Wilshire

FIRST QUARTER 2023

Quarterly Alternatives Commentary

Alternatives Dashboard

Private Markets	QTD (%)	YTD (%)	1Y (%)	5Y (%)
Preqin Private Capital – North America	(0.53)	0.61	0.61	14.84
Preqin Private Capital – Europe	0.97	(3.17)	(3.17)	13.09
Preqin Private Capital – Asia	0.87	(8.19)	(8.19)	8.11
Marketable Alternatives	**QTD (%)**	**YTD (%)**	**1Y (%)**	**5Y (%)**
Wilshire Liquid Alternative Index℠	1.20	1.20	(2.68)	1.27
HFRI Fund Weighted Composite Index	1.19	1.19	(2.06)	4.70

Sources: Bloomberg, HFR. Index returns are total return as of March 31, 2023. Preqin returns are total return as of December 31, 2022.

Quarterly Insights

Global economic growth forecasts continued to moderate with a growing consensus of investors expecting that the United States will enter a recession in 2023. Although economic growth slowed to an annualized rate of 1.1% in the first quarter, the U.S. economy was somewhat buoyed by a very strong labor market and resilient personal consumption, as households continue to have the capacity to borrow more to support spending.

Private investment has declined in three of the last four quarters, reflecting a more negative outlook on behalf of corporations relative to the spending habits of households, which appears to have deteriorated later in the quarter. Measures of corporate sentiment in combination with the recent challenges in the U.S. regional banking system, are indications that tighter monetary policy and financial conditions are beginning to weigh on corporations and the financial sector,which is likely to cause more material tightening of credit conditions and weigh on economic growth.

Availability of loans to small businesses materially declined compared to three months ago. Regional banks represent a significant source of funding for the commercial real estate industry, which is facing a wave of refinancing over the coming years, and small businesses also rely heavily on regional banks for financing,which is likely to become more challenging as the Federal Reserve (Fed) continues to raise interest rates, tightening credit conditions and putting increasing pressure on the U.S. financial system. The recent signs of stress in the financial system have caused growing uncertainty regarding the correct path forward for interest rate policy. It is unclear as to whether the greater risk that the U.S. economy faces is a pending credit crunch or the risk of inflation becoming further entrenched.

Debt capital is expensive and increasingly difficult to obtain – potentially creating a tailwind for private debt providers and a headwind for private debt consumers

Marketable alternatives defend early gains despite lingering inflation concerns and banking sector turmoil

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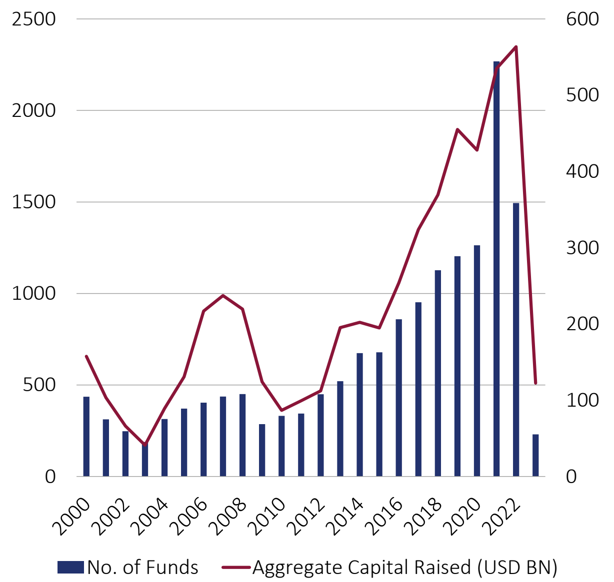
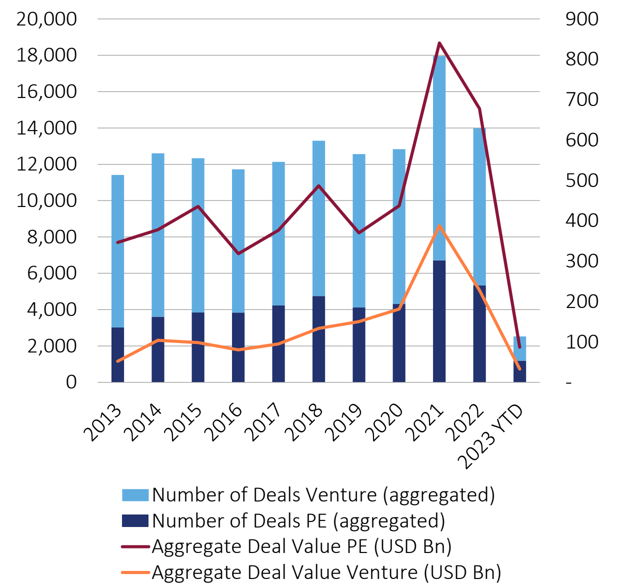
North America

