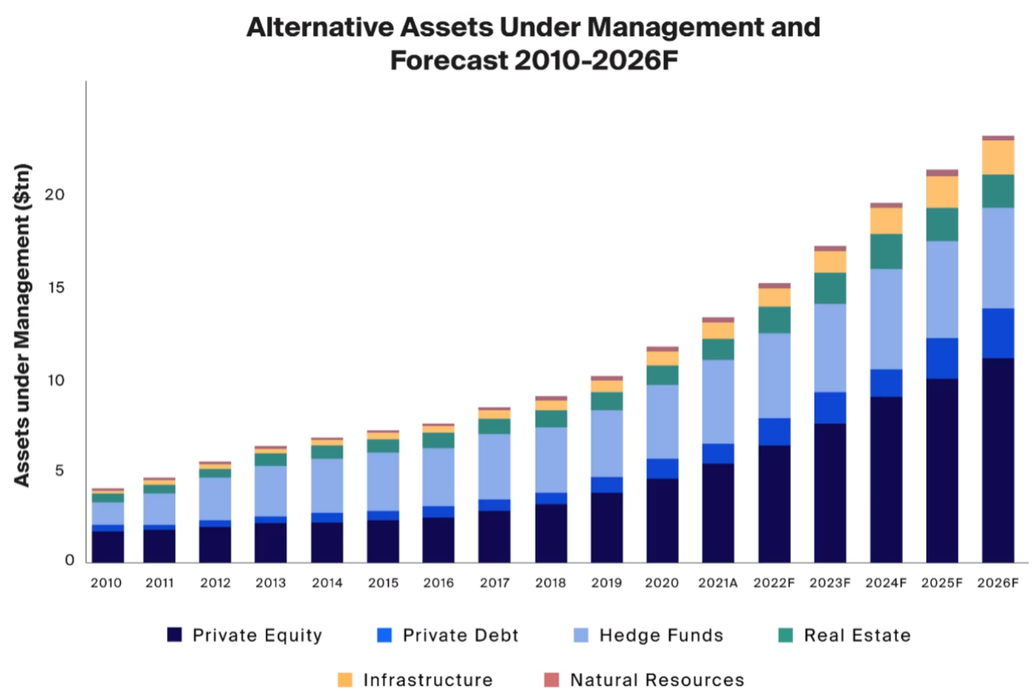
A Case Study on why Avenue will usually avoid Private Investing

Investing in private 'alternative' assets is a major part of pension and endowment portfolios and is now being offered to individuals. We will give a brief description of the major types of private investing categories and give our opinion on of the advantages and disadvantages. However, our overall conclusion is that because of illiquidity and long hold period restrictions, private assets are not appropriate for the average individual and public markets continue to give us much more flexibility and opportunity.

Private investment has been broadened to include Private Equity, Private Debt, Hedge Funds, Private Real Estate and Private Infrastructure. The amount of money in private investments has risen to over $20 trillion, which compares to the US stock market with a market capitalization of approximately $50 trillion.



Positive - What makes private investing so attractive is that the underlying business value does not fluctuate on a day-to-day basis. This eliminates the panic that investors often feel from a protractive move in actively traded markets. The argument is that if the building or business will not be sold until ten years from now, you should not worry about daily fluctuations. This can be said for holding a stock for the long-term as well, but it is psychologically harder because you directly experience the price swings like we recently had in the decline of March of 2020.

Neutral – Historically private companies and assets were cheaper that public companies. A private equity fund could buy a private industrial business at 5 times earnings with the hope of then bring the business public at 10 times earnings. This is no longer the case because as the private funds have grown, so have the valuations for private businesses. It has started to feel as if there is too much money chasing to few deals. Often, we see that there are cheaper businesses trading in public markets.

Negative - Liquidity in the most basic sense means you can get your money out when you want it. Private investments are low-liquidity investments. Long holding periods require patience. When there is occasional financial market turbulence private fund redemption is often restricted. In private investing, you can get your money back until you can't! Pension funds and endowments have a long timeline, but an individual investor will often have an unforeseen life event where money is needed sooner than anticipated. Private investing does not match well with the needs of individual investors.

Private investing comes with the added risk of less regulation. You don't really know what your manager is up to in terms of the underlying assets and how much debt is associated with it.

Fees on fees is the term used to describe private managers ability to be paid fees at multiple levels as the manager of the asset and the fund. This contrasts to public company disclosure and regulation that exists in regulated public markets.

At Avenue, we believe we can accomplish our investment return goals with lower risk in public markets. We have the benefit of being able to move money around more freely and we have much better transparence of our public company investments. Pension funds and endowments are more suited to the long holding periods required to being a long-term investment.

Definitions:

Private 'Alternative' Assets relates to these investments being an alternative investment to regular stocks and bonds of public companies.

Private Equity has come to mean a pool of investor money that seeks to buy a private business or a public business in its entirety therefore taking it private. The business will be operated by the private equity managers for a few years to improve profitability with the expectation to then sell it at a higher price. Private Equity funds stereotypically use large amounts of debt. Investors' money is held by the fund for longer periods of time, usually for 10 years.

Private Debt, also call private credit, is a pool of investor money dedicated to lending to corporations where traditional leaders, like banks, have historically refuse to lend. However, the size of these private debt funds has grown to where they now compete directly with bank lending. The attraction of higher returns comes from higher risk loans. Often funds will borrow against their own loans so there is debt on debt.

Hedge Funds are a catch-all for a pool of investor money that can be invested however the fund deems appropriate. The attraction is light to little regulation. Hedge funds will often borrow money to enhance returns. Funds usually restrict redemptions to encourage longer holding periods.

Private Real Estate is a pool of investor money dedicated to buying and operating real estate. Funds may specialize in certain types of real estate or have diversified holdings. Categories can be as diverse as office, apartments, parking lots, warehouses or farmland. Where the property is owned out-right or fractionally, the title is usually held and operated by the fund. Again, leverage may be used and holding periods are longer.

Private Infrastructure is a pool of investor money dedicated to owning tangible assets like pipelines, ports and airports, power grids and now data centers. The assets are owned and operated directly by the fund. Leverage can be used to enhance returns and a longer holding period is required.

Bill Harris