

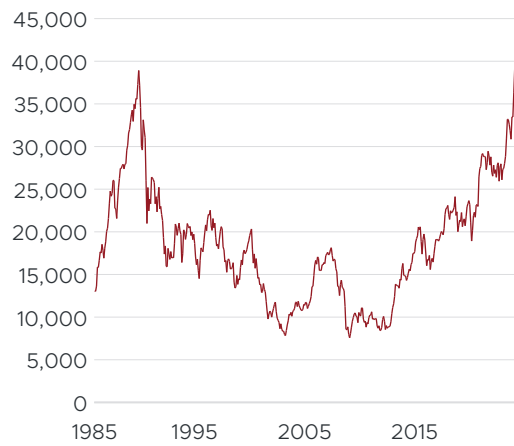
Investment roadmap

MARCH 2024

AT A GLANCE

- This month's main feature is on **the Japanese equity market**, which after more than 30 years has exceeded its 1989 bubble peak. This does not, as some commentary has suggested, mean that Japan may be now starting a secular bull market. In fact it has been in one for over a decade. Since 2012, the return to domestic investors, after allowing for inflation, has exceeded the returns attained even by US domestic investors. This outperformance has not, however, been delivered to most investors outside Japan. The 50% depreciation in the yen over that period has supported Japanese companies' profitability, while also eroding returns to overseas investors who were not currency-hedged. Saranac is overweight Japanese equities in multi-asset portfolios, for three reasons: the super-competitive level of the yen, the international exposure of many Japanese companies and also, after decades of disappointment, signs that Japanese companies really are becoming more shareholder-friendly.
- The rally in **global equities** in the first two months of the year has been the result of higher PE ratios rather than a discernible rise in corporate earnings. We regard equity valuations on average as extended, but not in bubble territory. In addition, much of the extended global valuation reflects the high ratings on some US megacap companies, and these ratings may be sustained while the companies are so strongly cash-generative. Outside the US, equity valuations are more muted, but so too are relative earnings prospects.
- The **global economy** has started the year firmly, with growth coming in somewhat ahead of expectations in many regions. The US economy is slowing from the exceptional rate at the end of last year, but with no sign of pronounced weakness. While we think widespread and deep recessions will still be avoided, we also believe that much of the global economy – in particular Europe and China – is trapped in low-growth cycles. The dominant macro theme is likely to remain 'stagnation'.
- In **fixed income**, markets are now pricing less aggressive monetary easing than at the start of the year, and we believe that long-term government yields are close to 'fair value'. Credit spreads remain below 'normal', in particular in high yield, although the rise in inflation expectations in recent weeks means that this component of the market is better priced. In general, we prefer to wait for better entry levels to reinvest cash.
- As a general theme, we note that **risk premia** in many classes are relatively low, and this underlies a more cautious investment stance than usual in Saranac multi-asset portfolios – more in diversified fixed income, cash and alternatives, and less in equities.
- In the **private markets** section, we explore the renewed focus on crypto currencies within venture capital.

Chart 1: Nikkei share price index



Source: Saranac, Bloomberg.

What has driven the recovery in Japanese equities?

Japanese equities reach new highs... after some delay

The Nikkei equity share price index in Japan has recently surpassed its level of late-1989, the high point before the subsequent market collapse (chart 1). The fact that it has done so is largely of historical interest, and it is more noteworthy that the market has delivered substantial returns over the past decade and more to reach the all-time high in price terms. We review the sources of this performance rebound in the past decade, and suggest why it is sustainable: Japanese equities are an overweight position in Saranac multi-asset portfolios.

