NEW REPUBLIC PARTNERS

MARKET COMMENTARY

4Q 2023

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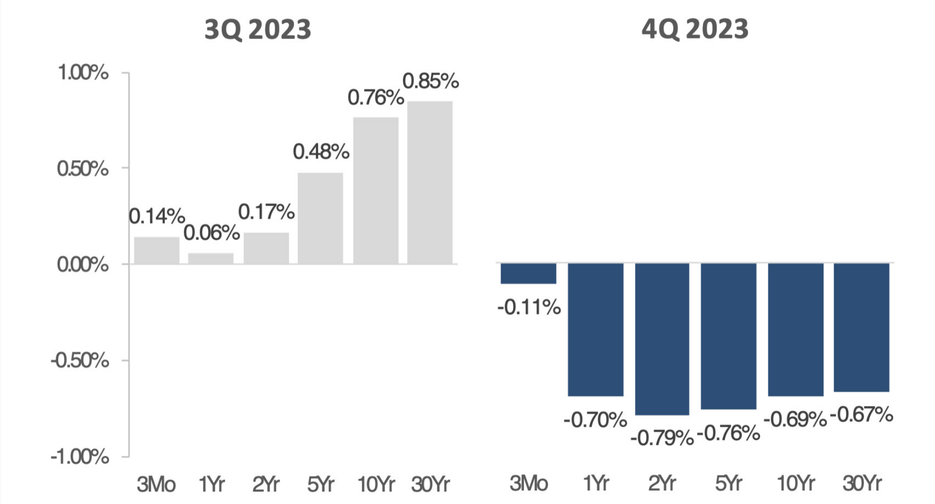
Market Monitor 2023	Q4	YTD
MSCI All-Country World Index	11.0%	22.2%
S&P 500 Index	11.7%	26.3%
Bloomberg U.S. Agg. Index	6.8%	5.5%
Bloomberg Commodity Index	-4.6%	-7.9%

"The Implications of Peak Rates" – Q4 Review and 2024 Outlook

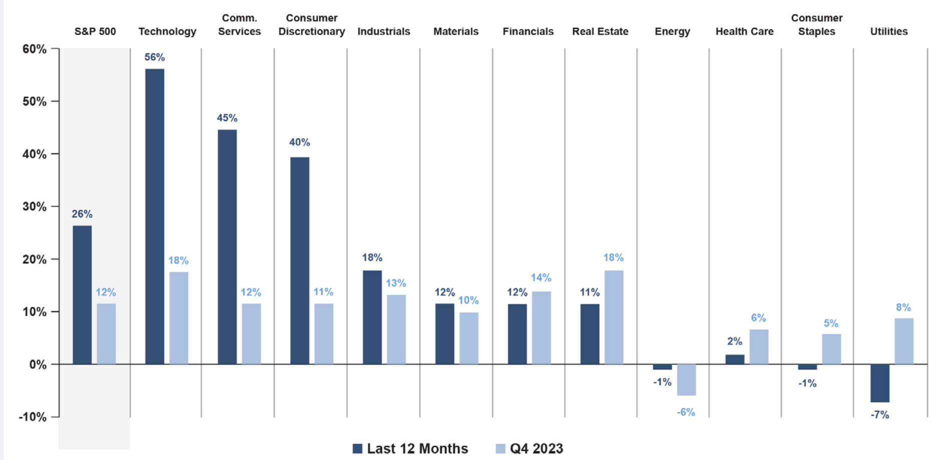
Financial markets underwent a sizeable shift in the fourth quarter. Treasury yields, which spiked in Q3, precipitously dropped as inflation eased and the Federal Reserve hinted at interest rate cuts in 2024. The Fed's telegraphed "pivot" and the continued deceleration of inflation unleashed a melt-up rally across both equities and fixed income: the S&P 500 gained +11.7% during the quarter, and bonds produced their best quarterly return since Q2 1989 (+6.8%).

U.S. Treasury Yield Movement (Q3 vs Q4)



Source: U.S. Treasury.

Market Returns - 2023 Sector Performance Recap



Source: MarketDesk.

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"An About Face In Rates" – Credit Market Recap

During Q3, investors had two key concerns that contributed to the rise in treasury yields. First, the U.S. economy continued to outperform expectations, raising concerns the Federal Reserve might need to keep interest rates high for an extended period to cool inflation. Second, the fiscal deficit was growing quickly as government spending increased, which contributed to investors' concerns the U.S. Treasury would need to issue a large amount of new debt to finance the growing deficit.

