NEW REPUBLIC PARTNERS

MARKET COMMENTARY

3Q 2022

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Market Monitor 2022	Q3%	YTD%
MSCI ACWI Index	-6.8%	-25.6%
S&P 500 Total Return Index	-4.9%	-23.9%
Bloomberg Barclays Agg. Bond Index	-4.8%	-14.6%
Bloomberg Commodity TR Index	-4.1%	+13.6%

A Wild and Volatile Ride for Financial Markets

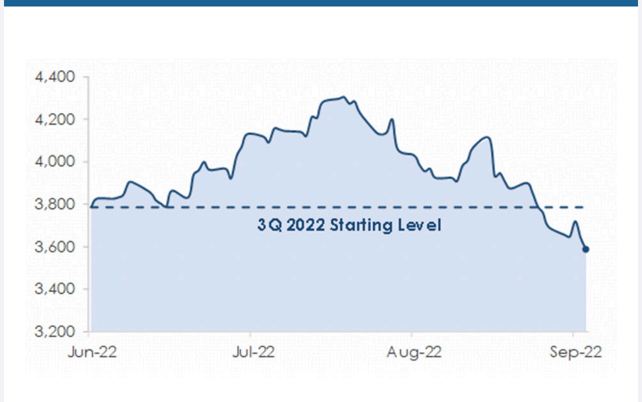
Financial markets in the third quarter of 2022 were unsettled and volatile. While the Federal Reserve marched rates higher at a steep clip, trends for both equity and credit markets changed multiple times intra-quarter as investors reacted to data and repositioned portfolios.

Financial Tightening is the Key Phrase

The quarter started with the S&P 500 gaining approximately 14% through August 16, with expectations for a shorter tightening cycle and potential 2023 interest rate cuts. However, investors' hopes unwound with the August inflation report and steadfast hawkish commentary from the Federal Reserve, leading the S&P 500 to give back all its gains plus more during the third quarter. Such a roller coaster is not uncommon in a bear market. In fact, the average bear market has two rallies of greater than 10%, and we have already witnessed two such rallies.

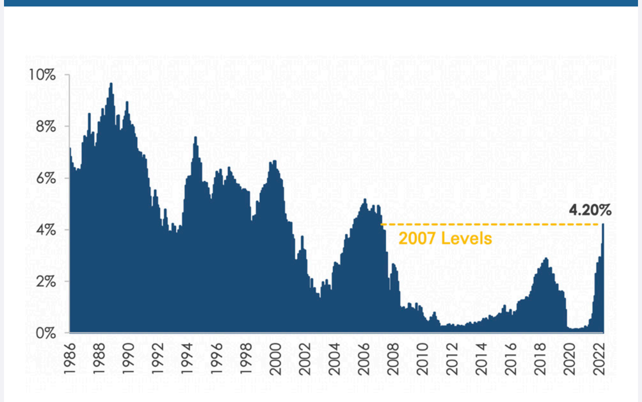
The Federal Reserve has now made it clear that financial tightening is the overriding theme to any asset allocation analysis. To put that tightening into perspective, one need only note that the 2-year yield was just 0.73% on Dec. 31, 2021, but now sits at 4.25%. The parabolic move higher in Treasury yields this year provides a visual depiction of the Federal Reserve's aggressive interest rate increases. Tightening conditions are reverberating through the system as the U.S. dollar increases, mortgage rates quickly rise, and housing affordability drops. U.S. bank reserves have dropped by $1T in the past 40 weeks, which is five times faster than in the previous cycle. This quick tightening regime in the U.S. and developed markets globally has caused a great deal of volatility in the bond markets as highlighted by the MOVE index.

S&P 500 Return Path During Third Quarter 2022



Source: MarketDesk. Data as of 9/30/2022.

2-Year Treasury Note Yield



Source: MarketDesk, U.S. Treasury. Data as of 9/30/2022.

MOVE Index

Source: MarketDesk, New Republic Partners, Bloomberg Data.

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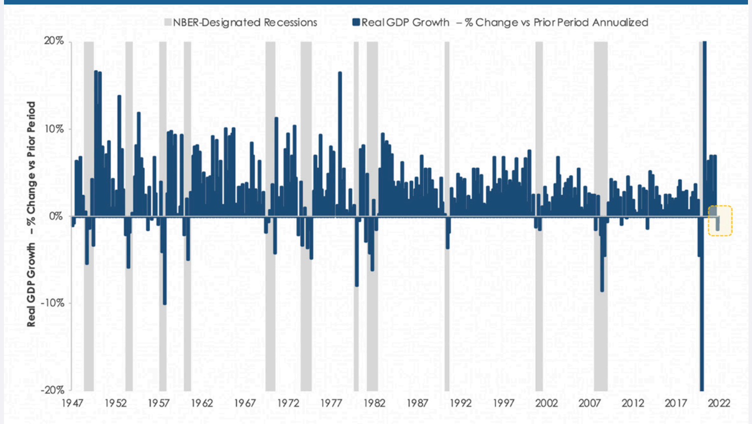
An Impossible Trinity for Central Banks

Central banks around the globe face a sizable challenge as they are either implicitly or explicitly tasked with 1) lowering inflation, 2) managing growth, and 3) maintaining financial stability with one blunt tool: interest rates. This is a fraught task and such a fast shift in rates raises the potential for something to break in the system, as highlighted by the recent tumult in the U.K. gilts market and even within the U.K. government!

