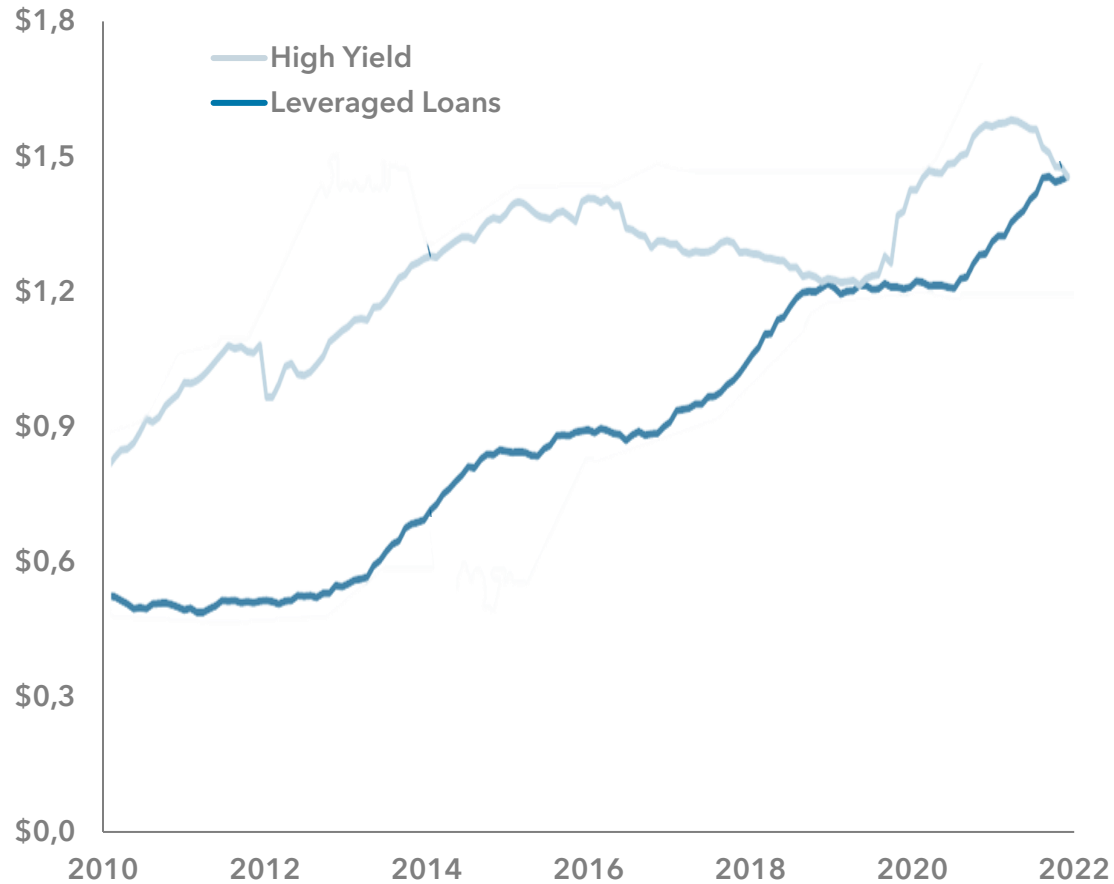


Source: Bloomberg, Cliffwater, Morningstar LSTA, iCapital Investment Strategy, as of February 28, 2023. Note: Bloomberg High Yield yield-to-worst and Morningstar LSTA Lev Loan 100 Index weighted average yield are both monthly figures with data through February 28, 2023. Cliffwater Direct Lending 3yr takeout yield is quarterly data through September 30, 2022. Cliffwater Direct Lending "Fair Value" / Cost Value is calculated based on the SEC filings of the BDCs that comprise the Cliffwater Direct Lending Index and is based on quarterly data through September 30, 2022. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

The size of publicly traded Leveraged Loans market grew while credit quality dropped

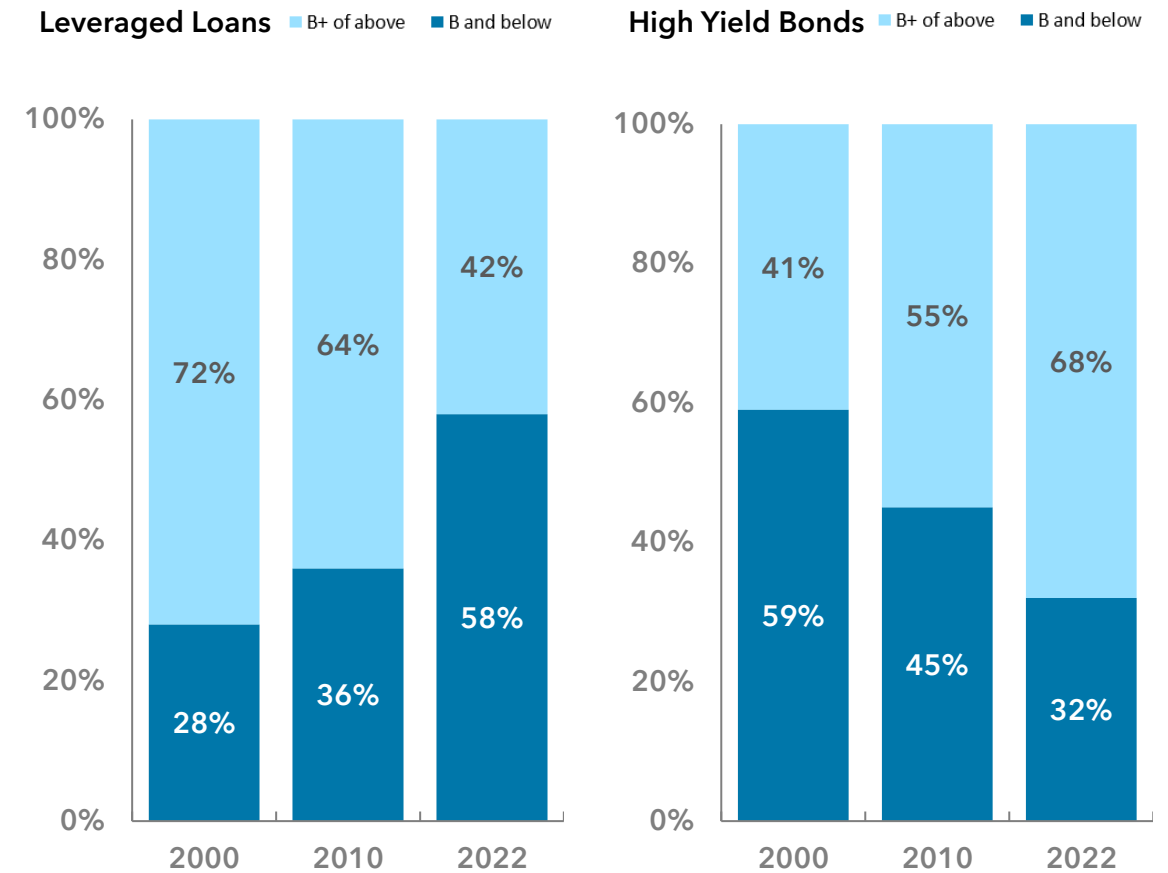
Lev Loan market has nearly tripled now stands equal to HY market

