

**FOCUS ON PRIVATE EQUITY**

# OUR GLOBAL TREND WATCHLIST FOR PRIVATE EQUITY

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**In today's global landscape we see trends that hold a variety of unfolding opportunities and risks—and often they are the converse of each other. At Kohlberg Kravis Roberts & Co. L.P. (together with its affiliates, "KKR"), close attention is paid to these big-picture trends as we work to source investments and systematically de-risk our portfolio companies.**

## A REDUCTION IN GLOBAL TRADE

Even before the last US presidential election, we were seeing a clear decline in global trade over the past several years. This trend clearly benefits companies with ample domestic markets and more reliance on local supply chains. That profile fits many firms in the US, the world's biggest market, and others in Indonesia and India. What we might call "deglobalization" could also lead some companies, especially those with strong pricing power, to spin off some of their units, creating separate entities that could present new investment opportunities.

## INCREASED GLOBAL DEFENSE SPENDING

KKR is looking closely at this area today, especially in Europe and the US, with a particular focus on cybersecurity.

## THE RISE OF THE UNITED STATES OF ASIA

We're seeing a big uptick in inter-Asia exports based on trade deals and proximity. Infrastructure is a particularly interesting facet of that trade, and one where we see strong growth potential.

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This article is excerpted from a recent Altegris-KKR webinar, *Populism, Political Change and Investing*.

*The views expressed are the personal views of Ken Mehlman of Kohlberg Kravis Roberts & Co. L.P. (together with its affiliates, "KKR") and do not necessarily reflect the views of Altegris.*

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## **GROWTH IN COMPANIES WITH STRONG CONSTITUENCIES**

Especially consumer brands with deep connections to local markets or affinity groups. For example, last year we invested in a sporting goods chain that is deeply embedded in communities in the upper Midwest and a group of markets with strong appeal in the Hispanic community.

## **VALUING EXPERIENCES VS. “THINGS”**

The idea that life satisfaction lies more in moment-to-moment experiences than in the accumulation of material possessions has growing cultural currency. Our investment in UFC, a company that promotes the fastest growing sport in the US—mixed martial arts, is consistent with that trend.

## **INFRASTRUCTURE**

With \$8 billion AUM in infrastructure and deep experience in energy, water, broadband, parking and other infrastructure, we believe we can benefit from upcoming construction needs in the US and Europe. This is a priority for policy makers in both regions. Expect to see creative regulatory reforms, incentives, and investments to encourage more public/private partnerships.

## **BALKANIZATION OF THE INTERNET**

Companies with a business based partly on data transfer may be affected by changing rules as well as privacy-related issues. As I look at our portfolio companies that are in this situation, I spend a good bit of time thinking about the best practices they need to be building into their businesses.

## **GROWING POLITICIZATION OF BUSINESS**

We've seen companies such as Uber, Under Armour, Carrier, and some pharma's, as well, become the targets of criticism and customer boycotts over their proximity to political figures or their perceived stances on issues.

## **THE OPPORTUNITY IN PROBLEM-SOLVING**

We have already put \$5 billion to work in companies whose core mission is solving problems that are societal in nature. These aren't impact investments; they are companies focused on earning the best possible returns for their shareholders. But they do that by solving problems such as food safety.

The reality is that companies need to be thinking about trends as they affect their stakeholders as well as their shareholders. Especially with the power of the Internet, more people are looking at all the aspects under the hood of every business. Every business executive and every private equity investor needs to be aware of that.

**Past performance is not indicative of future results.**

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## **RISKS AND IMPORTANT CONSIDERATIONS**

*It is important to note that all investments are subject to risks that affect their performance in different market cycles. There are significant differences between public and private equities, which include but are not limited to, the fact that public equities have a lower barrier to entry than private equities. There is also greater access to information about public companies. Private equities typically have a longer time horizon than public equities before profits, if any, are realized. Public equities provide greater liquidity whereas private equities are considered highly illiquid.*

*It should be noted that private equity may not be suitable for everyone. As with any investment, there are numerous risks to investing in private equity including the possible loss of principal.*

*Nevertheless, for those investors who understand the risks, and have available risk capital, private equity can provide an opportunity to enhance their portfolio returns.*

*An important part of understanding and implementing private equity today is assessing the potential benefits as well as the risks. Equity securities are subject to market risk, or risk of loss due to adverse company news, industry developments, and general economic decline.*

*In addition, private equity is considered speculative therefore subject to a unique set of risks. These risks include, but are not limited to, liquidity risk and lack of a secondary market to trade securities, management risk, concentration and non-diversification risk, foreign investment risk, lack of transparency, leverage risk, and volatility.*

## **ABOUT ALTEGRIS**

Altegris is an investment research firm, with deep expertise in alternative manager selection, structuring unique solutions, and providing portfolio management and oversight. Beginning with an analysis of the current and anticipated investment environment, our solutions are based on themes that we believe solve the most important client needs. For more information about the Altegris family of alternative solutions, visit [www.altegris.com](http://www.altegris.com).

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