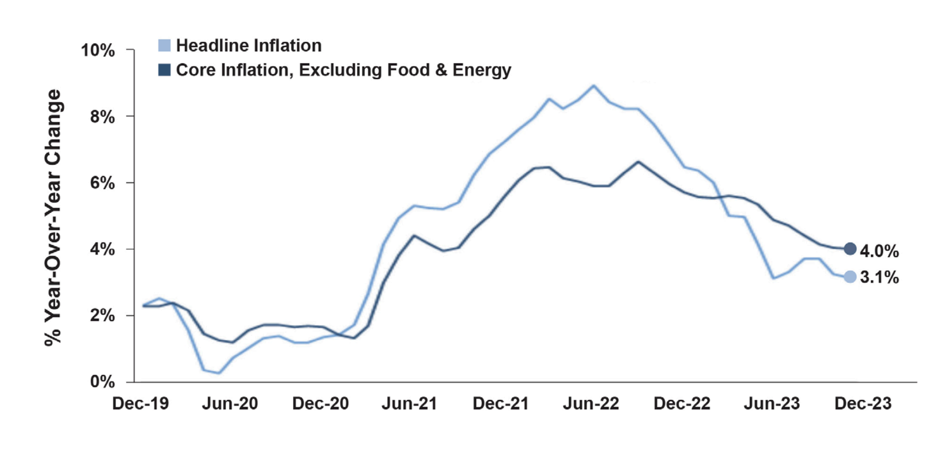
However, a notable shift occurred in November, setting off a sharp reversal in treasury yields. Investor worries about treasury issuance were alleviated as the U.S. Treasury revealed plans to slowly increase bond issuance. In addition, data showed inflation continued to decline even as the economy continued to exceed expectations. Thus, investors' fears about persistent inflation and high interest rates faded from view and yields declined. Indeed, on a 6-month annualized basis, inflation is near the Fed's 2% target.

Credit Views for 2024

In the short run, we, and many others, believe investors have gotten ahead of themselves in pricing 125-150bps in rate cuts in 2024 vs. the Fed's published dot plot of 75bps in cuts. However, the broader implications of a peak in interest rates leads us to take on more duration in our clients' traditional fixed income portfolios, and, in taxable accounts, to utilize credit managers who can shift between the muni and corporate curves as curves adjust to the rate cutting cycle.

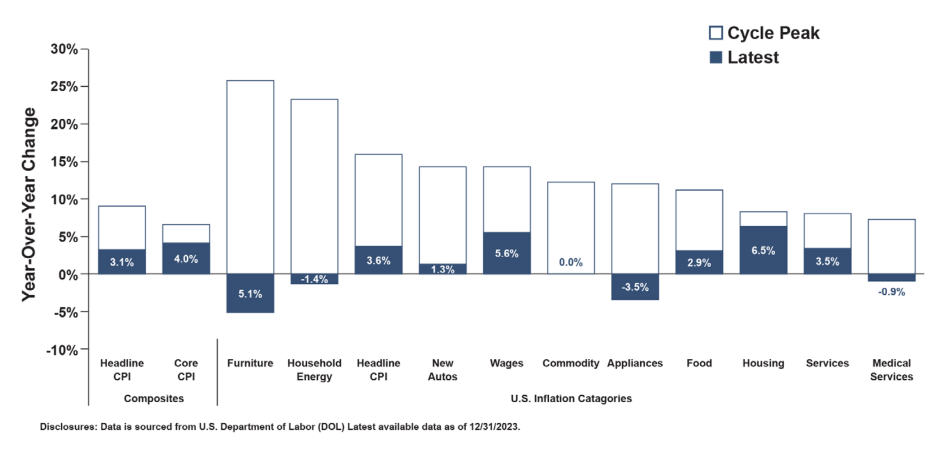
We will continue to avoid the long end of the curve which should remain pressured due to treasury bill issuance and bond supply/demand factors. Finally, while liquid fixed income now competes for capital with Absolute Return ("AR") strategies, we still believe AR strategies provide a more stable source of portfolio diversification and thus we are maintaining allocations to these strategies in portfolios. Core base rates in some AR strategies, such as market neutral equity and CTA/macro, have also risen alongside interest rates, preserving their attractiveness from a risk-return standpoint.

