GRIDLINE

Q2 2024 Quarterly Update

As we close the first quarter of the year, the Gridline team was honored to be selected as one of the "Top 10 Most Innovative Companies in Georgia" for 2024, validating our thesis that the antiquated and labor-intensive processes built by legacy service providers do not scale to 100,000+ financial advisers and millions of accredited investors looking to build better portfolios of alternatives.

On the investment side, we're proud that our last 3 funds were all home runs. Ballistic Ventures closed an oversubscribed $360m fund on a $300m target, Capitol Meridian closed a $900m fund on a $650m target, and Hunter Point just closed at $3.3B, well above their target of $2.5B and securing the biggest first-time fund over the last 12 months. Great momentum to highlight our ability to find the next great managers across the alternatives landscape and bring institutional quality investments to our members.

Lastly, we attended the Future Proof Retreat in Colorado alongside +300 financial advisors, wealth management executives, and family offices that represent over $6.5 trillion in AUM. While the range of conversations were diverse, one of the key takeaways was that alternatives are now pivotal for diversified portfolios.

-Logan Henderson, CEO

Market Commentary

> Capital Overhangs

> Valuations

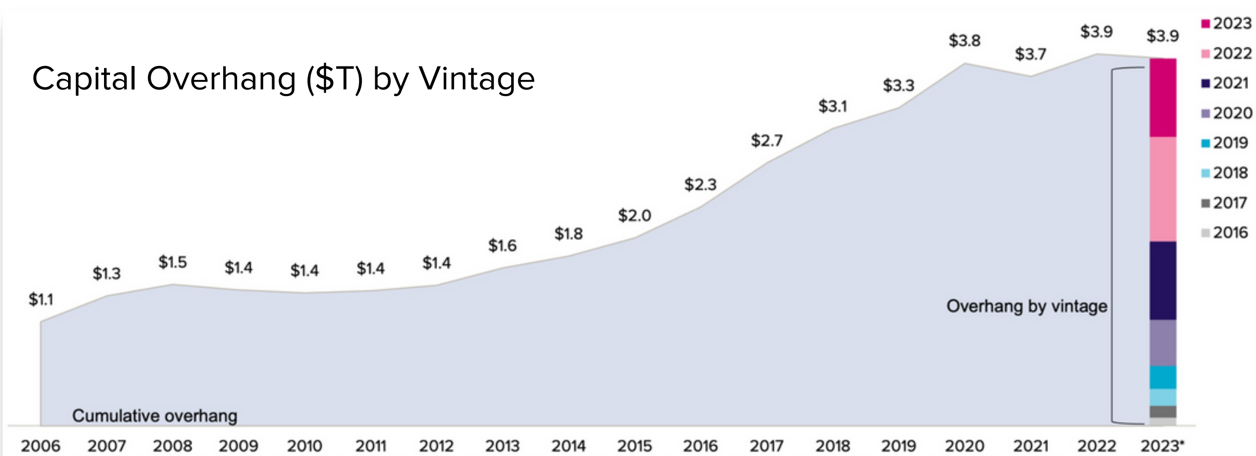
As 2024 starts to take shape, we've had a lot of conversations on capital overhangs and portfolio valuations. More specifically, each has been cited by a few more cautious investors as a reason to avoid the private markets.

We wanted to examine some data to ground these conversations, which you'll find below in addition to our take on what those datapoints mean for investors. We hope you find the analysis insightful and welcome you to get in touch to discuss in more depth.

Charles Patton, Investment Director

Capital Overhangs, Overrated?