North American Fundraising



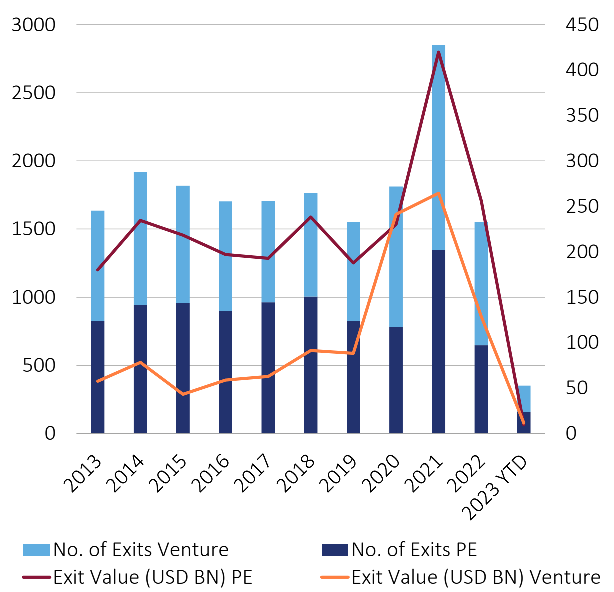
Source: Pitchbook.

North American Investment Activity



Source: Pitchbook.

North American Exit Activity



Source: Pitchbook.

Fundraising in North America slowed during the first quarter as 230 private equity funds secured a total of $122.5 billion, compared to 329 funds raising $141.8 billion in the fourth quarter of 2022. The largest funds to close during the quarter include Strategic Partners IX ($22.2 billion), TSG 9 ($6.0 billion) and West Street Global Growth Partners ($5.2 billion).

Similarly aggregate buyout deal value decreased in the quarter by -41.9% to $86.8 billion from $149.5 billion in Q4 2022. Deal value was driven by the $12.5 billion buyout of Qualtrics by Silver Lake Partners VI and the $9.5 billion buyout of Oak Street Health by CVS Health Ventures. During the quarter 1,337 venture deals closed, valued at $32.8 billion in aggregate value.

North America saw 155 private-equity buyout-backed exits valued at $9.4 billion and 195 venture-backed exits valued at $11.3 billion in Q1 2023.