Inflation Pressures Continue to Decline from Peak



Source: Department of Labor. Seasonally adjusted data.

Inflation - Price Pressures Decline from Cycle Peaks



Source: U.S. Department of Labor (DOL).

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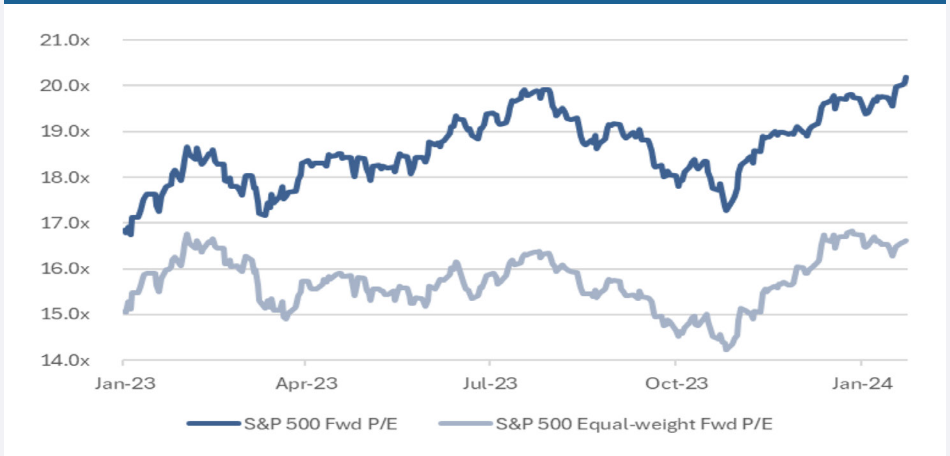
"Looking Under the Hood" – Domestic Equity Recap

While it was still the case that the Magnificent 7 ("Mag 7") drove over two-thirds of the S&P 500 return in 2023, the Q4 rally in equities was led by the laggards of the year, as returns for small caps, biotech, and REITs all exceeded 17% for the quarter. The Mag 7 have captured the headlines and much of the index (~27%) over the past year. Given the group's faster expected sales growth and higher margins relative to the rest of the index, some of the market premium is justified. But, expectations for the group are too high, however, to make that concentrated risk/reward profile attractive. Underneath the Mag 7, valuations are not that egregious as the equal-weight S&P 500 and the S&P 493 both trade around 16-17x forward P/E. This leaves room for pockets of equities that are more attractively priced on a go-forward basis given the more balanced set of risks in the marketplace.

Domestic Equity Views for 2024

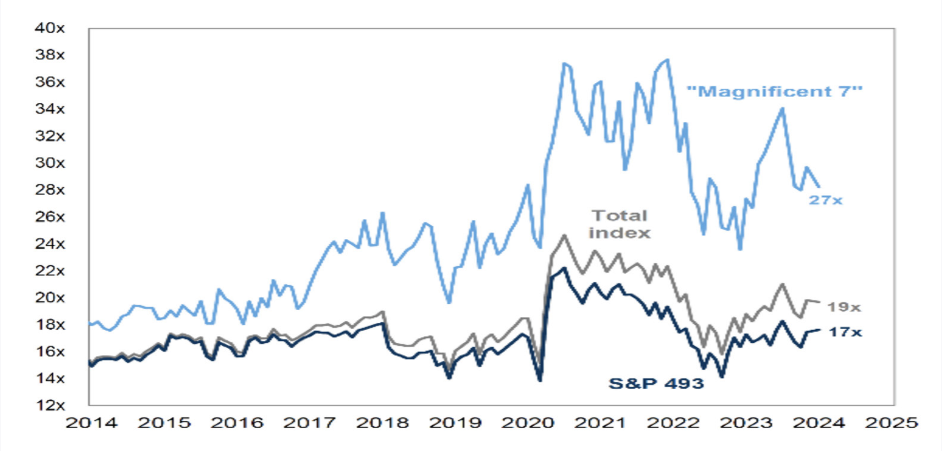
For 2024, we are more sanguine on U.S. equities than we have been as the left tail risk has diminished with rates peaking, inflation coming down, and growth proving resilient. However, as one of our managers recently noted, "investing is as much about what's priced in as it is the fundamentals." Current headline valuations require looking for mispriced pockets of equities. Thus, we are holding constant our allocations to U.S. equities and adding any incremental funds to companies outside of the Mag 7. In our active U.S. exposure, we emphasize the healthcare/biotech sector as one such pocket within a diversified long-only portfolio.