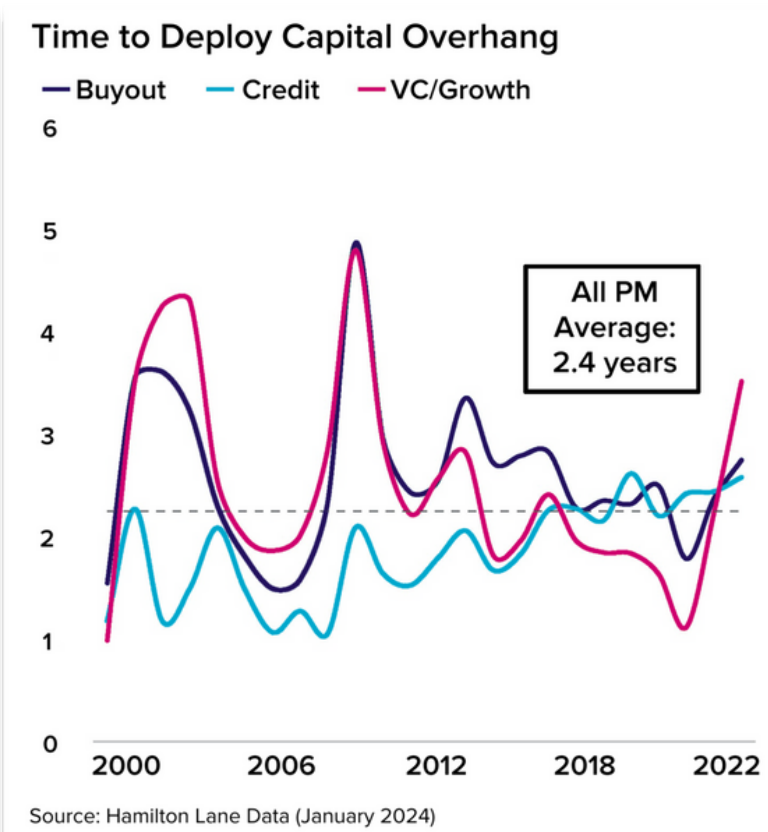
Below you will find two charts. The first shows the amount of “dry powder” or “capital overhang” in the private markets. This indicates how much capital raised by private funds (Private Equity, Private Credit, Real Assets, etc.) has not yet been deployed. You’ll note it continues to go up and to the right, with more capital available to General Partners (the leaders of the private funds mentioned above) to deploy. Many people have cited this graph as a reason to avoid private markets, thinking the strong returns the industry has historically generated can’t possibly continue with this amount of capital waiting in the wings to enter.



Source: Pitchbook 2023 Annual Global Market Fundraising Report *As of 6/30/2023

A closer inspection reveals the amount of capital overhang is a poor guide to future returns. Were you to view the same graph in 2008, it would be screaming that capital overhangs were reaching unsustainable levels and future performance was likely to suffer. Instead, Hamilton Lane data shows 2008 and 2009 vintages were significantly higher performing than 2006 and 2007 (pooled returns of 14% vs 8% per Hamilton Lane). Similarly 2021 might have looked like the ideal vintage with less dry powder to chase deals than the previous year, but 2020 funds were able to deploy some of their capital before the 2021 valuation peak and have generated a pooled IRR of 15% vs 7% for 2021 vintages. The chart also ignores the overall size of the US economy into which capital is being deployed, which has doubled since 2006 (Source: FRED), and the vastly expanded infrastructure for effective capital deployment in the private markets.

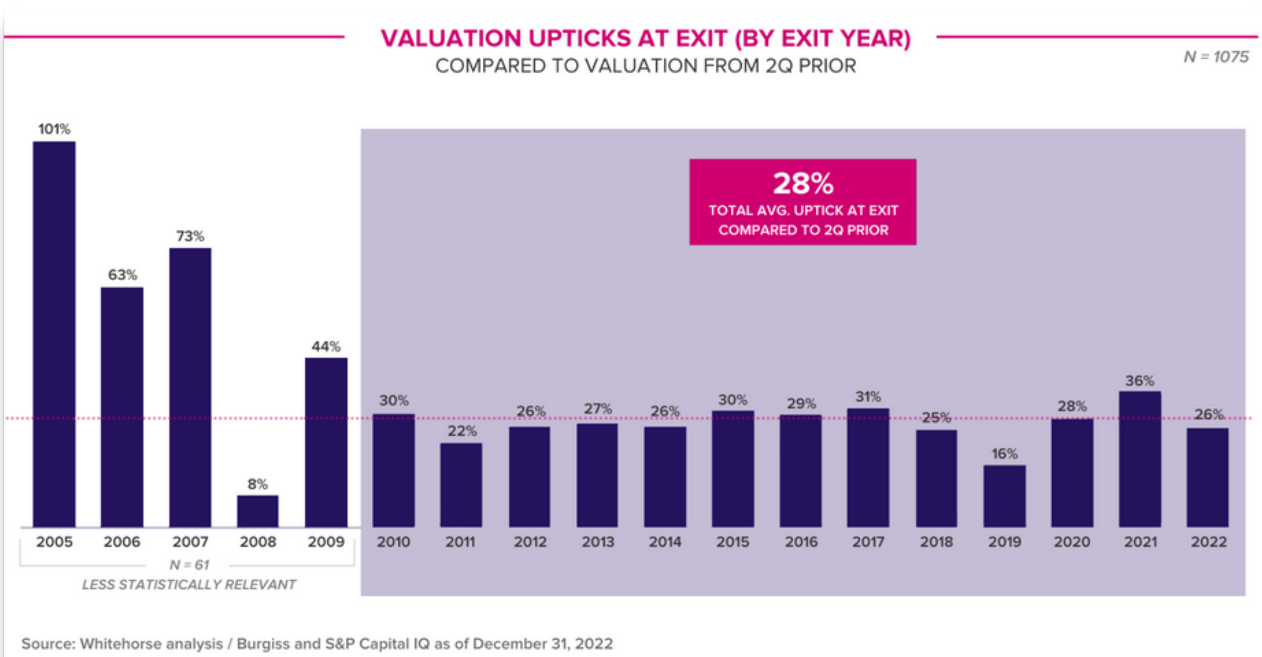
For investors concerned with entering overly frothy markets, a much better measure is the Time to Deploy Capital Overhang chart shown below. It measures how many years it will take managers to deploy the capital they've raised but not yet put to work. Another way of thinking of it is the speed of cash going out the door. It might have warned investors in venture capital in 2021 that managers were deploying capital too quickly, possibly degrading future performance. Similarly it started showing rapid capital deployment in 2005 that might have saved investors from tough 2006 and 2007 vintages before the macro picture made that more obvious. In contrast to the pile of dry powder, current time to deploy overhangs shows major improvement to levels indicative of more patient investing. This means that managers have more time to think through opportunities and hopefully make better decisions that benefit all involved.