The tightening regime has already slowed growth in the U.S. and increased the prospect of a recession in the near term. In fact, the U.S. economy shrank 0.6% on an annualized basis during the second quarter. And that negative reading followed the first quarter's 1.6% annualized decline, meeting the technical definition of a recession. While the National Bureau of Economic Research is the final arbiter of what constitutes a recession, market participants are anxiously looking for that slowing growth/recession picture to materialize in falling earnings estimates, which for now has yet to occur on a widespread basis in the U.S. Historically in past bear markets, equity prices usually bottom before the last earnings revisions and after the Federal Reserve has started to cut rates; yet both of those conditions seem far from being met at this stage of the business cycle. We believe that earnings expectations are still too optimistic, and the path forward for rates will continue to be higher.

Economic Growth Contracts for Two Consecutive Quarters



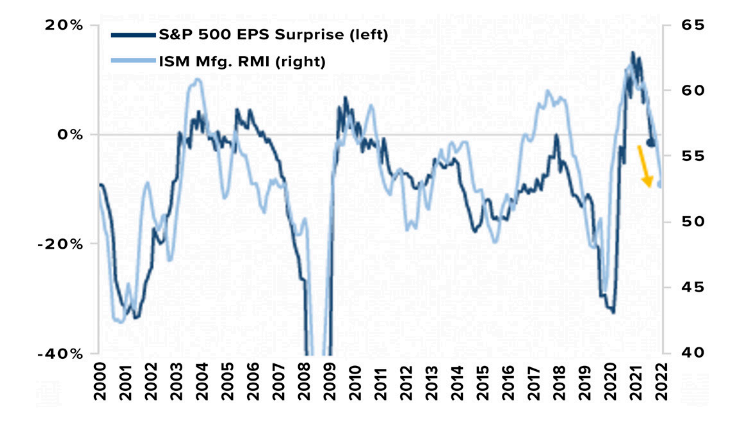
Source: MarketDesk. Disclosure Data is sourced from the U.S. Bureau of Economic Analysis GDP Growth with represents percentage vs prior quarter annualized and is seasonally adjusted.

Picking Up the Nickels While Looking to the Future

Amidst the low clarity and myriad of uncertainties in the market today, we believe investors should do two seemingly contradictory things: 1) take what the market gives you and 2) allocate capital to managers who are best positioned to take advantage of what the future is likely to bring.

On the first point, we believe investors are finally getting paid to wait out the various market scenarios with short-duration, high-quality fixed income, whether in short-term treasuries or AAA corporates. Currently, the market is supplying a 4-6% yield in such paper with only 2-3.5 years of duration. We have not recommended allocating capital to traditional fixed income in more than 18 months because of concern that any fixed-income duration would be punished by the relentless rise in base rates. But today, investors can earn reasonable nominal yields in traditional fixed income without taking excessive duration risk. While market pullbacks are never pleasant, we are working with clients to review their current tax basis within portfolios, particularly in positions that have been identified for transition or re-allocation. Sometimes what the market gives you is the opportunity to accelerate these transitions.

Expect Weak EPS Results over the Next 12 Months



Source: MarketDesk. Surprise = actual vs consensus estimate one year ago.

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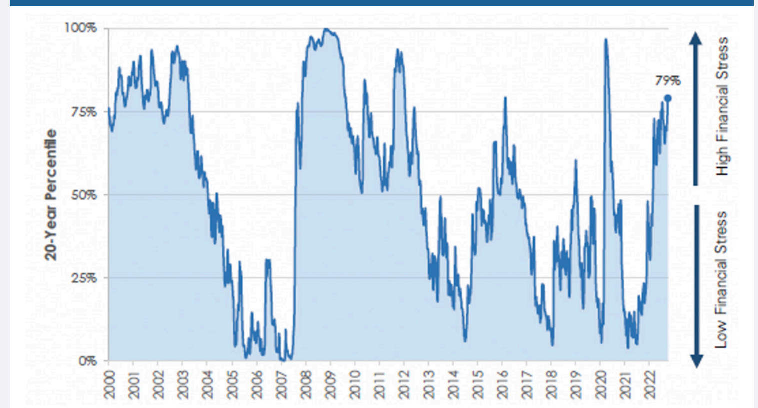
Moving to Where the Puck is Headed

Further, on the second point, we agree with legendary investor, Stanley Druckenmiller, who recently guided investors to allocate capital by "imagining how the world will look 18-24 months from now and how that might be reflected in security prices."* The combination of the transition to a new interest rate regime, a looming recession, and the current volatility in the markets presents opportunities of which elite managers can take advantage. These opportunities often exist beyond the 60/40 stock/bond portfolio in alternative asset classes. As Druckenmiller also noted in the same podcast, CTA/macro strategies benefit from the heightened macro-volatility environment, while credit relative value strategies can take advantage of amplified non-economic trading activity. In addition, hedged equity managers provide a lower beta entry point into equity markets as these managers have the flexibility and experience to exploit stock dispersion as earnings are revised downward, while also nimbly adding to positions when there is greater visibility in trough earnings for companies they know well.