Market-Weight vs. Equal-Weight Index Valuations Markedly Differ



Source: Bloomberg.

S&P 500 Forward P/E



Source: Goldman Sachs.

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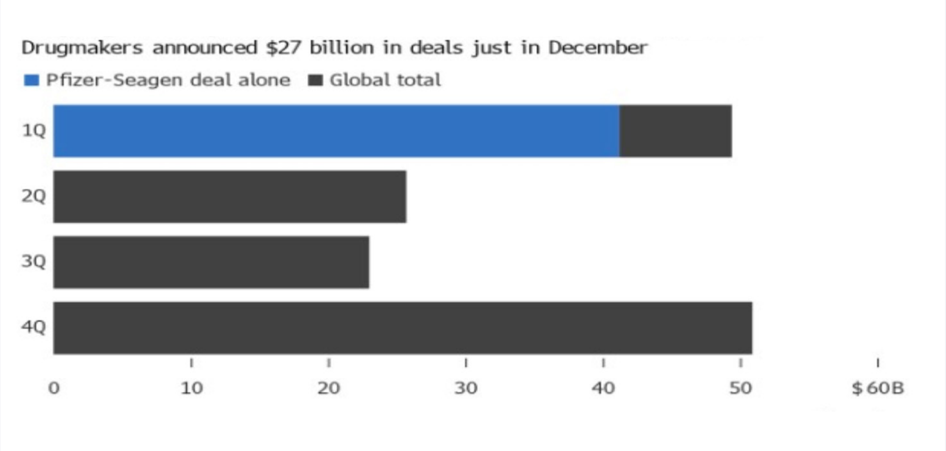
"Renaissance in Biotech" – Domestic Equity Spotlight

After a long bear market in Biotech, investor positioning in the subsector is quite low and capital outflows hit an all-time record in 2023. To get a sense of the magnitude of the bear market, the R2000 Biotech Index fell 70% from peak-to-trough over the 2.5-year period from February 2021 to October 2023. However, strategic interest in the sector took a noticeable turn in late 2023 with $150B in M&A activity — the second highest M&A total deal value in 15 years. AbbVie's two big acquisitions of Cerevel and Immunogen in two weeks seemed to herald new urgency of Big Pharma buying R&D and filling their drug pipelines. The M&A activity accelerated in Q4, and the biotech sector caught a bid (+18% in Q4) amidst the activity. We believe the trend has legs, and as one healthcare manager recently pointed out to us, historically M&A premiums serve as a great predictor of future biotech performance when they exceed 30%. The latest acquisition premiums that occurred in December were well north of that mark.

The broader healthcare sector has also suffered three years of underperformance relative to the index as the drug pricing impact of the Inflation Reduction Act legislation and the shuttering of capital markets for biotech companies have buffeted the sector. The timing for the healthcare sector to assert itself is opportune as the sector tends to outperform in the 12 months following the start of a Fed cutting cycle and pressure from the election cycle should decrease over the course of the year.

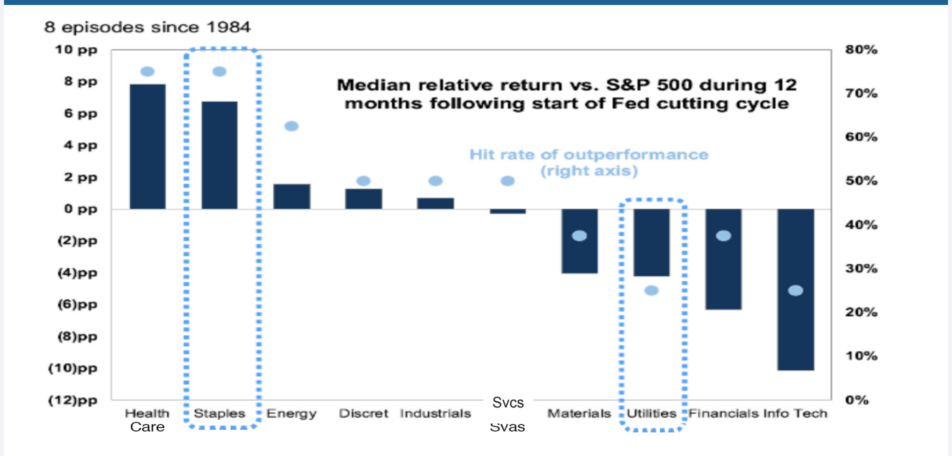
Finally, the introduction of GLP-1 drugs into the marketplace has produced a ripe opportunity set for healthcare focused long/short managers as market participants struggle to size up the total addressable market for these drugs. Market participants have also extrapolated the impact of GLP-1 drugs too far in some areas, unduly punishing companies across medical devices, dialysis, sleep apnea and cardiovascular disease. One industry analyst cited the benefit to airlines if you assume passenger weight drops by 10% with the use of GLP-1s! Needless to say, healthcare is a great sector for long/short managers. And more broadly, given not all pockets of equities are created equal, the opportunity set for Hedged Equity looks attractive for 2024, and we expect those managers to take advantage of rising idiosyncratic risk in the market.