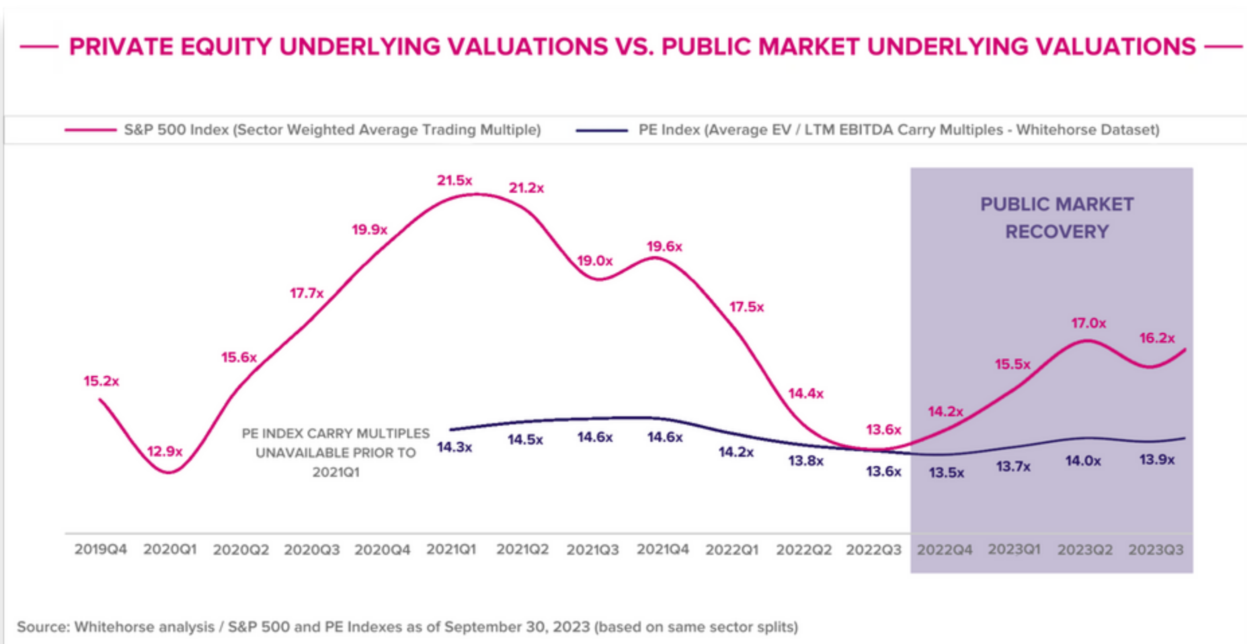
Valuations Back in Line?

One of the most common things we hear when talking to clients is concern over how reasonable private market valuations are. The question arises because of the private nature of the assets, which inherently come without the benefit of a public price that an entire market can agree upon. The contention is often that private fund managers inflate the value of their assets to make their funds look like stellar performers and raise large subsequent funds, only for those assets to face much lower prices when it comes time to sell.