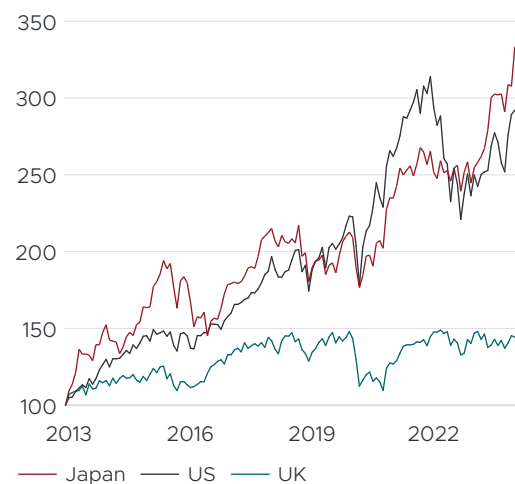
The lost decades

Recent and prospective Japanese equity performance cannot be properly understood without a good understanding of the past few decades. The golden age for Japan was the 1980s. The economy and a wide range of financial assets performed very strongly in that period, and many Japanese companies, which had attained global prominence in a range of industries, were lauded for their distinctive business models. At one stage, Japanese equities represented almost 50% of the value of the global equity market index. However, exuberance of a particularly irrational kind gripped all Japanese asset markets at the end of the decade. By the late 1980s, the ratio of prices to earnings in the equity market reached almost 60x, the Imperial Palace grounds in Tokyo had an implicit value greater than all Californian real estate, and for a mere \$3 million you could join a golf club.

When the Bank of Japan moved to tighten monetary policy in late-1989, the unravelling began. The banking system was particularly vulnerable to the widespread asset-price collapse, the high investment rates of Japanese companies proved unsustainable, and these adverse shocks occurred at a time when adverse demographic trends began to kick in: the Japanese labour force peaked in the mid-1990s, and has since contracted by almost 20%. These problems were compounded by a lethargic policy response to the asset-price collapse. Indeed,

Recent and prospective Japanese equity performance cannot be properly understood without a good understanding of the past few decades.

Chart 2: Inflation-adjusted equity returns to domestic investors (2012 = 100)



Source: Saranac, Bloomberg.

Japan's market recovery over the past decade or so has, however, been both material and under-appreciated.

one measure of monetary conditions, the yen, rose by 60% in the first part of the 1990s. More generally, the resolution of the banking system's problems dragged on for years.

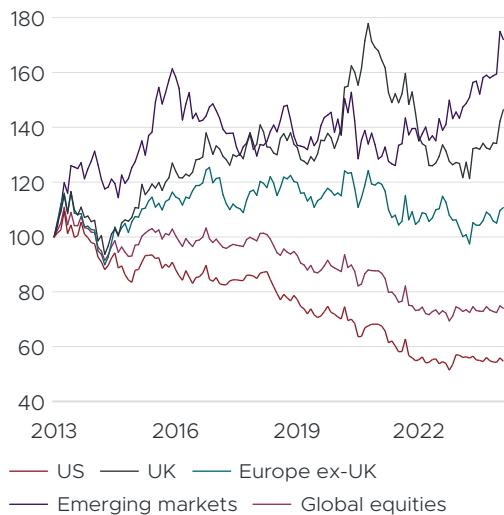
In these circumstances, Japanese equities moved to the margin of significance for many global investors. A \$100 investment in Japanese equities was by 1998 worth \$50. A similar investment in US equities would have yielded almost \$400, and in European equities almost \$300. Some global investors shunned the asset class altogether, even on a global index weight of almost 10%. While the brunt of the adjustment occurred in the 1990s, a further lost decade and more followed. In terms of the market's absolute performance, whether for domestic or unhedged overseas investors, hitting the eventual bottom was a tortuous process, and arguably reached only in 2012.

This dismal performance reflected a death-cycle in the interaction between corporate earnings and market valuations (exacerbated by the low information content in reported corporate earnings for much of this period). While the Japanese equity market de-rated quickly following the bubble's collapse in 1989, it never de-rated fast enough given the significant weakness in profits. In the run-up to 2008, the PE multiple was still in the 20–30 range, which looked, and indeed was, unsustainable. A brief cyclical recovery before the 2008 crash was then eliminated by it. It has only been in the past decade or so that a more sustainable valuation range has been reached, and corporate earnings delivered a clear uptrend.

The market recovers: but who benefits?