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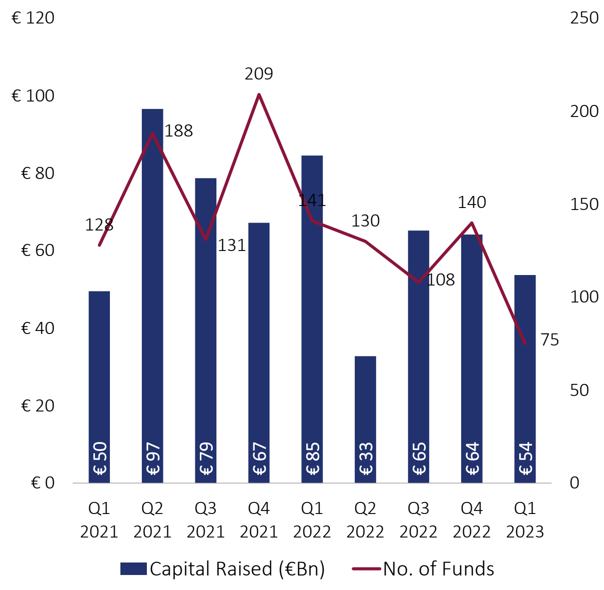
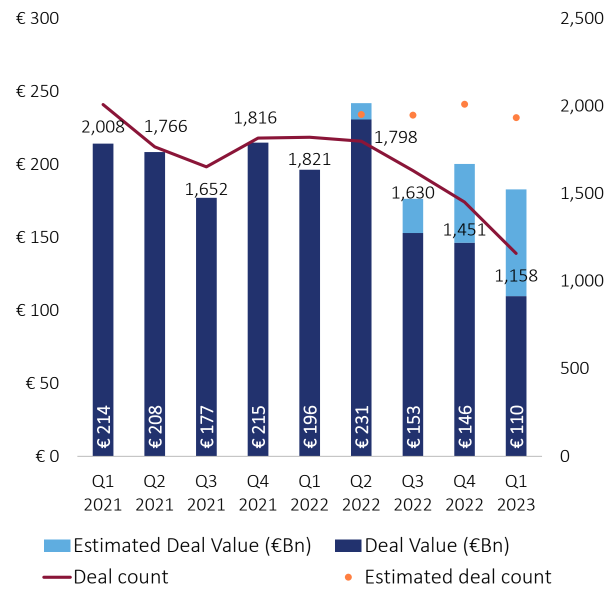
Europe

European Fundraising



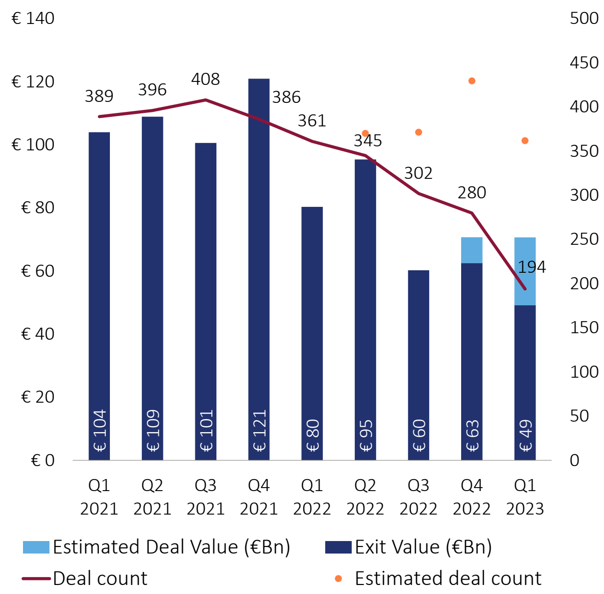
Source: Pitchbook.

European Investment Activity



Source: Pitchbook.

European Exit Activity



Source: Pitchbook.

Over the first quarter, European private market funds raised €53.7 billion, which represents a decrease of 16% relative to the €64.2 billion raised in Q4 2022. European venture capital fundraising is on pace for its lowest annual figure since 2015, with only €3.4 billion raised in the quarter. Having peaked in Q2 2022, European private equity dealmaking continued to slow as the current macro headwinds continue to impact the industry with Q1 2023 seeing €182.8 billion in deal value. European private equity exit activity has plateaued in recent quarters at around €70 billion, falling from the highs of 2021 and early 2022. In the first quarter, exits consisted largely of strategic acquisitions as opposed to IPOs and buyouts.