Buying Frenzy in Biopharma Picked Up Late in 2023



Source: Bloomberg.

S&P 500 Sector Performance Around Fed Cutting Cycles



Source: Goldman Sachs Global Investment Research.

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"Rethinking Positioning" – International Equity Recap

In Q4, international stocks underperformed U.S. stocks for the third consecutive quarter. This underperformance can be attributed to multiple themes. First, international stock market indices lack exposure to the leading tech platforms and artificial intelligence companies such as Microsoft and Nvidia. Second, as discussed above, the U.S. economy has displayed resilience to higher interest rates. In contrast, growth in some countries and regions outside the U.S. are already reflecting the negative impact of higher interest rates. Investors are attracted to the U.S. for both its tech concentration and relative economic strength.

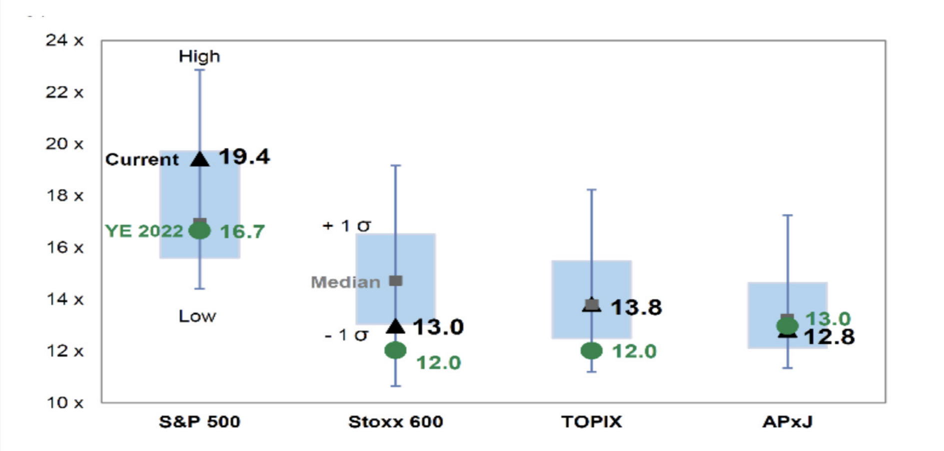
International Equity Views for 2024

At the beginning of last year, many investors, us included, anticipated a surge in China's economic growth fueled by pent-up demand after years of Covid-related restrictions. Over the course of the year, the economic growth surge was short-lived and government measures failed to sustain demand. Investors then voted with their feet in the second half of 2023, selling $25B of Chinese equities between August and November. China now looks cheap on an absolute basis at 9x forward P/E and is approaching a valuation level similar to the GFC and Covid periods. The added complication is that investors are unsure how much they would participate in a market rebound as shareholders since the government has yet to truly stem the use of regulation and anti-corruption levers to meet its "common prosperity" goals of economic balance. While the long-term opportunity in China remains, we think investors are better served to look at other parts of Asia, namely India and even Japan over the medium term, and be willing to miss the first leg up in China's eventual turnaround.

Last 12-Months Earnings - Developed vs. Emerging

Source: MarketDesk.

Distribution of NTM P/E Multiple During Last 10 Years



Source: Goldman Sachs.

