ALL ABOUT ALPHA

The beginning of 2022 has weighed heavily on investments reliant on beta. As we look towards the rest of the year, we believe investors should focus on alpha generation in seeking to drive returns. Here we highlight five key areas in alternatives for generating alpha in 2022.

Contents:

Past performance is not necessarily indicative of future results. No assurance can be given that any investment will achieve its given objectives or avoid losses. Unless apparent from context, all statements herein represent GCM Grosvenor's opinion.

Select risks include*: market risk, macroeconomic risk, manager risk, liquidity risk, interest rate risk, and operational risk.*

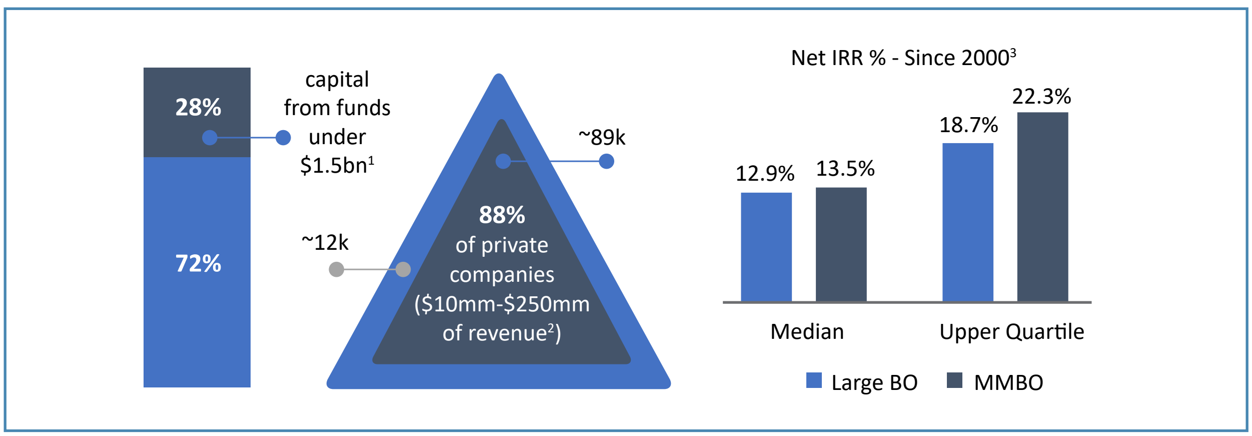
Current Outlook: A Rocky Year-To-Date

While 2021 brought us record economic growth, storm clouds were already beginning to brew by the end of the year. It was clear that record GDP growth rates risked slowing as stimulus money from the COVID-19 crisis began to dissipate. Fiscal policy was becoming difficult to sustain, suggesting it was reaching its limits, and monetary policy began tightening. In fact, the beginning of 2022 has been a perfect storm of decades-high inflation, rising interest rates, geopolitical instability-turned-war, not to mention the persistence of the COVID-19 pandemic. These factors combined to generate extreme market volatility that persisted through much of the first quarter.

In our view, the combination and persistence of these factors means that investments reliant on beta are likely to continue to be very challenged. We therefore believe investors will need to seek alpha to drive returns and investing in alternatives can be a key source of such alpha. In the following, we highlight five areas within alternatives that we believe represent pockets of opportunity for alpha generation.

5 Key Areas in Alternatives for Generating Alpha

1. LESS TYPICALLY TRAFFICKED AREAS OF THE MARKET SUCH AS THE MIDDLE MARKET



We believe the middle market has a disproportionate share of investable opportunities compared to the large buyout market. Less than 30% of capital is allocated to buyout funds under $1.5 billion compared to the over 70% that is allocated to buyout funds over $1.5 billion. Historically, middle market buyouts also have a stronger performance track record than large buyouts, with net IRRs since 2000 between 13.5%-22.3% and 12.9%-18.7% respectively.

1 Source: Preqin: Capital available data as of September 30, 2021; Includes only North American and European buyout funds which held final closes in 2014-2021.
2 Source: CapIQ: Data as of October 5, 2021; represents North American and European private companies only.
3 Source: BURGISS: Data as of September 30, 2021; downloaded January 31, 2022. US MMBO: Funds less than $3 billion; US Large BO: Funds over $3 billion. Consists of 2000-2013 vintage funds.