Total outstanding notional for U.S. Lev Loans and U.S. HY Bonds (\$ trillion)



Credit quality for lev loans continues to deteriorate while HY improves

Credit quality breakdown by rating (% of overall market value)



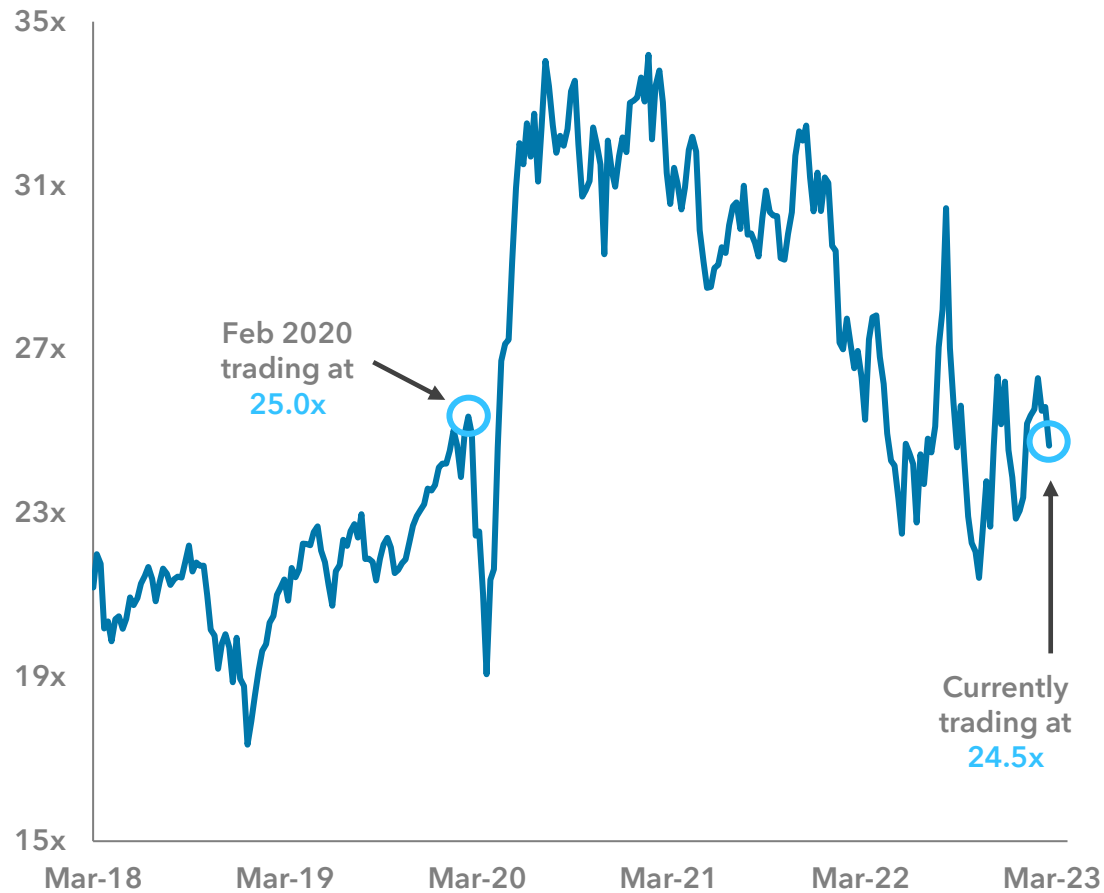
Source: Bloomberg, Morgan Stanley, Morningstar, ICE BofA, iCapital Investment Strategy, as of October 3, 2022. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Source: Bloomberg, Morningstar LSTA, ICE BofA, iCapital Investment Strategy, as of August 31, 2022. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Theme #2 - Opportunity: valuations have corrected sharply across many sectors