Office of Financial Research - Financial Stress Index



Source: MarketDesk, Office of Financial Research.

Private Market Investments Bolster Multi-Asset Portfolios

As the market environment becomes more challenging, we believe we are witnessing an end to more than a decade of "easy beta" where investors could achieve their goals merely by owning the indexes of traditional markets. While lower-cost, tax-managed strategies play an important core role in most portfolios, we believe that allocations to an expanded opportunity set, investing with and alongside top-tier active managers is crucial for mitigating volatility and market drawdowns. As part of that continuing regime shift, we believe the return-profile, diversification, and portfolio-efficiency benefits of adding private market investments to multi-asset portfolios are readily apparent. Opportunities to invest in innovation and economic growth do not solely lie within the sphere of the public markets. In our view, building a diversified private program with the best private market investors far outweighs the lower-liquidity constraints of these strategies.

Horizon Returns of Select Private Market Strategies

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021*
Private debt 15.0%	Other PE 29.0%	Venture capital 19.3%	Funds of funds 13.0%	Other PE 18.9%	Other PE 29.3%	Other PE 32.4%	Growth-Expansion 17.5%	Growth-Expansion 37.0%	Growth-Expansion 51.4%
Secondaries 15.0%	Venture capital 21.1%	Real estate 16.5%	Venture capital 12.9%	Buyout 13.0%	Buyout 20.8%	Growth-Expansion 17.9%	Venture capital 17.2%	Venture capital 35.8%	Venture capital 50.5%
Buyout 14.4%	Buyout 17.9%	Buyout 13.2%	Buyout 12.8%	Real assets 12.5%	Growth-Expansion 18.4%	Venture capital 17.4%	Other PE 16.8%	Funds of funds 23.9%	Buyout 46.3%
Private capital 12.6%	Real estate 16.7%	Other PE 13.1%	Growth-Expansion 12.3%	Private capital 10.6%	Private capital 16.2%	Funds of funds 15.4%	Buyout 15.9%	Buyout 20.0%	Funds of funds 43.0%
Real estate 11.6%	Private capital 15.7%	Private capital 13.0%	Real estate 11.8%	Growth-Expansion 10.2%	Secondaries 16.2%	Secondaries 15.2%	Funds of funds 11.4%	Private capital 15.1%	Secondaries 41.6%
Growth-Expansion 10.8%	Secondaries 13.7%	Growth-Expansion 12.7%	Private capital 10.0%	Real estate 9.9%	Real estate 14.1%	Buyout 10.2%	Private capital 11.4%	Other PE 12.7%	Private capital 37.6%
Other PE 9.7%	Growth-Expansion 13.3%	Funds of funds 12.6%	Secondaries 9.7%	Private debt 9.1%	Funds of funds 12.9%	Private capital 10.1%	Secondaries 10.2%	Secondaries 6.9%	Real estate 24.8%
Funds of funds 8.3%	Private debt 13.0%	Secondaries 11.5%	Private debt 5.6%	Funds of funds 7.6%	Venture capital 10.7%	Real assets 8.4%	Real estate 7.7%	Private debt 3.8%	Other PE 24.6%
Venture capital 7.0%	Funds of funds 12.1%	Private debt 10.7%	Other PE 3.4%	Secondaries 7.4%	Private debt 10.6%	Real estate 6.4%	Private debt 7.1%	Real estate 3.8%	Real assets 20.7%
Real assets 6.7%	Real assets 4.9%	Real assets 7.3%	Real assets -4.2%	Venture capital -0.2%	Real assets 10.3%	Private debt 4.5%	Real assets -0.4%	Real assets -0.4%	Private debt 14.9%

Source: MarketDesk. PitchBook Benchmarks as of Q4 2021.

*Source: "How Leaders Lead" podcast, Sept. 22, 2022.

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Advantages of Vintage Year Diversification

Vintage year diversification is an important consideration in building an institutional quality private market investment program. Allocating across vintages is particularly critical during times of dislocation and periods that follow historical market downturns. For example, the Dot-Com Bubble and Global Financial Crisis have proven to be some of the strongest returning vintages within private equity. Vintage year diversification also allows investors to shift their private credit exposure to favor more distressed debt and structured credit managers who can take advantage of dislocations that will arise in a tighter financing environment and rising default backdrop. New Republic Partners is in the process of adding these types of managers to our new private credit vintage. The current tightening regime has further to go which should elongate the opportunity set for these managers in contrast to the quick market recovery that occurred in 2020.

Managing capital for the long term is not a spectator sport, particularly in the market environment of today. We believe clients are best served through broader allocations, and by remaining patient, making tactical repositions based on what the market has given us, and investing with alternatives managers positioned to prosper through the macro challenges ahead and into the next economic cycle.

Disclosure

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