Japan's market recovery over the past decade or so has, however, been both material and under-appreciated. Consider a conventional metric to evaluate relative cross-country equity market performance. Which major global market has provided the best returns to domestic investors after allowing for inflation: or in short, which market has delivered the best real return since 2012? This is a good, if slightly nerdy, pub quiz question, to which the consensus answer – even among the cognoscenti – would probably be 'the US'. In fact, the answer is Japan (chart 2). Nominal equity

Chart 3: Japanese equities' relative performance (US\$, Jan 2013 = 100, + = outperformance)



Source: Saranac, Bloomberg.

Chart 4: Japanese yen: secular weakness (2012 = 100)



Source: Saranac, Bloomberg.

returns have been slightly less than in the US, but cumulative price rises have been 14% in Japan over this period, compared to almost 35% in the US. So Japan wins, with domestic investors' returns annualising 11.5% in real terms over the period. The margin of victory is even greater when measured against UK equity performance on this basis, or indeed many other non-US markets.

Given that it is only recently that foreign investors' interest in Japan has picked up, this would seem like a major missed opportunity. Paradoxically, however, this is not the case. Chart 3 shows the returns across the major country and regional blocs in a common currency (the dollar), not the local currency terms used earlier. A completely different picture emerges. Japanese equities underperformed global equities and US equities very significantly on this basis from 2012 until a couple of years ago, since when the trend in relative performance has been flat. The news is slightly happier when Japanese equity performance is compared with smaller markets outside the US, but even here systematic outperformance on this basis is only clearly evident against emerging markets.

The apparent divergence between these two measures of relative performance reflects the pronounced weakness in the yen. The last decade (and more) has been a period of secular decline in the Japanese currency. It has fallen by some 50% since 2012 (chart 4), providing a significant boost to Japanese companies' performance, particularly exporters, and hence to equity returns, while at the same time eroding returns to foreign investors who do not hedge the currency¹. This impact has been particularly evident in the past four years. Japanese equities in this period have delivered very strong performance in local currency terms, while only trading water when performance is measured in common currency terms, as the yen has continued to weaken.

¹ Hedging the currency exposure would, with the advantage of hindsight, been more profitable for overseas investors. However, if the yen were to strengthen significantly for a period, currency-hedged overseas investors would fail to benefit, at the same time that domestic returns in Japanese equities might be under pressure.

Chart 5: Japanese and US corporate earnings (2012 = 100)



Source: Saranac, Bloomberg.

Chart 6: Return on invested capital



Source: Saranac, Bloomberg.

What has driven the recovery in profitability?

i. The not-so-new economy

The recovery in Japanese equities over the past decade has been fundamentally based, reflecting a strong rise in corporate earnings. As chart 5 shows, corporate profits have recovered strongly, both in absolute terms and in comparison with the US. This improvement is evident on other measures. We show in chart 6 the upturn in return on invested capital in Japan. While this rise has taken it back only to international norms, Japan is one of the few countries where on this measure profitability is higher than pre-2008.

We are sceptical that a transformation in the Japanese economy accounts for this recovery in profitability. The underlying trend in Japanese economic growth appears still to be around 1%, little changed from prior to the 2008 crisis (chart 7). The economy weakened last year, with a very shallow ‘technical’ recession recorded in the second half of 2023 while the equity market was very strong, so no clear link was evident.

At the same time, while inflation has picked up in recent years in line with global trends, this was from a very low base to which inflation now appears to be returning. One argument which has been proposed in favour of Japanese equities has been the shift from deflation to inflation. This shift appears exaggerated. Prices for a period earlier in the decade fell slightly, then rose slightly. The underlying trend now appears somewhat positive, with the very modest pickup from the ‘mild deflation’ period insufficient to transform the macro background for Japanese companies.