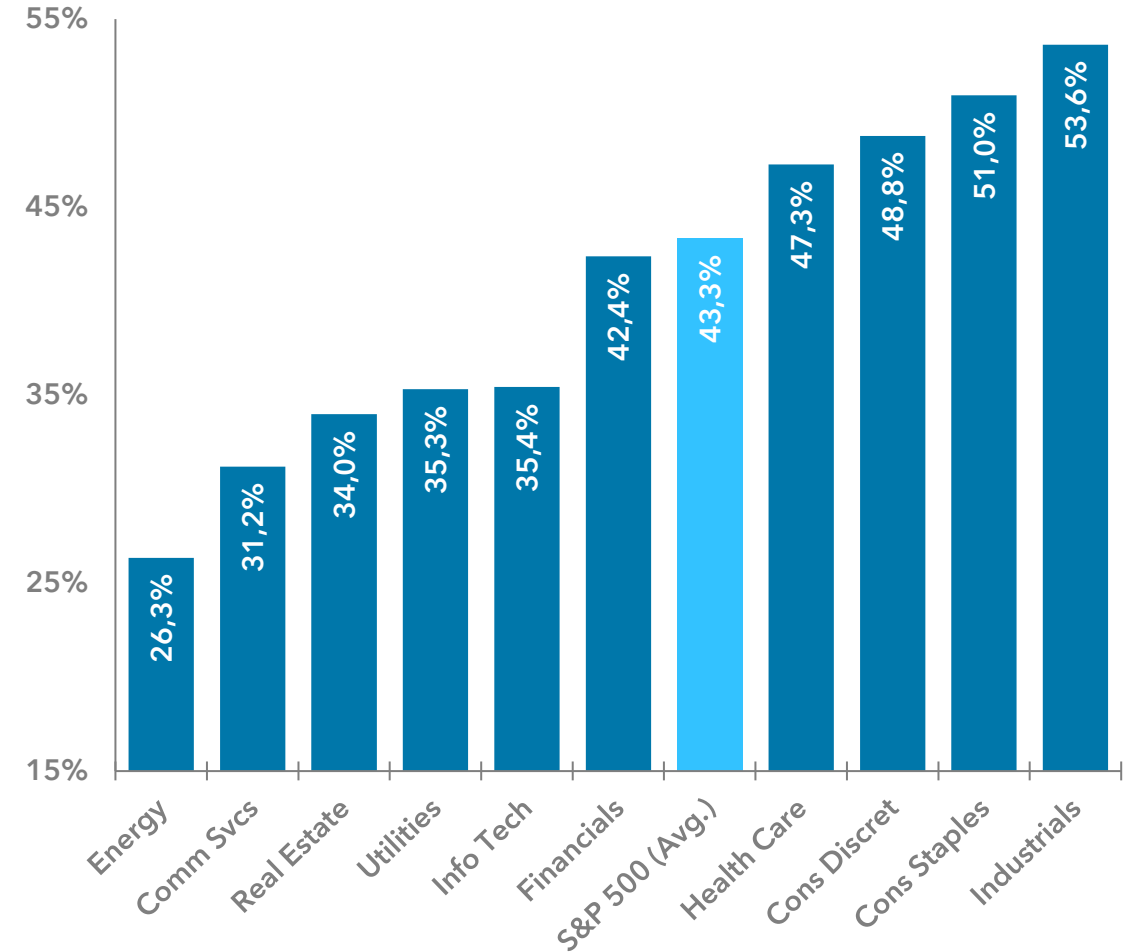
Nasdaq Valuation Reset

Forward 12-month P/E for Nasdaq Composite Index



Valuations in certain sectors have reset considerably

Bottom-Up Sector Level NTM P/E %tile (over a 5-year lookback)



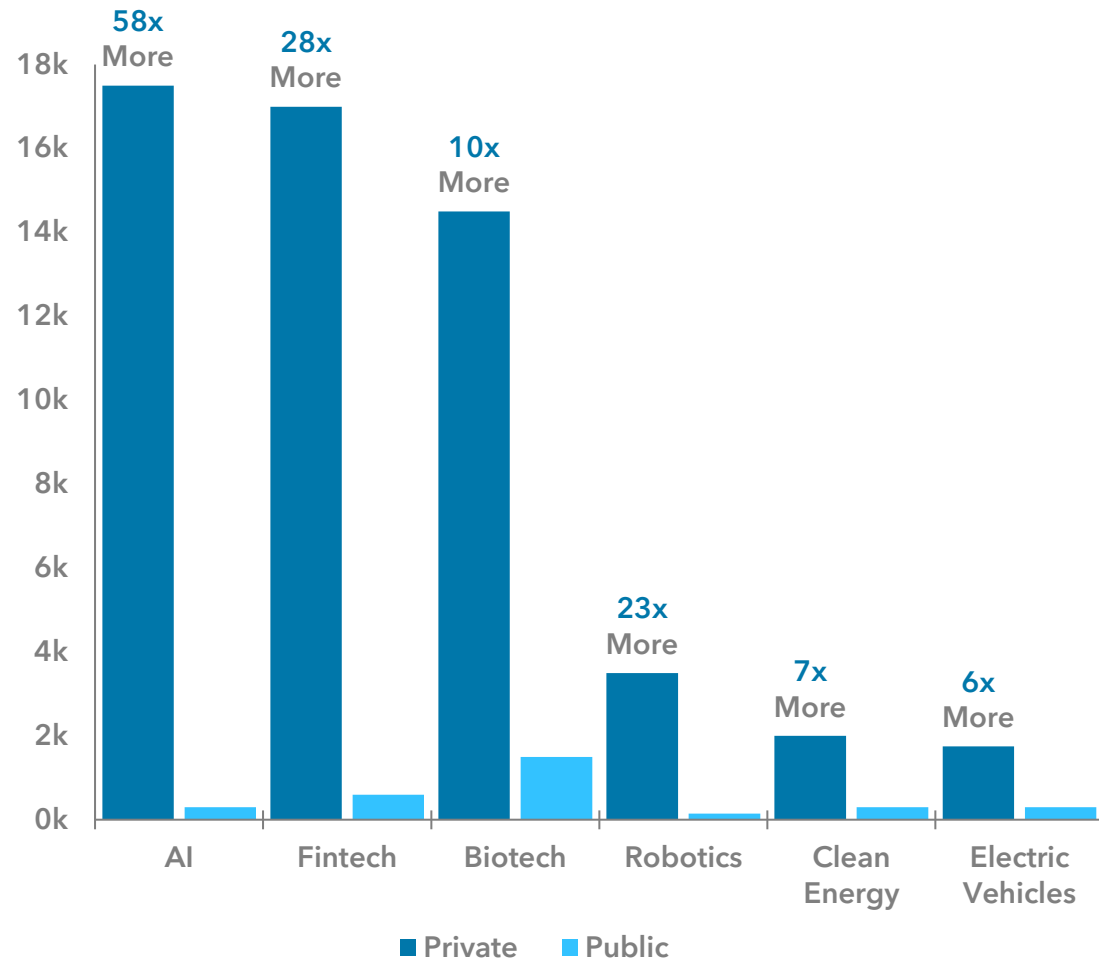
Source: Bloomberg, iCapital Investment Strategy, as of February 27, 2023. Note: Forward 12-month P/E is the blended 12-month P/E for NASDAQ Composite Index. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Source: iCapital Investment Strategy, Bloomberg, with data pulled on February 28, 2023. Note: Analysis based on S&P 500 companies. %tile's shown is based the average stocks %tile within that sector. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed

Don't give up on growth and innovation, but access it through private markets

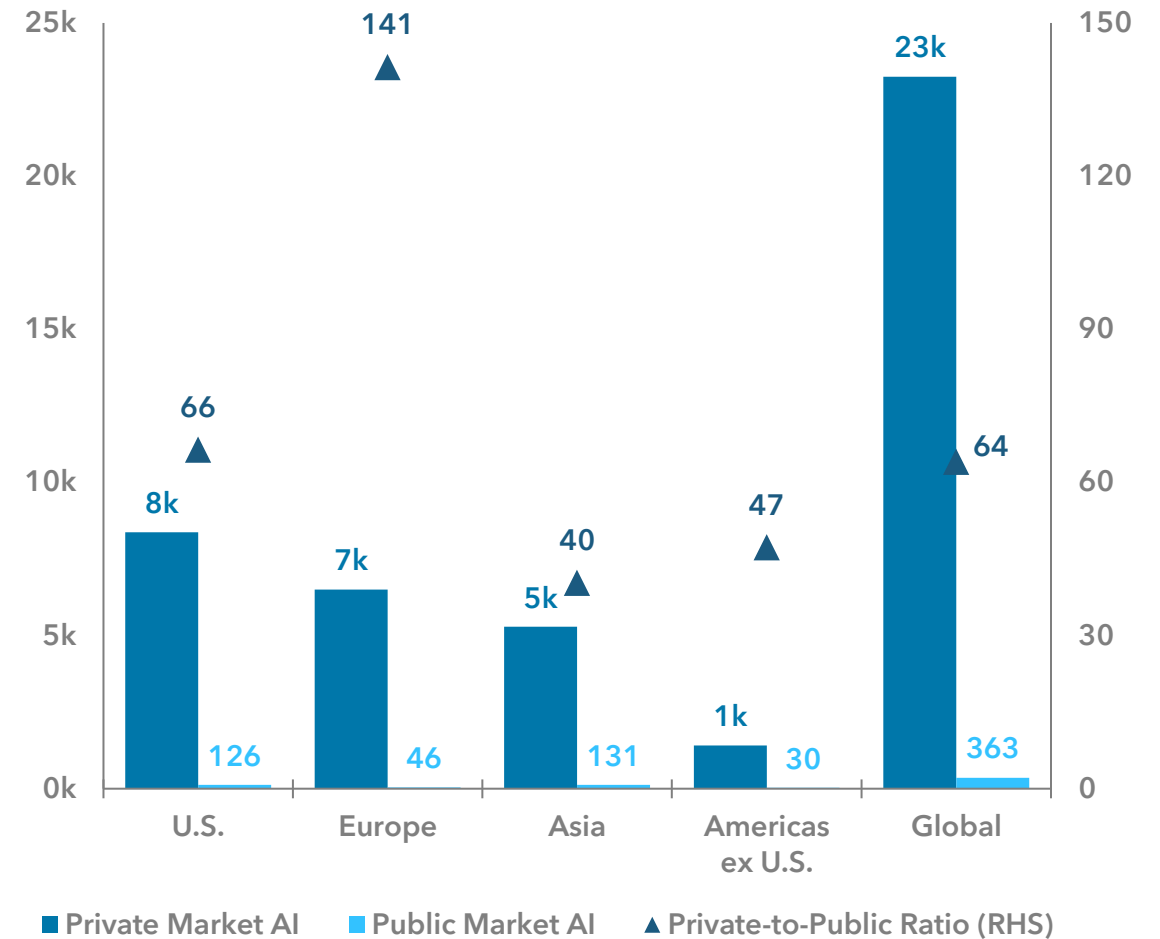
Venture capital invests in innovation

Venture capital invests in innovation by key select verticals (k)



Private markets offer investors a larger investment opportunity in AI

of private vs. public market artificial intelligence (AI) / machine learning companies



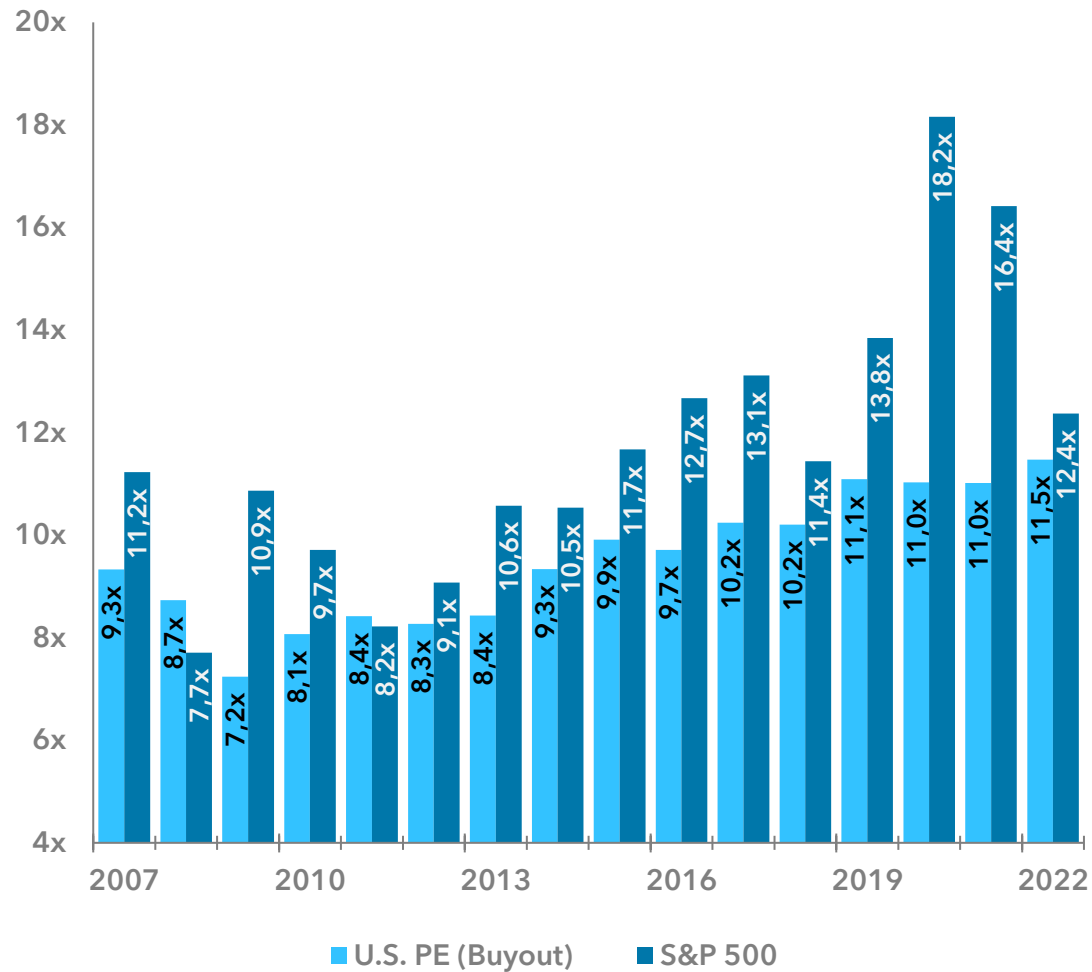
Source: Pitchbook, iCapital Investment Strategy, as of February 7, 2023. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Source: Pitchbook, iCapital Investment Strategy, as of February 7, 2023. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Think long-term, commit now to deploy capital later at lower valuations