Whitehorse Liquidity Partners (a firm that purchases many of these assets) recently put out a great piece with a detailed data-driven look at this question. The basic finding is that private equity firms sell their assets at a significant premium to their internal valuation. In other words, their valuations are conservative. The analysis shows that an average private equity fund sold their asset at a 28% premium to its internal valuation or mark two quarters prior. This "pop" on exit has been remarkably consistent, clearing 20% in every year but one since 2010. Sure enough, through the first three quarters of 2023 the same pattern held with an average pop of 31%.



What's the intuition behind why this might be true today? Whitehorse notes that private investors were indeed slower to write down their portfolios in response to the significant market selloff of late 2021 and 2022, with the median private index falling 5% while public markets cratered by 25%. Hence the valuation skepticism. However the other side of the coin is a reduced willingness to write up assets to reflect a revised public market reality. From September of 2022 (the public market bottom) to June of 2023 public markets rebounded by 24% while privates only rose by 9%. This reset private marks closer to the historic 20%+ discount they are usually priced to above their sale price. Below you can see this visually with a comparison of multiples (how much investors are paying for companies per dollar of operating profits). They show the significant compression between public and private markets in 2022, but the traditional premium recovering as private managers were slow to write up holdings over the past 18 months.



This analysis includes several caveats, the largest of which is that Whitehorse was looking at buyouts rather than riskier venture investments. [Abrdn]() did an analysis on a different dataset that included both venture and buyout, and found that the discount for venture names was actually larger than buyout. In any case, it is rare to see this level of data trained on this question. Those who avoid private markets over fears of unsustainable valuations might consider how their public valuations stack up to those on the private side before steering clear.

Platform Innovation

> Allocation Simulator

> Private Label Funds

> Delegated access to your account

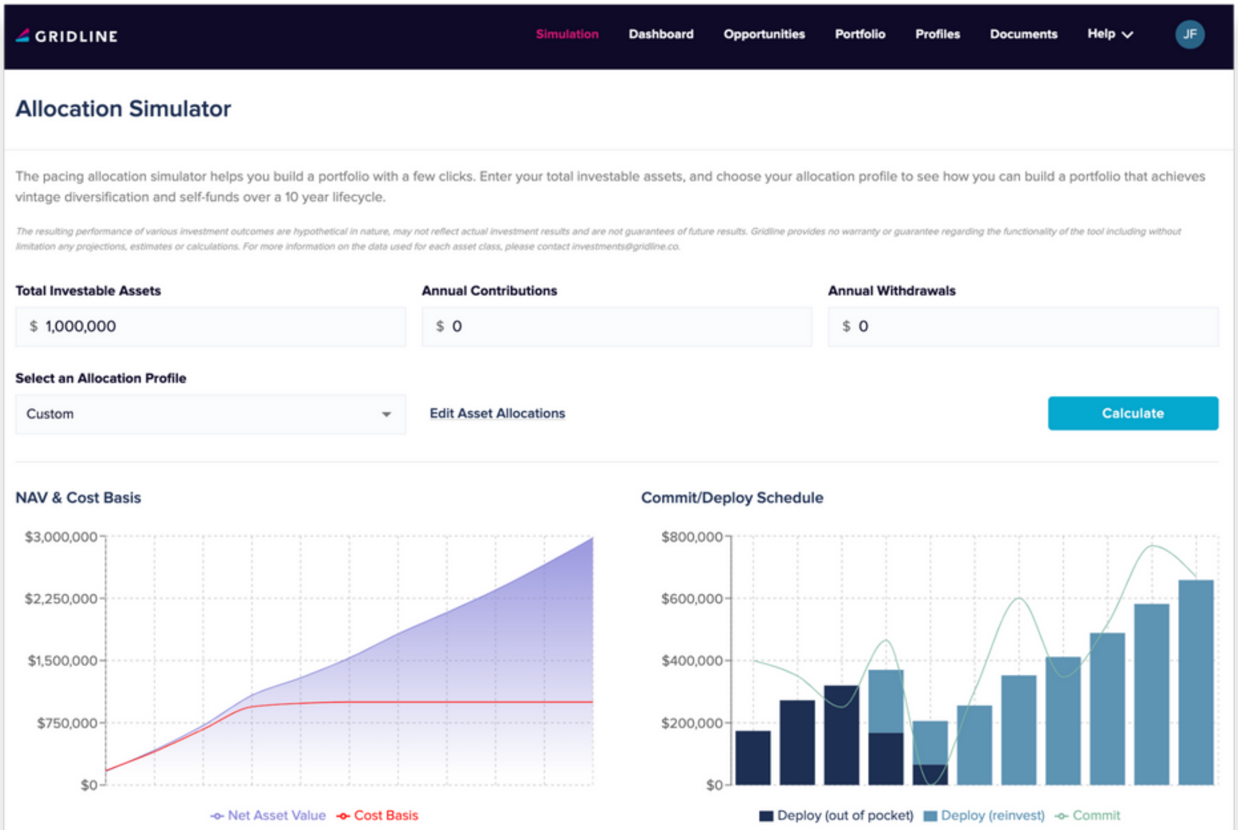
We're excited to announce some major capabilities that we've added to the Gridline platform over the last quarter. We've recently enabled our portfolio allocation simulator for all members. The simulator allows you to build a diversified, self-funding portfolio over a 10 year lifecycle.

