

## Third Quarter 2015

### Quote of the Quarter:

September 17 was Constitution Day – a day we honor the signing of the Constitution in 1787 and its final ratification in 1791.

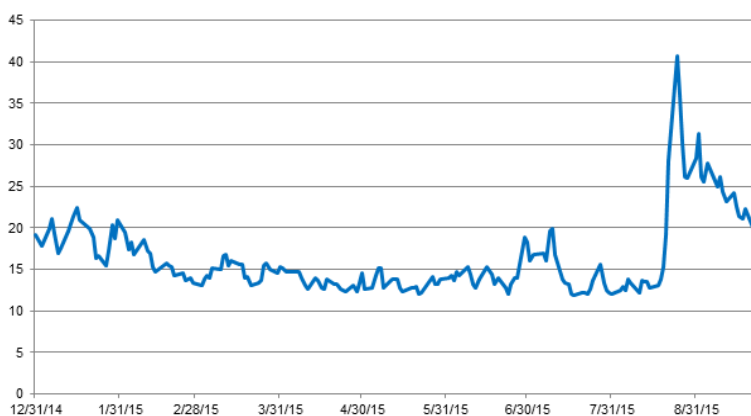
*“The Constitution only gives people the right to pursue happiness. You have to catch it yourself.”*

– Benjamin Franklin

### Air Pocket

It was a pretty smooth flight for US public equity investors this year, right up until we hit an air pocket mid-August. US public equities plummeted on August 24-25, dropping the S&P 500 to its lowest point of the year. On August 25, the S&P 500 closed at 1868, off 263 points from the high point of the year. At the same time, the VIX spiked from an average of 15 YTD to over 40.

S&P 500 Volatility (VIX)



The Chinese markets have been even more volatile and hit some pretty severe turbulence earlier this year. The Hang Seng (Hong Kong exchange) peaked on April 27 at 28,589 but now trades around 21,000. The Shanghai Composite Index peaked on June 8 at 5,178 but now trades around 3,100.

Bond markets have also had their share of volatility. For example, the 10-year treasury closed at year end 2014 yielding 2.17% and currently yields about 2.12%. But in flight, the 10-year closed as low as 1.67% and as high as 2.48% (a 49% swing).

Private equity and infrastructure investing does not suffer the same kind of volatility, which helps smooth out the bumps in investors' portfolios. Such private investments are not subject to the exogenous market forces of high frequency trading, ETFs and index funds that allow greed, fear and short-term thinking to sometimes dictate the prices of publicly-traded securities, often to the great consternation of the long-term investor. Private equity and infrastructure investing seeks to create value over a longer holding period and is therefore less sensitive to the ups and downs of the economy, politics and other variables, as you can see in the table below:

#### Pricing Volatility Comparison

	Public Market Examples			Most Recent Mature NSC Funds (Multiple on Invested Capital)			
	Shanghai	Hang Seng	S&P 500	VC Fund IV	LBO Fund III	Clean GF III	Alliance I
Current <sup>1</sup>	3,092	21,186	1,931	2.23x	1.74x	1.29x	1.27x
Closing Price 12/31/14	3,825	23,858	2,059	2.13x	1.66x	1.33x	1.26x
Change YTD	-19.2%	-11.2%	-6.2%	4.9%	4.8%	-3.2%	1.3%
Peak in 2015	5,178	28,589	2,131	NM	NM	NM	NM
Change from Peak	-40.3%	-25.9%	-9.4%	NM	NM	NM	NM

Private equity and infrastructure should smooth out the bumps and, if done right, provide returns in excess of public markets.

**Outperformance Relative to the S&P 500<sup>2</sup>** (using PME method)

Fund	2015	2014	2013
VC Fund IV	6.2%	5.7%	11.1%
LBO Fund III	3.6%	2.9%	3.2%
Clean Growth Fund III (distressed secondaries)	17.0%	14.6%	12.7%
Alliance Fund I (solar & other energy infrastructure)	4.2%	2.2%	-4.8%
Aggregate LBO (2005-2015)	5.9%	5.7%	6.1%
Aggregate VC (2000-2015)	4.1%	3.9%	5.2%

By done right, we mean prudent diversification, intelligent investment selection, access to high potential funds or direct investments, and consistently making new investments each year over a long period of time. Furthermore, illiquidity of private equity and infrastructure is often less of an issue than it is perceived by some. In our most recent infrastructure fund, the average hold period has been just 2-3 years.

**Conclusion**

Volatility's return to the public markets has caused a little handwringing, but it serves as a general reminder about the benefits of a well-diversified portfolio. Private equity and infrastructure play important roles in smoothing out the bumps and should boost portfolio performance.

**Upcoming Events**

We are regular speakers and attendees at key industry conferences. We hope to see you at these upcoming events:

- Oct. 21-23 **Family Office Exchange Fall Forum**, Chicago, IL  
[www.familyoffice.com](http://www.familyoffice.com)
- Nov. 3-5 **SRI Conference**, Colorado Springs, CO  
<http://www.sriconference.com>
- Nov. 6-11 **IFE BP Conference**, Honolulu, HI  
<https://www.ifebp.org>
- Dec. 3 **Family Office Exchange Wealth Advisors Briefing**, New York, NY  
[www.familyoffice.com](http://www.familyoffice.com)
- Dec. 15-16 **CORPaTH Summit & Crystal Globe Awards**, Las Vegas, NV  
[www.corpath.org](http://www.corpath.org)

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1. Current data for public markets is 9/25/15. Current data for NSC funds is 6/30/15.  
2. 2015 data is as of 6/30/15. Alliance Fund I is benchmarked against the S&P Global Infrastructure Index.

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