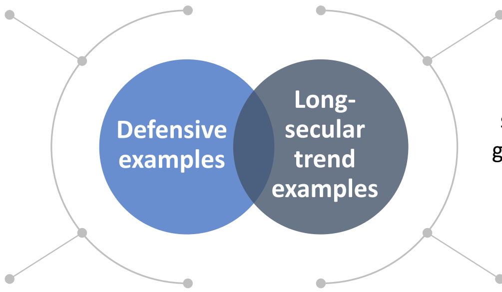
2. SITUATIONS WHERE CYCLICALITY ASSOCIATED WITH AN INVESTMENT IS LIMITED

pathway vet alliance

(private equity) – veterinary clinic consolidator; humanization of pets can create stable business profile.

stripe

(private equity) – payment processing solution; preferred solution that powers large and growing e-commerce payments.



Lineage

(real estate) – operator of cold storage facilities; stable cash flow profile as food supply chain typically grows at rate of inflation and is decoupled from the economic cycle.

gainwell

(private equity) – technology solution for government healthcare programs; attractive demographic and technologic tailwinds combined with recession-resistant customer base.

Investments that are less exposed to transient market conditions and more exposed to secular trends can be a good source of alpha generation. We believe investors should prioritize opportunities where operational improvements and skill drive value as opposed to those that require financial engineering for return generation. Preference should be given to defensive businesses and those that can benefit from long-term secular trends that are typically resilient regardless of economic backdrop.

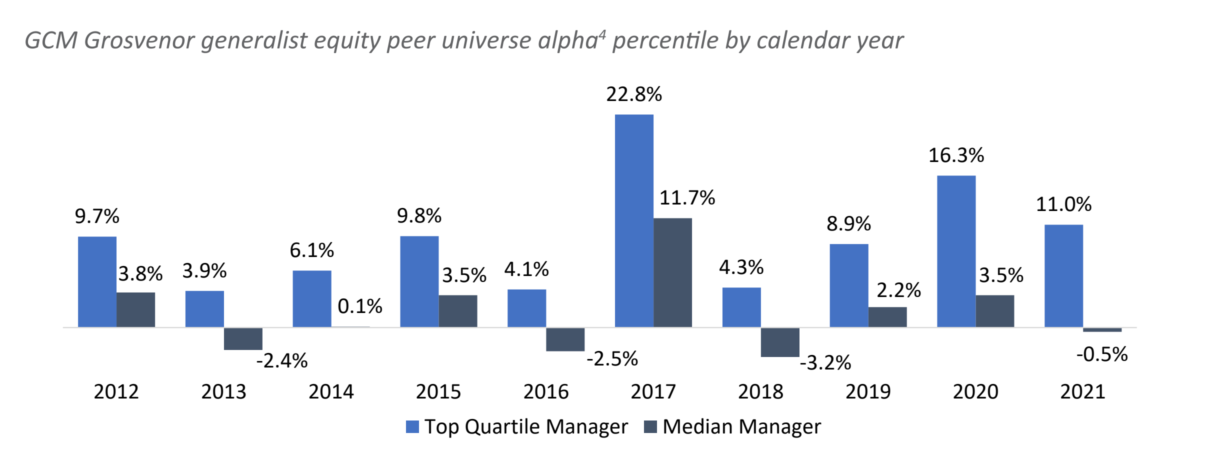
3. STRUCTURING OR IMPLEMENTATION ALPHA

with **100%** exposure to PE primaries paying **2% / 20%**.

with **75%** exposure to PE primaries and **25%** to co-investments (@ no fee) pays a blended fee of **1.5% / 15%**.