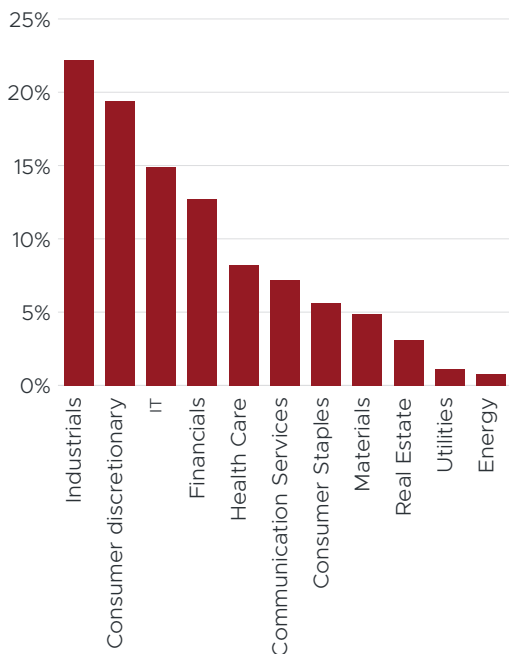
In addition, some negative macro factors persist. In a world where concerns over unsustainable fiscal positions continue to mount, it is sensible to note that the ratio of public sector debt to GDP in Japan is, at around 250%, one of the largest in the world. While much of this debt is domestically owned, the financing challenge is nevertheless potentially considerable.

Chart 7: Japan economic growth and inflation (3-year annual averages)



Source: Saranac, Bloomberg.

Chart 8: Sector breakdown of MSCI Japan (%)



Source: Saranac, Bloomberg.

We attribute the recovery in profitability rather to three other factors:

- the fall in the yen, discussed earlier;
- greater international diversification by Japanese companies;
- and more recently an aggressive wave of corporate reform.

ii. Greater international focus and a ‘modern’ market structure

When the bubble peaked in 1989, the Japanese equity market was dominated by banks – nine of the largest ten banks in the world were Japanese, with primarily a domestic focus. The current market structure is very different: semiconductors, electrical appliances and IT represent almost 40% of the equity index, and the banks’ share is down to 6% (chart 8). There has therefore been an evolution towards industries which are more linked into the more dynamic parts of the global economy. At the same time, the Japanese equity market has also become much more internationally focused, with many of the major companies having global operations. This has enabled them to diversify away from the stagnation in the domestic economy, and benefit from the secular weakness in the yen discussed earlier.

iii. Greater shareholder focus

At the same time, Japanese companies have become more shareholder-friendly, in contrast to the lost decades when generating profits did not seem, for many companies, a corporate priority. Caution is warranted in this context. The author can remember many visits to Tokyo in the late 1990s when similar claims were made, to no real effect. However, the difference this time is that influential arms of the Japanese state and corporate sector have aggressively pushed a reform agenda, and important changes in the corporate governance background are clearly evident. The reform process has gathered momentum, as evidenced by the following examples.

- In early 2023, for example, the Tokyo Stock Exchange (TSE) was publicly highly critical of corporate Japan for its low returns, and pushed through reforms to change this. In particular, the TSE recently restructured the market into three segments. Companies in the highest segment, accounting for nearly half of the quoted sector, have to abide by more demanding governance standards, and are subject to more scrutiny over their capital efficiency. This affects primarily firms trading below book value. Since nearly 40% of Nikkei members fall into this category (compared to 3% in the US and 20% in Europe), this focus could lead to significant corporate change.
- There has been a decline in cross-shareholdings between Japanese companies. These were common a generation or so back, with the boards of cross-held companies seeking to enhance their control by leveraging their combined voting power for mutual support. These power blocs were often contrary to the interests of outside shareholders, and frustrated attempts to change underperforming companies. The older the company the more likely it is that some element of cross-holdings persist, but some dilution is underway. For example, stalwarts such as Nippon Steel and Hitachi announced plans to unwind cross holdings last year. Moreover, newer companies are much less likely to enmesh themselves in these networks. A recent example, which illustrates the heightened degree of regulatory pressure, was the Japanese Financial Services Agency pressurising four leading casualty insurers to accelerate divestment of their cross-shareholdings, as evidence emerged of collusion on premiums for corporate clients.
- A decade or so ago, it was unusual for Japanese firms to have independent directors. As of 2022, nearly 90% had three or more directors in such positions. This is likely to be a further factor pushing Japanese companies to a position of greater sensitivity to shareholder requirements.