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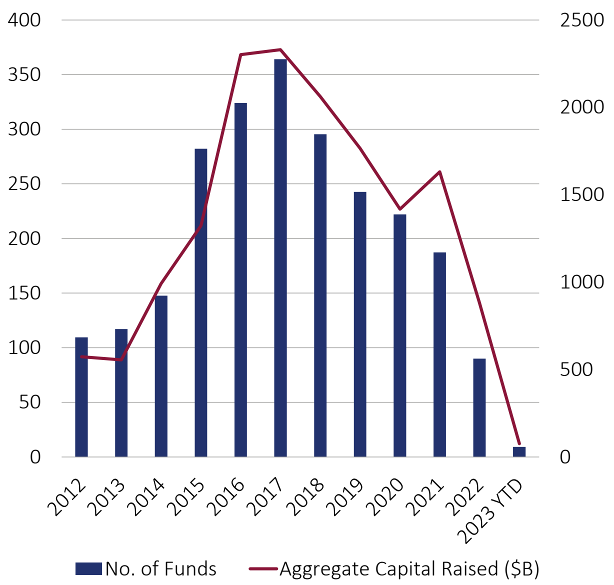
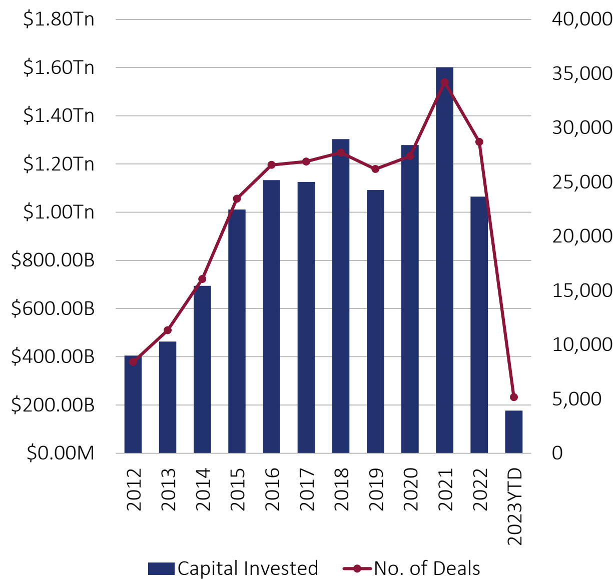
Asia Pacific

Asia-Pacific Fundraising



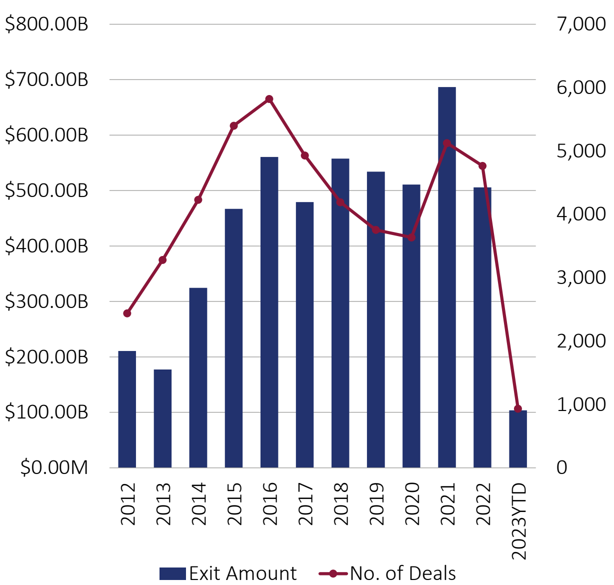
Source: Pitchbook.

Asia-Pacific Investment Activity



Source: Pitchbook.

Asia-Pacific Exit Activity



Source: Pitchbook.

Fundraising activity has significantly slowed in the past few years due to the impact of COVID-19 and had yet to rebound in the first quarter of 2023, with 56 funds raising $11.57 billion – a 39% decrease compared to the fourth quarter. Notable successful fund closings in the quarter include Primavera Capital Fund IV ($4.0 billion) and CapitaLand China Opportunistic Partners Program ($1.1 billion).

Similarly, investment activity slowed in 2022 and pacing did not pick up in Q1 2023. Aggregate value of investment activity in the first quarter was $164.32 billion (4,763 investments), which represents a sizeable decrease compared to $214.86 billion in Q4 2022 (5,985 investments).

Likewise in exit activity, aggregate value of exits in the first quarter was $78.91 billion (465 exits), which represents a measured decrease compared to $102.78 billion in the fourth quarter of 2022 (578 exits).

