Sentinel Trust
Together, families prosper℠

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Private Capital Market Overview and Update

We have received questions from clients on our activities in private capital markets in 2020 and particularly during the coronavirus outbreak. As always, we want to be responsive to these inquiries and thought this was an opportunity to discuss more broadly our overall approach, as well as some very long-term investments we have recently made.

Sentinel Trust's Private Capital History and Philosophy

First, it is important to step back and define private capital markets, and elaborate on our experience and philosophy investing in them. Private capital markets encompass all investments in which we are tying up capital for many years. Unlike stocks, bonds, or even hedge funds, private capital market investments often require locking up capital for a decade or more. Private capital investments typically include private equity or corporate finance, venture capital and private real estate. While most of the underlying investment funds that Sentinel Trust utilizes are able to return capital and profit back to us in 7-12 years, some investments have longer vintages "that are old enough to drink," as one of our colleagues puts it.

Because of this very long-term nature and illiquidity, we only make private investments after significant due diligence, a practice we have honed over the decades. Sentinel Trust's founding families have made venture capital investments since 1970. When Sentinel started our pooled vehicles over twenty years ago, the founding families turned over their long-standing relationships and expertise to the firm. Since 2008, Dennis Montz has led our private investment team and efforts. Dennis has experience in the space dating back to the 1990s and the team is further supported by outside specialized consultants who help us source and vet ideas.

As you will note below, we are also very mindful about who we partner with in private markets. We look for partners who are experts in their niches, and we are generally wary of those straying from their core competencies. Sentinel Trust also seeks partners whose interests are aligned with ours, with a significant portion of their own wealth invested alongside us in these funds. We want partners who are hungry but not greedy, and we generally prefer smaller, more nimble funds that are aligned with the size of the opportunity set.

As we invest in exceptional partners, we also endeavor to reciprocate and provide value to them by utilizing the structural strengths of our investment platform. Specifically, by pooling our clients' investment dollars together, we are able to make substantial investments and get access to funds that would otherwise not consider smaller, individual commitments. By maintaining discretion over investment decisions, we are able to move quickly when needed. Generally, we are inclined to re-up with partners we trust and with whom we have invested successfully in the past, as there is a tendency for top-tier managers to persist.

Now, to give you more tangible insight into our private market deal flows and considerations, we will discuss some specific funds we have recently committed to, some funds in our pipeline and some funds we have recently passed on.

Recent Commitments

- **Real Estate Manager Focused on Last-mile, E-commerce Related Industrial Warehouses**

  We utilized one of our consultants and our ability to move quickly to commit $7.5mm to this small, but highly regarded and oversubscribed, industrial real estate specialist. The manager is exclusively focused on last-mile logistics or well-located warehouses used generally by e-commerce tenants to get their products quickly to the end customer.

The firm has deep networks with both brokers and tenants to access small off-market opportunities. We saw these assets as mission critical even before the coronavirus and believe the economic lockdown has accelerated the lasting transition toward e-commerce. This fund makes smaller $5-50mm investments and plans to exit to large institutional investors at attractive premiums. The manager was able to sell its entire first fund to a larger institutional investor for a top-quartile return.

- **Lower-Middle Market Growth and Buyout Manager Focused on Industrial Healthcare**

  We have had a long-standing relationship with this manager, which helped us get a $6.5mm commitment into a hard-to-access oversubscribed fund. The manager has traditionally delivered top-quartile returns by focusing on being the first institutional investor in profitable "industrial healthcare" companies. This includes pharmaceutical services, which we believe will benefit from the move toward on-shoring following the supply chain disruptions caused by the coronavirus.

- **Lower-Middle Market Buyout Fund Focused on Owner-Operated Businesses**

  This is another example where our long-standing relationship and ability to be nimble helped us get a $7.5mm allocation to a heavily oversubscribed fund. We have been investing with the manager since 2006 and are impressed with their performance, willingness to stick within a well-defined niche and their own commitment to the fund. Their focus on developing deep networks in the owner-operated business space and their proven ability to create win-win outcomes with these owners has led to a deep backlog of under-the-radar potential deals. We also like the way the manager structures their deals to manage downside risk while preserving upside potential through organic growth.

- **Large European-Focused Global Buyout Firm**

  While we generally like to use our size to focus on smaller, under-the-radar funds, we also recognize the advantage of scale in certain opportunity sets. In this case, we re-upped with one of the larger players in European buyouts who has used its scale to deliver top-tier results to investors for over twenty years. The firm has one of the largest private equity teams globally with both the ability to source country-focused ideas and compare them to a global opportunity set. We have concluded that the havoc created by the coronavirus will create opportunities for this firm. They are reportedly reviewing opportunities in strained sports businesses, a space in which they have had successful investments in the past.

Pipeline and Fund/Investment Opportunities we have Declined

As always, we are constantly on the lookout for new partnerships and reviewing new commitments with existing partners. We are currently spending a great deal of time reviewing the energy markets and are likely to make additional commitments with an existing partner who has attributes we respect. They have outpaced public energy markets in past funds by a considerable margin by focusing on partnering with great management teams with strong assets and balance sheets that can withstand the boom-and-bust cycles of the oil market. Concurrently, we are reviewing the eighteenth fund of a venture firm that Sentinel's founding families first partnered with back in 1970. Despite the longstanding relationship, we will perform our standard, vigorous review.

On this note, we think it is appropriate to close by giving you an idea of some funds we have declined to partner with. We continue to pass on many more funds than we invest in; by way of example, in 2019, we reviewed more than 200 funds and invested in just 19. As noted earlier, while we generally like to re-up with managers we know and trust, we recently declined to reinvest with a manager we have been with since 2006. While the manager has remained a top-tier manager, we declined on their recent fund as its fees, size and scope grew, but its alignment with partners shrank.

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Conclusion

In conclusion, we remain active in private markets. We generally seek to put money to work each year with partners we scrutinize thoroughly and think the examples above highlight the ways in which we are putting to work the capital you have entrusted us with. We believe in the principle of being good partners with our private capital funds, in furtherance of our core commitment to being excellent stewards of your wealth. We wrote this note in response to questions we have received, and as always, welcome any additional questions or concerns you may have during this uncertain time or any other.