There has been a decline in cross-shareholdings between Japanese companies. For example, stalwarts such as Nippon Steel and Hitachi announced plans to unwind cross holdings last year.

Chart 9: Dividend yield comparison



Source: Saranac, Bloomberg.

Chart 10: Japanese PE ratio



Source: Saranac, Bloomberg.

— More capital is finding its way to shareholders from Japanese companies. Twenty years ago, the dividend yield on Japanese stocks was negligible, share buybacks were a rarity, and it was far from unusual for Japanese companies to sit on large cash holdings for extended periods. By contrast, the Japanese dividend yield is now slightly above the global average (chart 9). In addition, share buybacks have increased in most years in the past decade, and now add around a further 1% per annum to the return to investors through dividends. It is interesting that the buybacks have been concentrated more amongst companies with low price-to-book valuations – further evidence that the regulatory reforms may be working in that part of the market.

Three factors for the future

The rise in Japanese equities in recent years has been broadly in line with the rise in corporate earnings. The current market PE multiple of around 17x is still close to its average over the past decade, so there is little sign of valuation ‘overstretch’, or that at the aggregate level an unusual level of optimism is evident (chart 10). Neither does the Japanese market appear aggressively priced in relation to other major global equity markets. This suggests that if the reform process continues – and it does seem firmly embedded – there is still scope for additional market gains.

We would identify two other risk factors for the relative performance of the Japanese market.

The first is the yen, whose substantial decline has been very supportive for the Japanese equity market over a multi-year period. The recent weakness has resulted primarily from the Bank of Japan’s unwillingness to tighten policy in line with the higher rates in other major economies. However, rates may fall elsewhere at some stage this year, with the Japanese central bank moving in the opposite direction. This could set the stage for a yen rebound, particularly given that in fundamental terms the yen appears very cheap – for example it is some 70% lower than its level in 1995. A sustained yen surge would be highly likely to impair Japanese equity returns, although unhedged overseas investors would benefit from the currency component of the return.

The second risk concerns overseas investors, who have been significant buyers on the latest market rally, taking stock off Japanese retail and institutional investors. In the past, foreign buyers have tended to be traders of Japanese equities rather than investors, having relatively short holding periods. A more sustained rally in Japanese equities requires these foreign holdings to be more stable over time, or that domestic retail investors – who continue to have around 50% of their investments in cash and only 10% in equities – become more confident that the gains of recent years are not merely transitory.

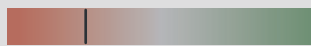
Public markets

EQUITIES



- Asset class outlook +

Valuation



Earnings



Positive

Healthcare; Energy;
Japan

Negative

Financials; IT;
Emerging Markets

Market background

Equity markets continued to accelerate despite the repricing of rate cutting expectations in fixed income markets. The AI theme featured heavily in management commentary throughout earnings season. Over the month of February the MSCI world index returned 4.9%.

Targeted exposure

From a sector perspective we like the dynamics in health care and energy. Health care faced challenging growth comparisons in 2023 which should be supportive this year. In terms of energy companies, as long as this cyclical group can exhibit cost discipline we believe they will generate strong cash flow generation. Even though banks are well capitalised we worry interest rates cuts and commercial real estate could weigh on share prices. High valuations are a characteristic of tech stocks which push us towards quality names with strong cash flows. Corporate reform in Japan could finally gain traction and support the market.