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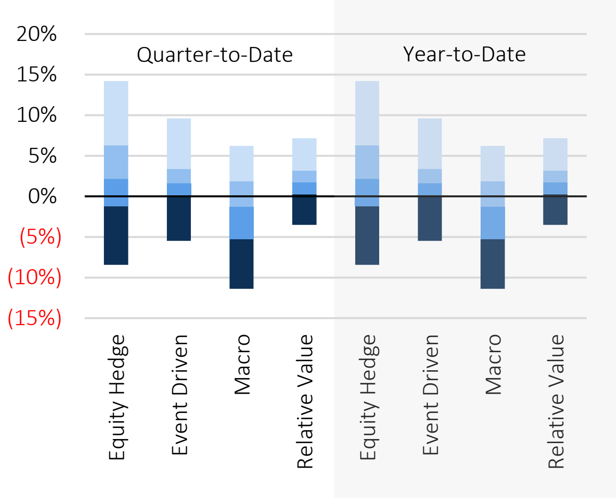
Marketable Alternatives

Sub-Strategy Performance

Marketable Alternatives	QTD (%)	YTD (%)	1Y (%)	5Y (%)
Wilshire Liquid Alternative Equity Hedge Index℠	2.45	2.45	(1.70)	2.85
HFRI Equity Hedge (Total) Index	2.51	2.51	(3.70)	5.00
Wilshire Liquid Alternative Event Driven Index℠	0.42	0.42	(1.83)	2.07
HFRI Event-Driven (Total) Index	1.38	1.38	(2.19)	4.48
Wilshire Liquid Alternative Global Macro Index℠	(2.62)	(2.62)	(0.18)	2.49
HFRI Macro (Total) Index	(2.44)	(2.44)	(0.34)	4.61
Wilshire Liquid Alternative Relative Value Index℠	1.53	1.53	(3.63)	0.25
HFRI Relative Value (Total) Index	1.34	1.34	(0.03)	3.58

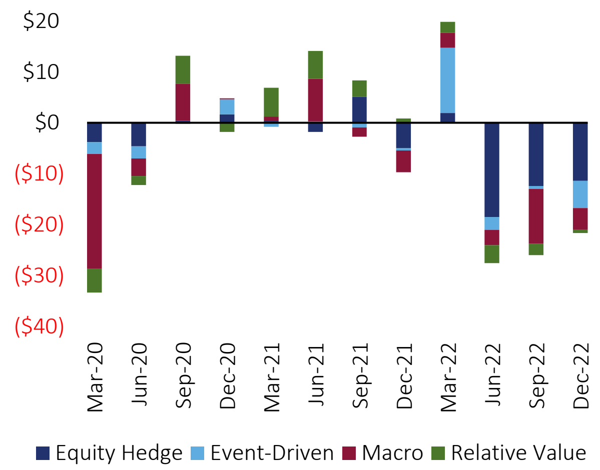
Source: Bloomberg, HFR. Indexes are total return.

Performance Dispersion by Sub-Strategy



Source: HFR. As of March 31, 2023.

Quarterly Sub-Strategy Flows ($BN)



Source: HFR. As of December 31, 2022.

Marketable alternatives strategies were generally positive during the quarter, largely benefiting from the risk-on environment in January, which continued through March despite the temporary concerns within the banking industry. Dispersion was meaningful during the quarter, led by equity hedge managers on an absolute basis.

Equity hedge managers posted the strongest performance during the quarter due to market beta as well as conservative positioning, which in particular reduced sensitivity to risk-off activity in February and volatility in March. Event driven managers experienced more muted but positive performance; while some profited from the equity rally, merger arbitrage managers struggled especially in March as deal spreads widened. Relative value managers also experienced positive performance, holding onto gains in January and limiting losses throughout the rest of the quarter.

Macro managers produced modest losses during the quarter, particularly during March as rates moved significantly (in some cases, historically) as the banking crisis emerged. Many macro managers were short bonds and took on substantial initial losses, while the crisis had little follow-through in other markets due to swift interventions from the likes of the Federal Reserve, FDIC, and Swiss National Bank, among others.

Looking back at the fourth quarter 2022, hedge fund flows were negative for the third consecutive quarter to round out the year, either motivated by unperformance of strategies with beta to risk assets or a need to source liquidity from outperforming strategies such as macro.

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