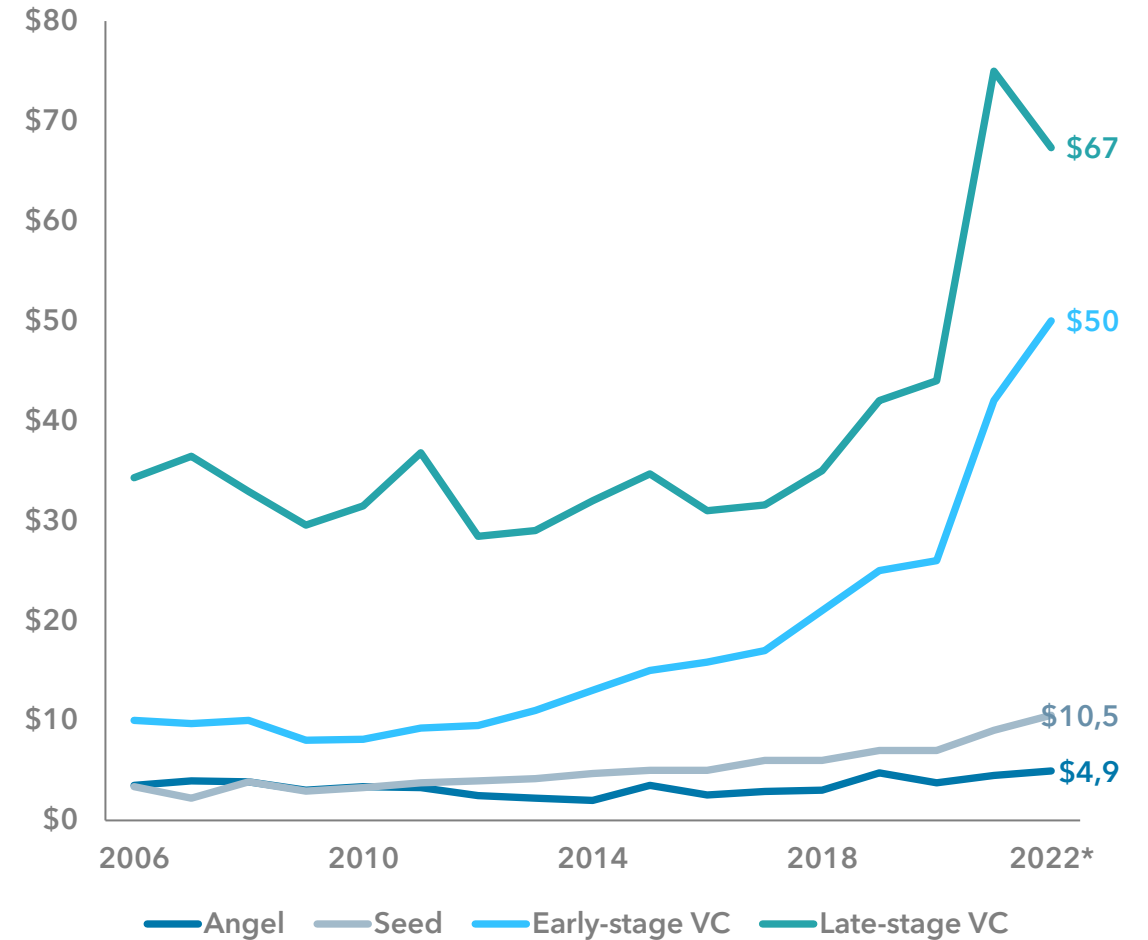
Private equity valuations tend to reflect public ones with a lag

Year-end median EV/EBITDA Multiples (x)



US VC valuations have risen for later stage companies

Median US VC pre-money valuations (\$M) by stage



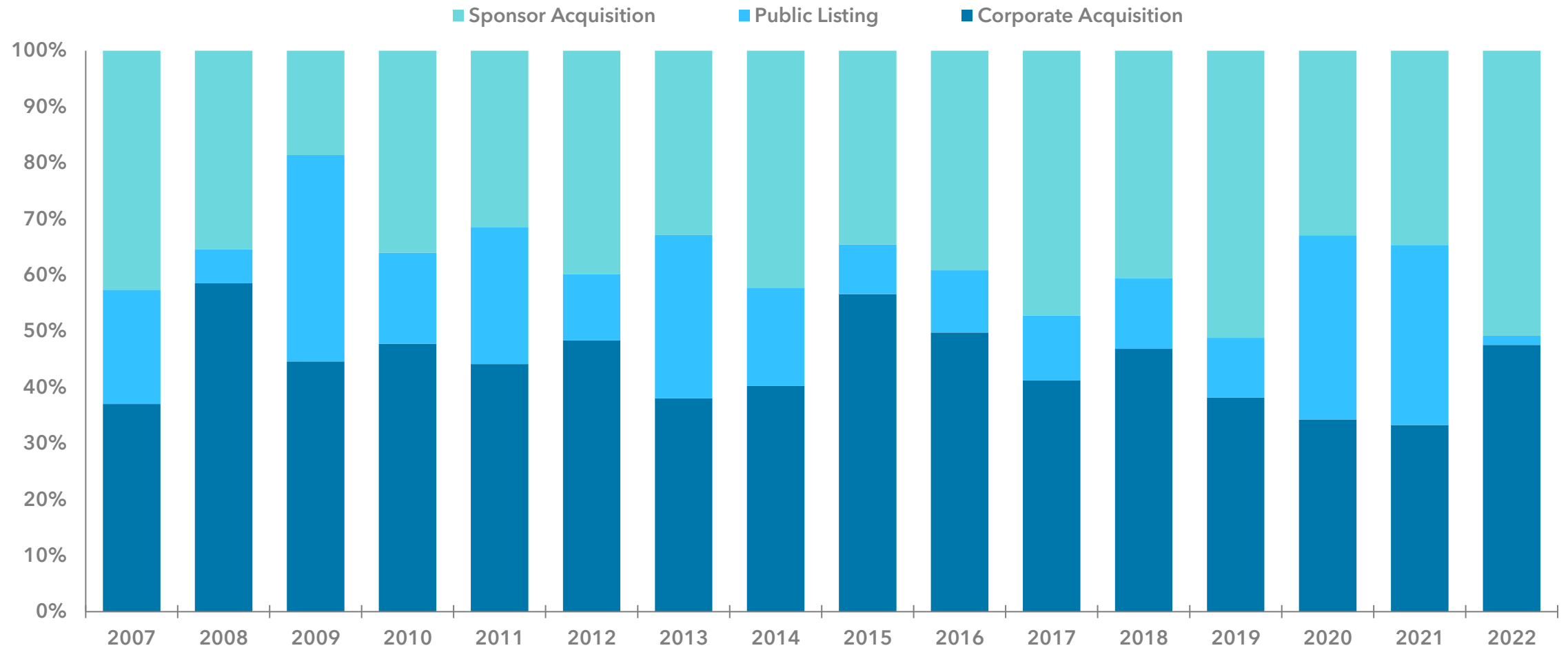
Source: Pitchbook, iCapital Investment Strategy, as of February 27, 2023. Note: 2022 number is based on preliminary YTD data through December 31, 2022. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Source: Pitchbook, iCapital Investment Strategy, as of February 27, 2023. Note: 2022 number is based on preliminary YTD data through December 31, 2022. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