GOVERNMENT BONDS



- Asset class outlook +

Short maturity



Long maturity



Targeted exposure

3-10Y sovereign bond exposures

Positive

20-30Y US TIPS, 10Y
Australian government
bonds

Negative

>5 year European
sovereign bonds,
Japanese government
bonds

Market background

We now think that the major global central banks have reached the end of their tightening cycle (excluding the BoJ perhaps) and are likely to start cutting interest rates at the end of the first half of 2024. Following the recent pick-up in yields and revisions to earlier overly optimistic rate cut projections, we now believe that the market pricing for rate cuts is about right. Similarly, 10Y Treasury and Gilt yields have rebounded above 4%, in line with our 12-month target.

Targeted exposure

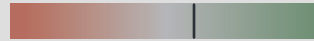
After cutting the average portfolio duration of our core fixed income strategy to 3.8 at the turn of the year, we raised it back to 4.0 in February, our neutral stance. As inflation break-evens rose in February, benefiting our TIPS exposures, we rotated some TIPS to nominal Treasuries.

Public markets

CORPORATE AND EMERGING MARKET DEBT



Investment grade credit



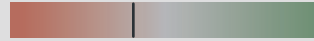
High yield



SUB



EM debt



Positive

Subordinated bonds,
AAA/A securitisation,
US Agency MBS

Negative

US High Yield

Market background

We now view credit spreads as too tight, in particular in the HY space, with \$IG and \$HY spreads ending February at respectively at 102bp and 376bp, well below their long term average of 128bp and 455bp. We continue to find better value in the subordinated bond space. Complexity premium offered in the structured credit space remains attractive. For instance, \$ AAA CLO tranches trade at a ~150bp spread above SOFR, compared to just 95bp for the 1-10Y \$IG credit segment which has A- average rating. Finally, MBS spreads remain attractive compared to \$IG credit, especially considering the improved convexity profile of the asset class and as we expect the Federal Reserve's to start tapering its quantitative tightening program sometime during the summer.

Targeted exposure

In February, we continued the rebalancing of our core fixed income strategy away from traditional IG and HY corporate bonds, reallocating towards (i) instruments with a lower credit sensitivity (MBS, government bonds, high quality securitisations) and (ii) higher yielding subordinated bonds issued by IG companies. These include AT1s, Solvency II grandfathered insurance bonds and corporate hybrids. This "barbell" approach provides diversification benefits and allows to maintain a relatively high average credit quality while preserving a yield advantage against the global bond index. It reduces credit sensitivity and increase interest rate duration, whilst allowing to harvest attractive credit and liquidity premium in higher-yielding niche market segments.

STRUCTURED PRODUCTS



The environment here is unchanged, in our view. Cross asset volatility sits at multi year lows for the most part. Our preference is therefore to look for opportunities to pick up attractive buying opportunities rather than selling to find yield. We have recently implemented strategies which include the purchase of cheap call optionality on commodity and loan strategies, giving the investor capital protection whilst allowing them to access areas of the market where we think parameters look interesting. Put buying continues to price around as cheaply as it ever has, making for an opportune entry point for investors who are bearish. Our structured product allocation sits towards the lower end of its historic ranges at the moment and we prefer to remain defensive here.

Public markets

HEDGE FUNDS



Why we maintain a structural allocation to hedge funds in our portfolios:

The primary goals of adding hedge fund exposure to a portfolio are to inject alternative sources of return and mitigate risks. Indeed, a range of economic, geopolitical, and market risks remain, and we think an appropriate allocation to hedge funds should help offset potential equity volatility and offer agility to navigate the evolving macro regime. With equities near all-time highs, many investors are asking themselves where to allocate excess liquidity and whether to rebalance portfolios after recent equity market gains. Historically, due to their focus on risk management and downside mitigation, hedge funds have offered a natural portfolio complement to both equity and credit, capturing upside, adding differentiated returns, and providing some protection against unexpected selloffs.

Hedge funds can increase portfolio stability and diversification. While inflation has continued to fall, the risk of stocks and bonds moving in sync remains. This further reinforces the rationale for maintaining a strategic allocation to hedge funds as an additional source of diversification in portfolios. Elevated interest rates can also support return potential for hedge funds. We believe the Fed has clearly signalled its intention to cut rates, but the level of interest rates should remain relatively high. The path toward rate cuts is also likely to contribute to asset class volatility, with the potential to widen the gap between winners and losers. This increased dispersion across securities, sectors, and countries creates opportunities for hedge funds to generate alpha and potentially achieve positive absolute returns.