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Private Asset Views for 2024

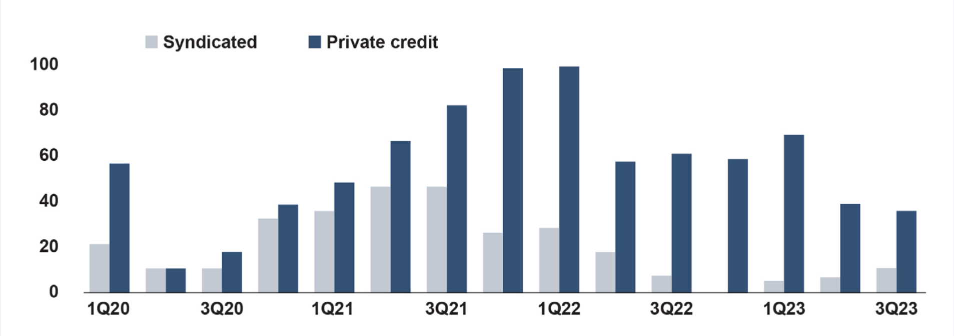
In Private Equity ("PE"), a decline in rates should diminish the financing headwinds for large cap buyout managers and the exit market should open for VC and late stage growth managers if markets remain stable. In our PE portfolios, we prefer to allocate to lower middle market PE managers and favor the sector specialists who know the playbook in specific industries to drive organic growth and change at their portfolio companies. We remain confident our middle market private equity managers will generate compelling returns and we are maintaining our allocation to this asset class.

In our 3Q commentary, we highlighted the attractiveness of Private Credit ("PC") and proposed barbelling fixed income exposure between T-bills/money markets and PC in today's environment. With the Fed's pivot on the horizon, we now see value in taking on more duration in high quality liquid fixed income portfolios in high quality issues, and we still prefer to take much of our credit risk in PC where investors are compensated for it.

The reasons PC is attractive continue to strengthen: PC lenders have gained share from banks and the public credit markets, demand for credit remains robust due to healthy levels of PE dry powder, terms for both rates and covenants are attractive for lenders, and credit losses remain low. Combined, these factors mean investors can generate low-to-mid-teen returns while investing in securities with significant structural and downside protection.

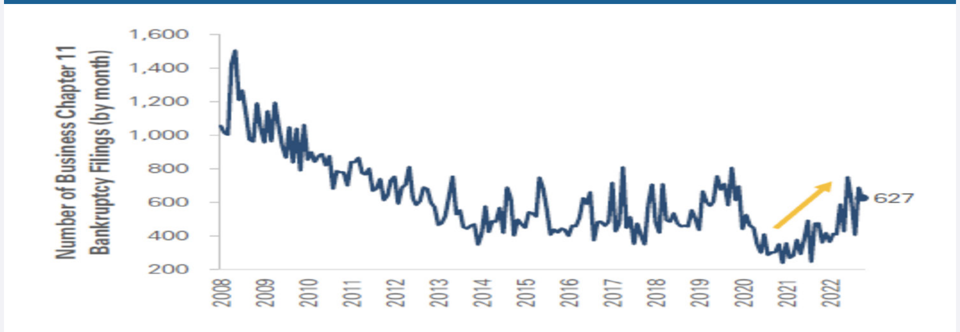
With borrowers facing higher interest burdens, new PC loans have been structured on more attractive terms for lenders. These new facilities have lower leverage levels, often by 1.0x or more relative to recent years, and higher interest rates. Meanwhile, in high yield and the syndicated loan market, spreads are quite tight and covenant protections are looser than those structured into PC portfolios. To date, we have seen limited stress in our direct lending portfolio, but as defaults have picked up in the leveraged loan market, our managers continue to keep a pulse on default and impairment risks as the macro environment continues to evolve. We continue to seek to take advantage of the opportunity set the PC market is offering.

LBOs Financed in Syndicated vs. Private Credit Markets



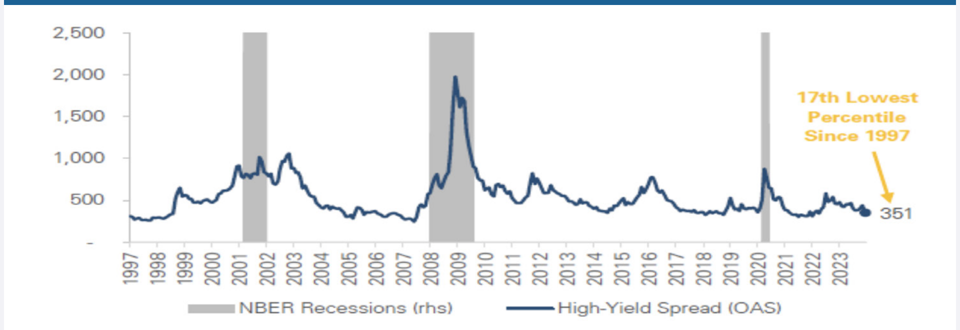
Source: Pitchbook/LCD.