IPO exits may remain challenging, but strategic and sponsor-backed M&A should persist

Evolution of PE exit types

Share of US Private Equity exit value by type

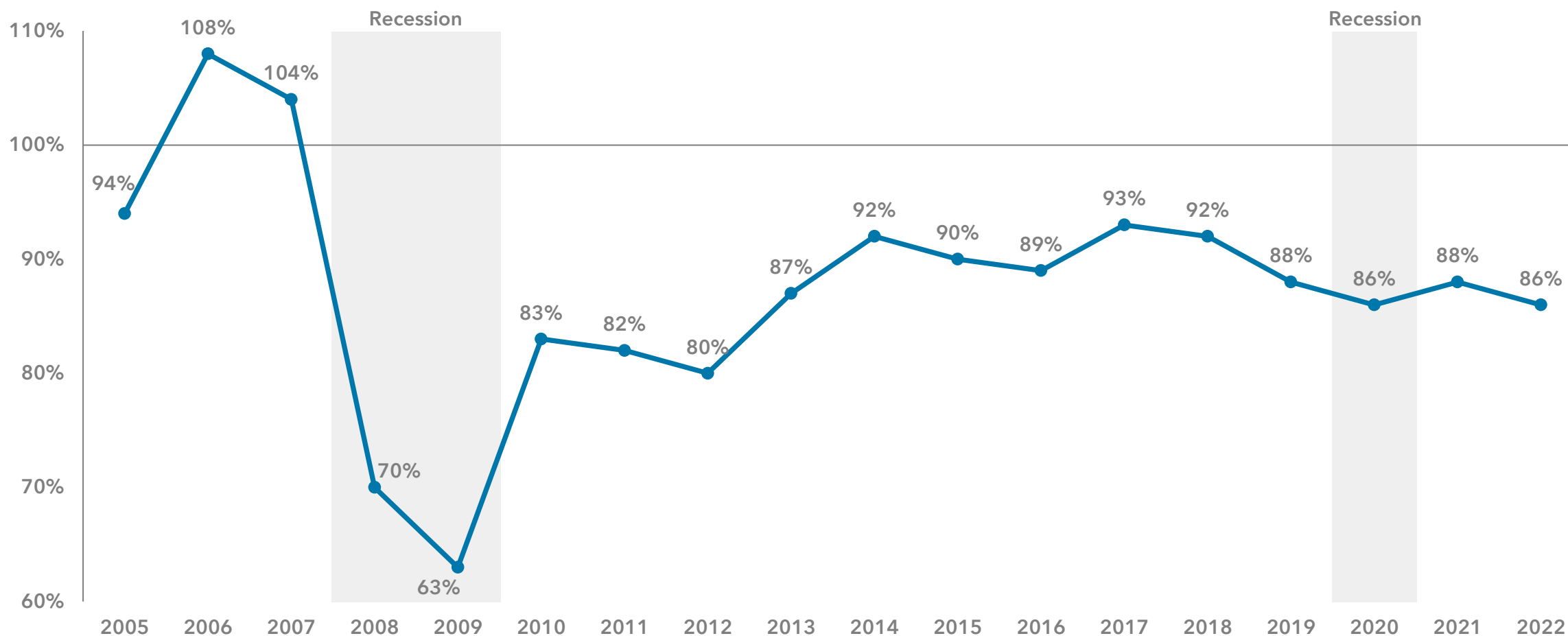


Source: Pitchbook, iCapital Investment Strategy, was of September 30, 2022. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Secondary private equity present a potentially attractive entry point to new investors

Secondary Pricing

Historical pricing for Secondaries (% of net asset value)



Source: Greenhill, Jefferies Global Secondary Market Review, iCapital Investment Strategy, as of August 2022. Note: 2022 data is as of quarter-end June 30, 2022. Secondary pricing is based on LP portfolios. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Net IRRs for private equity improved for downturn-year vintages

U.S. PE buyout vintage returns have strengthened in downturns

IRR by Vintage Year



Source: Bloomberg, Pitchbook, as of May 20, 2021. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Private markets delivered a strong record of outperformance over various time horizons

Alternative asset class returns

Private market asset class quarterly returns (via Preqin, %)