Public markets

CURRENCIES

Dollar



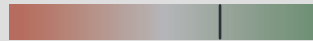
Sterling



Euro



Yen



Market background

After a solid first six weeks of the year, the dollar's gains have paused in recent weeks. We have seen expectations for the major central banks, namely the Fed, ECB and Bank of England, converge since the start of this year, with markets now predicting that we will now see a similar magnitude of rate cuts for the three central banks, closer to 3 cuts (down from nearly 7 priced in January in the case of the Fed) over the course of 2024, likely to start around June. This convergence has resulted in a drop in FX volatility and in the case of EURUSD and GBPUSD, we have been trading in very tight channels for most of this year.

Targeted exposure

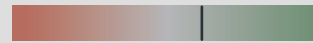
The Bank of Japan is a good example of a central bank who is potentially about to change course, with markets currently assigning a +50% probability that the BoJ will increase rates on 19 March. One of our preferred relative value FX trades remains short positioning in the CHF versus the Japanese yen.

COMMODITIES

Gold



Energy



Industrial metals



Softs



The last month has brought continued divergence in commodity price action. The surges in precious metals and energy prices have been countered by the persistent weakness in agricultural commodities and rare earth metals. In particular there has been a continued unravelling of the EV and rare earth metal story, with miners lowering expectations of medium-term demand and several of the large bellwethers in the EV space also struggling. Gold strength has been pronounced, boosted by the relatively sharp increase in market pricing of inflation year to date as well as persistent central bank buying. In light of the passing of the El Nino catalyst and the negative cost of carry compared to high cash yields, we have sold our position in the Agricultural commodities ETF.

Private markets

VC – Crypto

As we move towards the end of Q1 2024 we've continued to see a strong rally in public markets, with the S&P 500 up 8% on a year-to-date basis. One area that has really shown signs of strength during this broader rally is the crypto market. As we headed into start of this year, the SEC's approval of the bitcoin ETF really provided a structural tailwind for the continued rally we've seen not only in Bitcoin (up 55% year to-date) but the wider crypto market, i.e. Coinbase & Ethereum up 63% & 64% YTD respectively.

Given this positive backdrop, we thought it was an ideal time to provide an update on what's happening in the venture capital markets within the crypto vertical. Over the last quarter we saw the first positive quarter-on-quarter increase in new investments in crypto since Q1 2022, indicating the strong correlation of sentiment between public and private markets. Specifically, Layer 2 (L2) solutions / infrastructure and blockchain infrastructure remain the core areas we've seen venture capital being invested given their wider reaching use cases vs single tokens. These two parts of the vertical represent c.50% of the \$1.9bn deployed in Q4 2023, with the remaining being deployed into: Access, DeFi and Web3. Q4 2023 was also the first quarter in a while in which we saw megadeals being completed in this part of the market - Swan Bitcoin completed a \$165m raise and Blockchain.com \$100m. This new revival in crypto markets indicated to us that despite the headline news we've seen on companies such as Binance and FTX, investor appetite for centralised finance providers continues to be strong given their ease of access, perceived security, and tangible case studies for retail and institutional users.

During the quarter, the \$102.5m series A for Together.ai brought to our attention a more nascent area of the blockchain market - decentralised physical infrastructure networks (DePIN). DePINs are essentially systems that seek to leverage blockchain technology in order to build out physical infrastructure in a more efficient and effective way. DePINs can be broken down into four sub-verticals: decentralised cloud, decentralised wireless, IoT networks, and distributed grid and environment. DePINs' differentiator is that it seeks to incentivise supply-side participants to deploy and maintain their own physical hardware that can be used within