Rising Bankruptcy Filings Hint at Stress



Source: MarketDesk, U.S. Courts.

Corporate High-Yield Option Adjusted Spread



Source: MarketDesk., NBER.

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2024 Outlook Summary

Finally, as we look ahead in 2024, we have summarized our views and stances across asset classes in an exhibit on the following page.

At New Republic Partners, we manage diversified portfolios through a long-term lens that defines asset classes by their inherent purpose or role in a portfolio, whether they are growth-driven, income-driven, or provide diversification. As stated in our prior commentaries, we view the "traditional" 60/40 stock/bond portfolio and even the 60/20/20 portfolio of stocks/bonds/alternatives as outmoded. For instance, not all alternatives are created equal, and their primary portfolio role may be growth, income or diversification. Each asset class serves a purpose in the portfolio, and we often make the case that investors need to think differently about each bucket. With the era of easy money and zero rates firmly in the rear-view mirror, we believe what worked over the past dozen years is likely to struggle over the next decade, and investors should use a different framework to build resilient portfolios that can compound capital over time.

—NRP Investment Committee

February 12, 2024

Disclosure

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New Republic Partners' Asset Allocation Views and Positioning 2024

	ASSET CLASS	VIEWPOINT	STANCE
GROWTH	**Domestic Equity**	While the macro backdrop of peak interest rates, disinflation and resilient growth is benign for equities, headline valuations (led by the Magnificent 7) require looking for mispriced pockets of equities.	In our active U.S. exposure, we favor healthcare/biotech as one such pocket along with technology names beneath the Mag 7. A quality equity bias is also warranted given the late cycle growth environment.
GROWTH	**International Equity**	While the growth and earnings picture in Europe is weaker than in the U.S., valuations are meaningfully cheap. The question is whether they are cheap for a reason and catalysts are needed.	We would emphasize Japan within Int'l Developed allocations as supporting narratives of a margin improvement story and exit from years of deflation are real.
GROWTH	**Emerging Markets**	China's turnaround story is challenged while the growth and earnings picture in India/SE Asia and Brazil/LatAm are in better position. With a peak in rates, a weaker USD is positive for EM.	The long term opportunity in China remains, but we are Ok to miss the 1st leg up. We continue to emphasize India within Asia exposure despite valuation premium.
GROWTH	**Hedged Equity**	The opportunity set for Hedged Equity given not all pockets of equities are created equal is good, and we expect HE managers to take advantage of rising idiosyncratic risk in the market.	With the short rebate back in vogue, HE managers increasingly can make money on both the long and short sides of their portfolios now.
GROWTH	**Private Equity**	The decline in rates does diminish headwinds for buyout managers, particarly large cap, and the exit market may open up as a result for VC and growth managers if markets remain stable.	We prefer to stick to our knitting in allocating to lower middle market managers and favor the sector specialists who know the playbook in specific industries to drive organic growth and change.
INCOME	**Private Credit**	The shift from banks to private lenders in market share looks to continue, and current supply/demand dynamics favor the lender.	The window may not last, but we see a great risk/reward opportunity to deploy capital in Private Credit today across both direct lending and asset based lending.
INCOME	**Traditional Fixed Income**	Now with the peak in rates, we are willing to take on more duration with a shift into the belly of the curve and use of managers who can shift between muni and corp curves. Spreads in HY are very tight decreasing their attractiveness.	We will continue to avoid the long-end of the curve which should remain pressured due to issuance and bond supply/demand factors.
DIVERSIFICATION	**Absolute Return**	Absolute return managers have been a steady contributor to portfolios over the past 24 months. Liquid fixed income competes for capital with the rise in rates, but AR remains a core ballast in portfolios.	Core base rates in some AR strategies rise as rates rise, particularly in market neutral equity and CTA/macro strategies, both of which performed well in 2023.
DIVERSIFICATION	**Real Assets**	We are wary of pockets of commerical office with regional bank lending pullback and refinancings/maturity wall approaching. That said, we do expect rate relief to be a tailwind for RE and MLPs in the short run.	Select exposure in RE and MLPs is attractive. A disinflationary environment is not as good for commodities vs. a high and rising inflationary period. However, some exposure mitigates geopolitical risk.

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