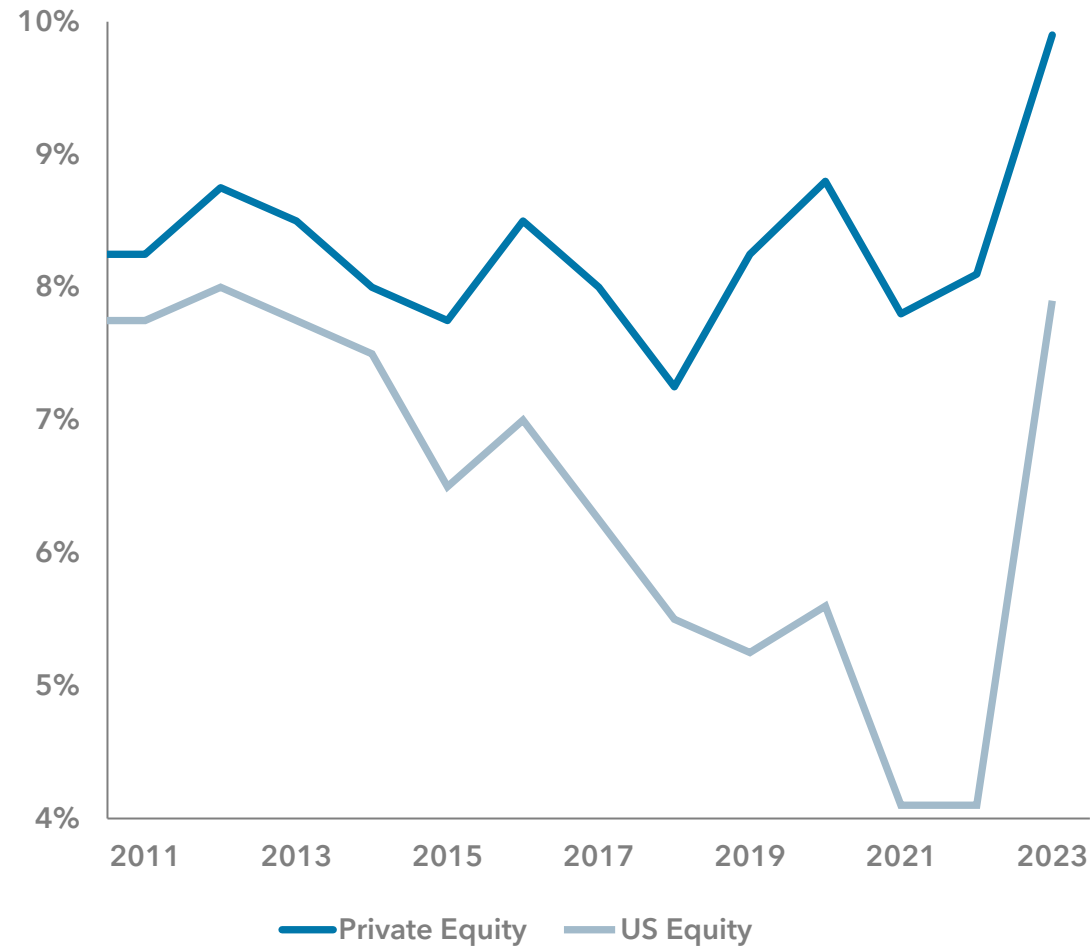
Quarterly Return (%)									Time-Period Return (%)*			
Q3'20	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22	YTD	1YR	3YR	5YR
10.5% Private Equity	18.2% Venture Capital	17.3% Venture Capital	15.5% Secondaries	9.7% Secondaries	11.0% S&P 500	11.0% Natural Resources	10.4% Natural Resources	4.9% Infrastructure	22.6% Natural Resources	29.8% Natural Resources	96.8% Venture Capital	157.8% Venture Capital
9.3% Venture Capital	12.2% Private Equity	10.5% Private Equity	12.6% Private Equity	8.5% Venture Capital	8.3% Secondaries	5.5% Infrastructure	6.3% Secondaries	1.3% Real Estate	13.1% Infrastructure	20.0% Infrastructure	81.3% Secondaries	123.4% Private Equity
8.9% S&P 500	12.1% S&P 500	9.0% Secondaries	12.4% Venture Capital	7.8% Real Estate	7.4% Real Estate	4.5% Real Estate	3.1% Real Estate	0.2% Venture Capital	9.2% Real Estate	17.2% Real Estate	75.3% Private Equity	121.1% Secondaries
7.8% Private Capital	9.8% Private Capital	8.8% Private Capital	10.5% Private Capital	4.4% Private Debt	7.1% Private Equity	2.9% Secondaries	2.1% Infrastructure	0.1% Natural Resources	3.3% Secondaries	11.9% Secondaries	62.7% Private Capital	99.3% Private Capital
4.4% Private Debt	9.8% Secondaries	6.2% S&P 500	8.5% S&P 500	4.3% Private Capital	6.8% Private Capital	1.4% Private Capital	0.2% Private Capital	-1.1% Private Debt	0.2% Private Debt	6.9% Private Capital	45.2% Real Estate	78.0% Infrastructure
2.7% Real Estate	5.0% Private Debt	6.1% Natural Resources	6.0% Natural Resources	3.9% Infrastructure	6.1% Infrastructure	1.3% Private Debt	-0.1% Private Debt	-1.5% Private Capital	0.1% Private Capital	4.4% Private Debt	44.9% Infrastructure	68.8% Real Estate
2.3% Infrastructure	4.2% Real Estate	5.4% Private Debt	5.9% Real Estate	3.7% Private Equity	5.9% Natural Resources	0.1% Private Equity	-0.8% Private Equity	-2.5% Private Equity	-3.3% Private Equity	3.6% Private Equity	42.8% Natural Resources	55.5% S&P 500
1.7% Secondaries	4.1% Infrastructure	5.0% Infrastructure	5.4% Private Debt	2.3% Natural Resources	4.3% Private Debt	-2.6% Venture Capital	-6.8% Venture Capital	-4.9% S&P 500	-9.0% Venture Capital	-5.5% Venture Capital	31.1% Private Debt	55.3% Natural Resources
1.4% Natural Resources	4.0% Natural Resources	3.3% Real Estate	3.5% Infrastructure	0.6% S&P 500	3.8% Venture Capital	-4.6% S&P 500	-16.1% S&P 500	-5.6% Secondaries	-23.9% S&P 500	-15.5% S&P 500	26.5% S&P 500	47.2% Private Debt

Source: Preqin, Bloomberg, iCapital Investment Strategy, as of February 27, 2023. Note: Private market data is based on Preqin quarterly benchmark data as of September 30, 2022. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Looking ahead, private equity & credit are still expected to outperform stocks, bonds