We've also built a significant amount of fund management infrastructure, allowing us to launch and operate our own funds efficiently. Now, as advisors decide to run their own fund strategies or evolve their existing private fund strategies, we can help them do so while providing the same superior investment and reporting experience that we do for our own funds at a fraction of the cost of traditional fund administrators.

If you have any questions or feedback on these new platform capabilities please reach out directly to peter@gridline.co.

Peter Bilali, VP Platform

Just Launched: Allocation Simulator

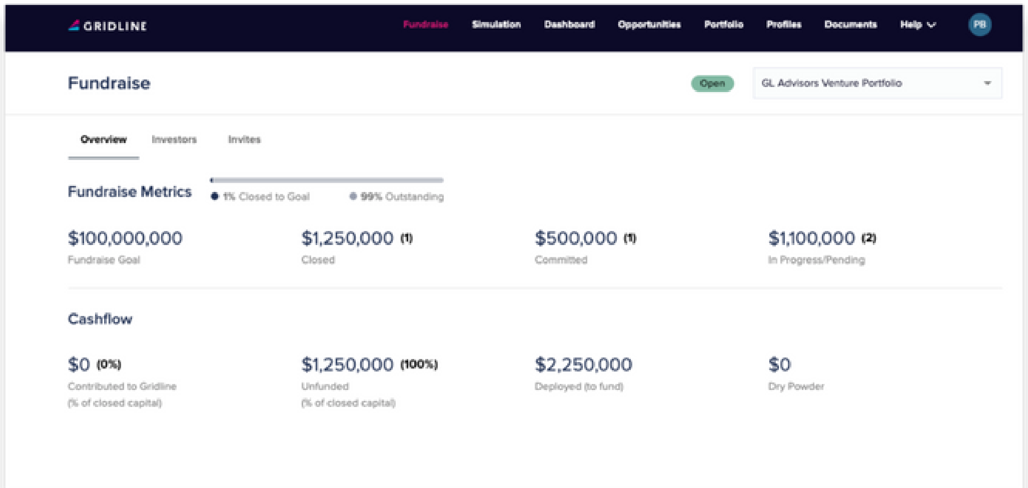


Designing a self-funding portfolio

One of the greatest challenges to investing in alternatives is determining how to deploy your capital in the most effective and efficient manner. Understanding the dynamics of commitments and deployments, reinvestment, and cash flow can be difficult, but our newest feature, the Allocation Simulator, helps advisors and investors better understand their allocations and potential outcomes.

By inputting your investable assets, planned annual contributions and withdrawls, and selecting an allocation profile that best matches your objectives, we're able to calculate your projected Net Asset Value (NAV) and Cost Basis, as well as provide a commitment and pacing plan to help you project needed liquidity on an annual basis, building towards a self-funding portfolio where the reinvestment of your disbursements funds your new deployments and commitments. We have more enhancements planned later this year, and we hope you'll give this valuable tool a try today.

Now Available: Private Label Funds



Custom Fund Construction

Advisors can now create custom fund offerings by leveraging their own fund relationships or augmenting their fund sources with Gridline's fully diligenced marketplace offerings.

Turnkey Technology

Gridline provides a turnkey experience, handling fund formation, electronic subscription documents, capital calls, fund audit and tax, and performance reporting.

Detailed Reporting

Track fundraising progress on a consolidated dashboard, including key fundraise totals and investor tracking. Quickly and easily invite new investors to your private listing.

Coming Soon: Delegated Access

Invite your support team

Many Gridline members don't go it alone when it comes to managing their investments. Soon you'll be able to easily provide access to your supporting team, such as your CPA, tax professional, or attorney, from your Gridline account. Stay tuned for more details in the future.

Your Partner in Private Markets

Gridline combines robust financial due diligence with proprietary, cutting-edge technology to deliver an unparalleled private market investing experience.

Get Access to Gridline