the wider network through awarding network tokens that can then be traded/sold, very similar to the current version we have of the blockchain with just a very different use case. The aim of this is to allow anyone the ability to participate, access, or contribute to public infrastructure, making traditional capital-intensive industries much more capital efficient and easier to develop. Since the start of 2022 we've seen venture capital allocations towards DePIN significantly uptick, with 2022 and 2023 seeing a combined \$841m being deployed. This compares to the combined total of \$217m of capital that was deployed in the two years prior. Capital allocations to-date have largely been driven specialist web 3 investors - Multicoon Capital, Digital Currency Group, etc. However, more recently we've seen more established investors start to get involved: Andreessen Horowitz, Coinbase Ventures to name a few. Now, there are many challenges that we see in this space that can materially affect adoption of this technology, however, we think that the nascency and potential of this technology will result in significant capital and investor attention to be directed here over the coming years, and therefore whilst its not yet an area we would actively pursue, it is a part of the market to watch closely over the next 12-24 months.

Private markets

ALTERNATIVE SOURCES OF RETURN

Secondaries



Record levels of secondary volume as investors seek to rebalance portfolios has resulted in a very attractive pricing environment

Special situations



Favourable market environment given the likely stress corporates will face in a higher rate environment

Venture capital



Early-stage venture has benefited from the correction in late-stage valuations, providing an opportune time to invest in long-term productivity gains, labour replacement and other venture investment qualities

Infrastructure



More attractive given supply chain issues and geopolitical uncertainties

Real estate



Pricing is unattractive given the narrow spread (in some cases negative) between cap rates and the risk-free

GP stakes and financing



Opportunity of higher yield and greater downside protection as a result of attractive secondary pricing dynamics

Real assets



At risk from weak growth environment

Private debt



A negative economic outlook with the potential for above-trend default rates and extension risk make private direct lending unattractive on a risk-adjusted basis

Leveraged buyouts



EBITDA multiples have begun softening and hence in time valuations could again become attractive

Mid-market growth



A prolonged period of weak/negative earnings growth as a result of a weak economic environment and increased cost of capital will see valuations struggle in the short term

ABOUT SARANAC PARTNERS


We founded Saranac Partners to do things differently. To create a community based around like-minded people, shared wisdom and collective learning. To work as partners, creating compelling opportunities and effective solutions. To offer unfailing support, honest challenge and thoughtful inspiration.

Our business combines the personal touch of a private office with the capability and breadth of a large institution. Our firm has strategic shareholders, outstanding technology, broad capabilities and the highest standards of corporate governance. Saranac Partners is a signatory to the United Nations Principles of Responsible Investing (UNPRI).


OUR SERVICES

We start with the question. We listen and seek to understand. We don't make assumptions or force solutions. Rather we co-create a path with our clients.

 **Strategy.** Planning, governance and oversight

 **Financing.** Access to diverse sources of capital

 **Investments.** Allocation and deployment of capital

 **Corporate advisory.** Supporting corporates and business owners

IMPORTANT INFORMATION

This document does not constitute specific investment advice to buy or sell any investment or enter into any contract for investment services. Specific investment mandates may not permit some of the strategies discussed. Information contained in this document may not be distributed, published or reproduced in whole or in part or disclosed by relevant persons to any other person. The distribution of any document provided at or in connection with this document in jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession any such documents may come should inform themselves about and observe any such restrictions. Saranac Partners Limited is authorised and regulated by the Financial Conduct Authority. Any personal data you disclose to Saranac Partners will be treated as confidential and will be processed in accordance with our Privacy Notice which can be found at www.saranacpartners.com

Saranac Partners Limited

questions@saranacpartners.com
+44 (0)20 7509 5700
16 St James's Street
London SW1A 1ER

Saranac Partners Europe

questionsEU@saranacpartners.com
+34 919 545 130
Calle Hermosilla 11
2 planta. 28001 Madrid
Agencia de valores autorizada y
supervisada por la CNMV (nº313).
CIF A72440142

Saranac Partners Limited is authorised and regulated by the Financial Conduct Authority Registered in England & Wales Company no. 09587905