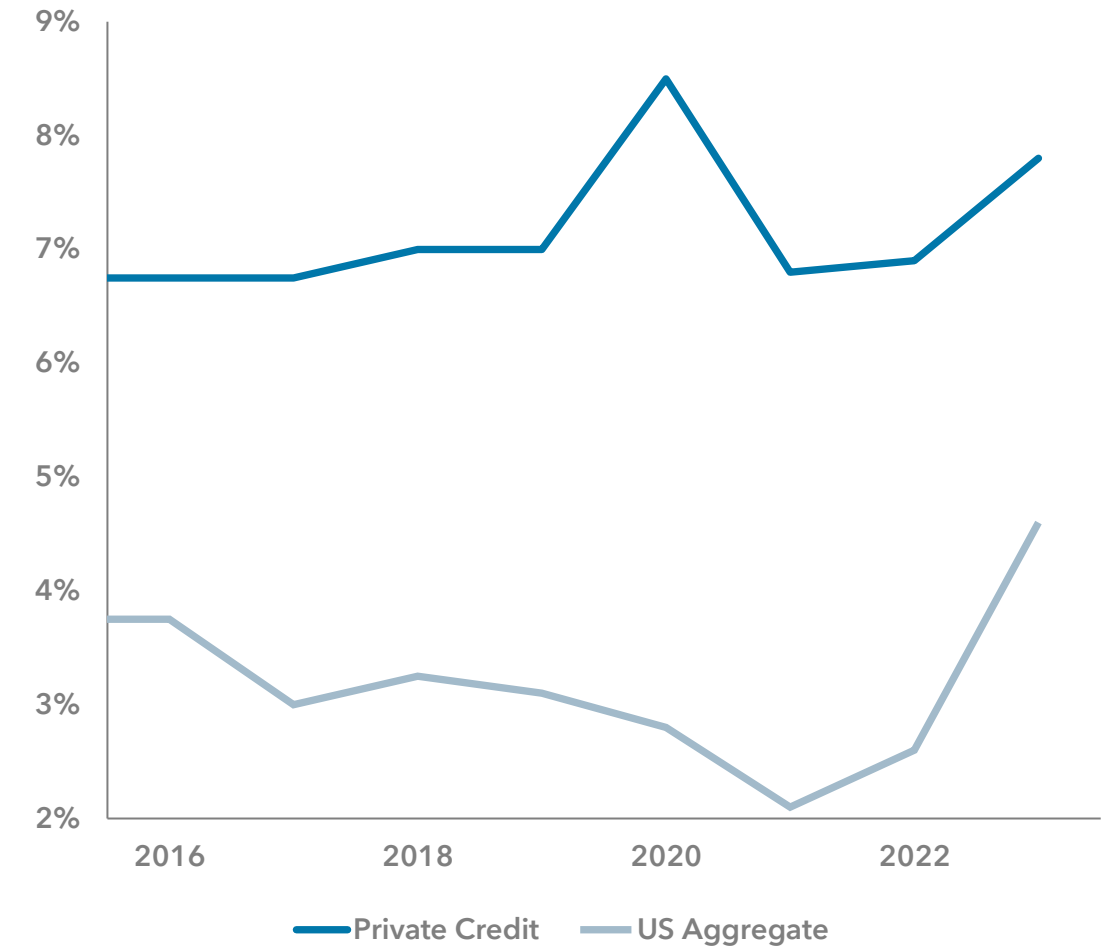
Expected Long-Term Returns for Public vs Private Stocks

Private Equity vs. US Equity* LTCM Return (%)



Expected Long-Term Returns for Bonds vs Private Credit

Private Credit* vs. US Aggregate LTCM Return (%)



Source: JPMorgan Asset Management Long-Term Capital Market Assumptions, 2011 – 2023. Note: Returns are expressed as compound returns based on a 10- to 15-year look-out period. U.S. Large Cap is used to represent U.S. Equity. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Source: JPMorgan Asset Management Long-Term Capital Market Assumptions, 2016 – 2023. Note: Returns are expressed as compound returns based on a 10- to 15-year look-out period. Direct lending is used to represent the private credit market. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

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North America

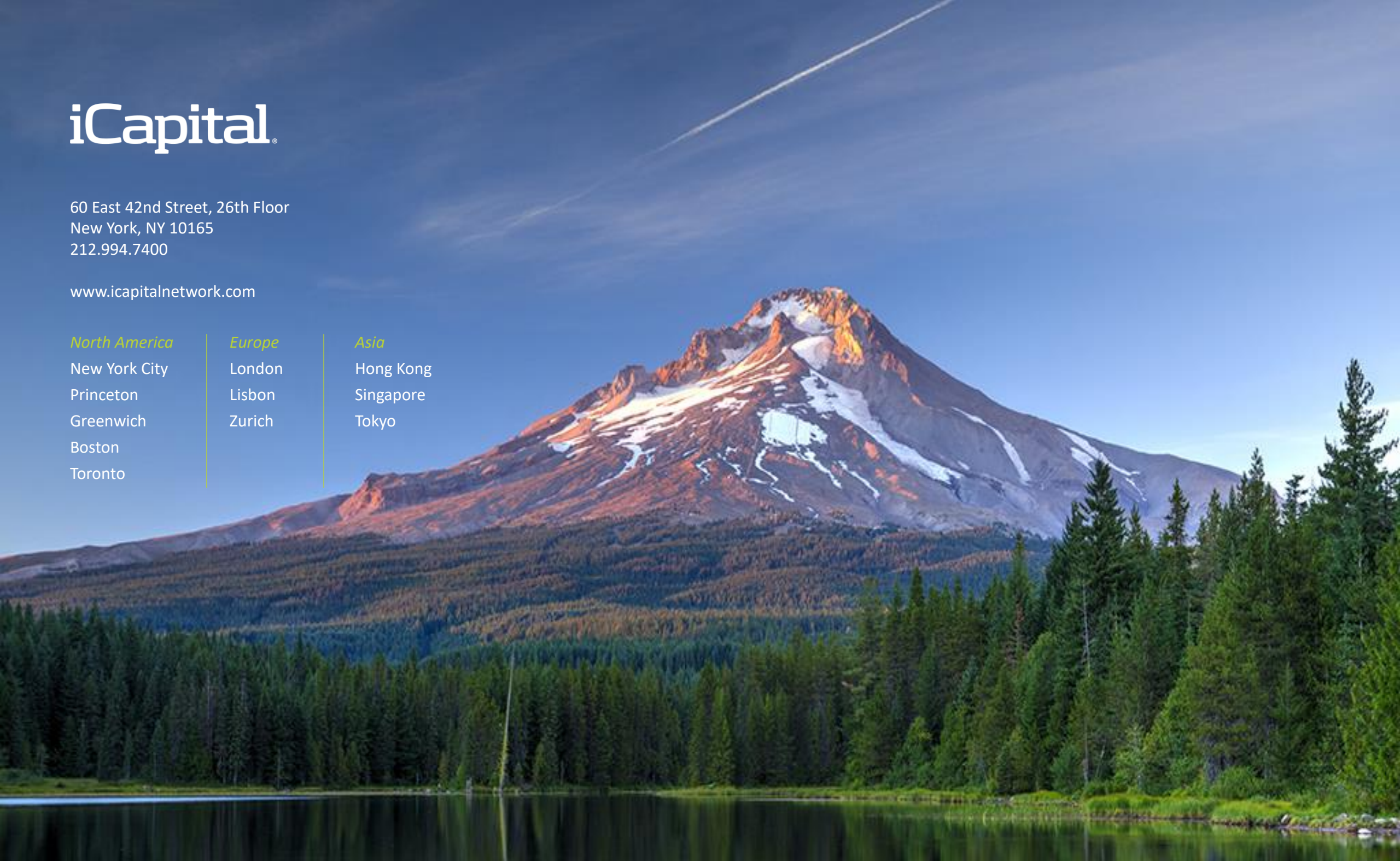
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Princeton
Greenwich
Boston
Toronto

Europe

London
Lisbon
Zurich

Asia

Hong Kong
Singapore
Tokyo





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