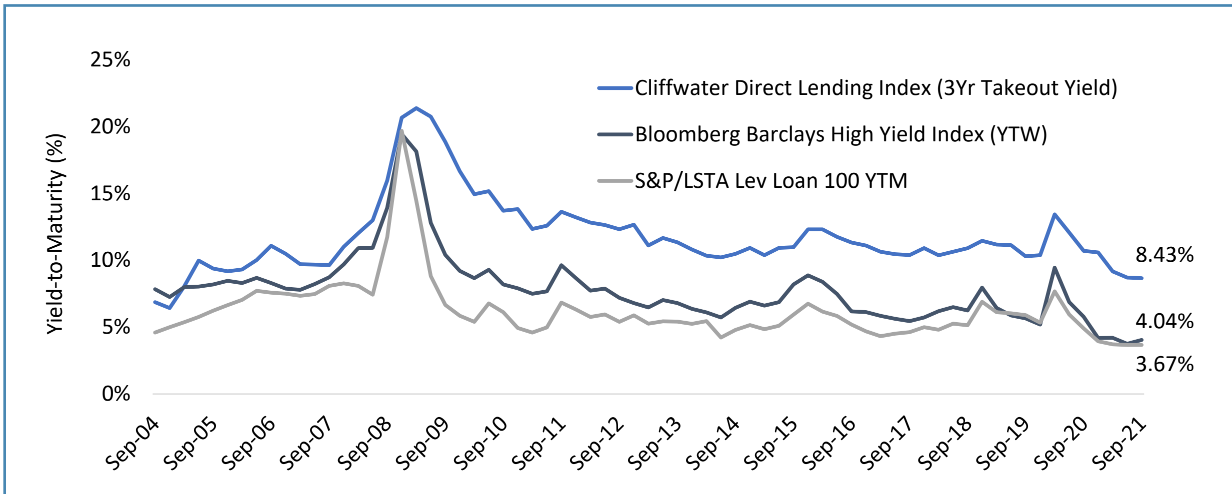
Structural advantages can be created by utilizing different investment mechanisms such as negotiating lower fees for primary investments, capitalizing on structural alpha from co-investing to blend down overall fees, and sourcing, evaluating, and buying in the secondaries market at potential discounts to what we think are fair value.

4. MANAGER SELECTION AND ACCESS IN ABSOLUTE RETURN STRATEGIES



A well-defined set of managers exist with a top tier track record; however, those managers are typically capacity constrained or closed to new investors. Relationships with elite managers can take years to build, but investors who have access are well positioned to see sustainable alpha generation potential. Allocators must also use their network of relationships to constantly mine for new pools of talent to ensure potential alpha sources do not become stale.

5. POCKETS OF OPPORTUNITY WITHIN PRIVATE CREDIT



Many investors are combatting low rates and historically tight spreads by taking more illiquidity risk. Instead, we believe investors should focus on sourcing from high quality sponsors. This allows one to be selective and focus on capital vacuums, investments with unique points of access, and pockets of dislocation. We believe sectors and spaces such as technology, where the market is still hesitant to lend and deals are being mispriced, have potential for alpha generation but deals must be underwritten properly to account for potential downside risk.

4 Alpha is calculated against the S&P 500 index on a calendar year basis for the trailing 12-months ending December of each year.
Data as of December 31,2021. Updated annually.
Data Source: GCM Grosvenor. Property of GCM Grosvenor.

Figure 5 Source: Cliffwater. CDLI, High Yield Bond, and Leveraged Loan Yield-to-Maturity Comparisons, Sep 2004 to Sep 2021.
3Yr Takeout Yield is calculated by assuming loans will be repaid at par in three years, the average life of direct loans.

Conclusion

Current and potential forthcoming market conditions can be considered challenging, but in our view, opportunities still exist to generate returns. The importance of properly sourcing, structuring, and executing investments is going to be more important than ever before, as is overall portfolio construction and diversification. We believe investing in the broader markets is going to be highly challenging over the foreseeable future, and therefore investors should focus on alternatives where opportunities for alpha generation exist.

With approximately $72 billion in assets under management, GCM Grosvenor is one of the world's largest and most diversified independent alternative asset management firms. We have the resources, experience, and long-standing relationships with elite managers to evaluate and implement investments flexibly across our open architecture platform.

Learn more about how we invest here: [How We Invest - GCM Grosvenor].

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GCM Grosvenor (Nasdaq: GCMG) is a global alternative asset management solutions provider with approximately $72 billion in assetsunder management across private equity, infrastructure, real estate, credit, and absolute return investment strategies. The firm has specialized in alternatives for more than 50 years and is dedicated to delivering value for clients by leveraging its cross-asset class and flexible investment platform. GCM Grosvenor's experienced team of approximately 520 professionals serves a global client base of institutional and high net worth investors.

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