ValueInvestor INSIGHT
The Leading Authority on Value Investing
August 31, 2022

Alternate View

Alternative asset managers have been considered a bastion of resistance against the ongoing rise of passive investing vehicles. Has the market's recent crisis of confidence created an opportunity in "franchise" alternatives manager KKR?

It wasn't of the magnitude of companies selling software or electric vehicles, but alternative asset managers came much into the market's favor post-Covid. Money-raising was easy and returns blossomed, and into the fourth quarter of last year shares of industry leaders such as KKR and Blackstone topped out, respectively, at nearly 4x and 3.5x their pandemic lows.

As the air has come out of alternative-manager stocks, First Manhattan Co. Partner & Director of Research Himayani Puri thinks the negativity around them may have gone too far. The Portfolio Manager of FMC's newly launched Excelsior Focus Equity ETF [FMCX] considers KKR a classic time-arbitrage opportunity: "The stock trades on short-term concerns while the long-term trends are positive and powerful."

The company has successfully expanded from its original buyout roots into a multi-strategy asset manager. Of its nearly $1.7 billion in management fees earned in the 12 months ending June 30, roughly one-third came from real-asset strategies in real estate and infrastructure that have grown rapidly. It has also built out growth-equity, credit and insurance businesses that further broaden its asset base and augment and smooth out its earnings power, she says.

She expects large institutions to continue their shift to alternative assets and that KKR as a "franchise" player will incrementally benefit. Sovereign wealth funds, pension funds and endowments like the returns, scalability and diversification such assets offer, while favoring the KKRs of the world who can provide one-stop shopping and reputational risk mitigation. "Even if a certain fund doesn't perform as well as expected," she says, "there's likely less career risk in selecting KKR."

To a greater degree than competitors, the company invests its balance sheet in its own funds. While valuing that piece of the business may be more difficult, Puri likes that KKR "eats its own cooking," and believes that investing alongside its own clients builds in incremental value-compounding power over time.

Concerns over rising interest rates and a potential recession have hit the com-

INVESTMENT SNAPSHOT

KKR & Co.
(NYSE: KKR)

Business: Asset manager across multiple asset classes, including private equity, real estate, energy, infrastructure and credit.

Share Information (@8/30/22):

Price	**50.70**
52-Week Range	44.28 – 83.90
Dividend Yield	1.2%
Market Cap	$43.59 billion

Financials (TTM):

Revenue	$12.26 billion
Operating Profit Margin	29.6%
Net Profit Margin	6.6%

Valuation Metrics
(@8/30/22):

	KKR	S&P 500
P/E (TTM)	42.1	22.8
Forward P/E (Est.)	11.2	18.4

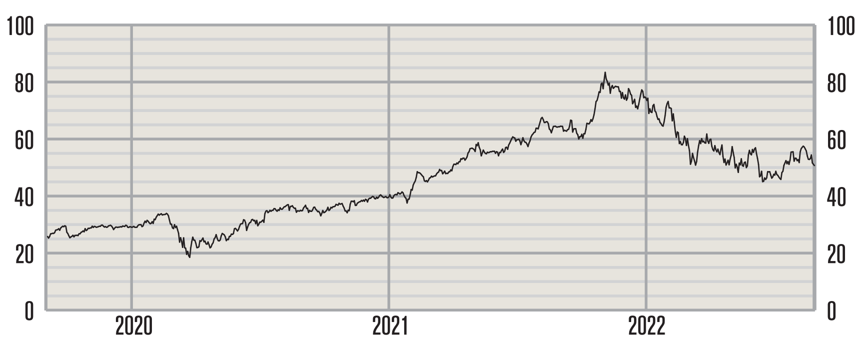
Largest Institutional Owners
(@6/30/22 or latest filing):

Company	% Owned
Capital Research & Mgmt	4.9%
Vanguard Group	4.1%
BlackRock	3.9%

Short Interest (as of 8/15/22):

Shares Short/Float	1.5%

KKR PRICE HISTORY



THE BOTTOM LINE

The market isn't recognizing how well the company has broadened its asset base and augmented its earnings power, says Himayani Puri. Probability weighting three scenarios and adding in expected dividends, she sees upside in the stock through 2024 of 70%.

Sources: Company reports, other publicly available information pany's shares. At a recent $50.70, they're down 40% from their 52-week high and trade at a well-below-market forward P/E of 11.2x. Puri says rising interest rates could impact capital raising and near-term performance of certain funds, but thinks KKR's asset diversity and the fact that it's sitting on $115 billion worth of dry powder suggests it can weather any turbulence well and is positioned to capitalize on further market weakness.

To value the shares, she ascribes separate multiples to FMC's 2025 estimates of distributable earnings per share for fees, realized carried interest and the insurance subsidiary, and a book-value multiple to the company's balance-sheet investments. Probability-weighting three different scenarios and adding in cumulative dividends, she currently sees potential upside in the stock from today through 2024 of around 70%. "The seeds here are planted," she says. "We have the requisite long-term lens to see them ultimately bear fruit." VII

Investors should consider the investment objective, risks, and charges and expenses of the Fund(s) before investing. The prospectus contains this and other information about the Fund(s) and should be read carefully before investing. The prospectus may be obtained at 888.530.2448or www.fmcx.com.

Important Information

This ETF is different from traditional ETFs.
Traditional ETFs tell the public what assets they hold each day. This ETF will not. This may **create additional risks** for your investment. For example:

You may have to pay more money to trade the ETF's shares. This ETF will provide less information to traders, who tend to charge more for trades when they have less information.
The price you pay to buy ETF shares on an exchange may not match the value of the ETF's portfolio. The same is true when you sell shares. These price differences may be greater for this ETF compared to other ETFs because it provides less information to traders.
These additional risks may be even greater in bad or uncertain market conditions.
The differences between this ETF and other ETFs may also have advantages. By keeping certain information about the ETF secret, this ETF may face less risk that other traders can predict or copy its investment strategy. This may improve the ETF's performance. If other traders are able to copy or predict the ETF's investment strategy, however, this may hurt the ETF's performance.

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Holdings are subject to change and do not constitute a recommendation or solicitation to buy or sell a particular security. Investing involves risk, including loss of principal. There is no guarantee that the Fund will achieve its investment objective.

The Adviser's judgments about the growth, value or potential appreciation of an investment may prove to be incorrect or fail to have the intended results, which could adversely impact the Fund's performance and cause it to underperform relative to other funds with similar investment goals or relative to its benchmark.

Investing in a limited number of companies, such as the Fund does, carries more risk than might be the case if the portfolio were more diversified because changes in the value of a single company may have a more significant effect, either negative or positive on the Fund's value.

The Fund is a new ETF with a limited history of operation for investor evaluate.

Unlike traditional ETFs, the Fund does not tell the public what assets it holds each day. Instead, the Fund provides a VIIV, calculated and disseminated every second throughout the trading day.

Authorized Participant and AP Representative Risk. *The Fund's Authorized Participants will engage in all creation and redemption activity through an AP Representative, an unaffiliated broker-dealer with which such Authorized Participant has signed an agreement to establish a confidential account for the benefit of such Authorized Participant and that will deliver or receive, on behalf of the Authorized Participant, all consideration to or from the Fund in a creation or redemption. AP Representatives have knowledge of the composition of the Fund's portfolio holdings, and are restricted from disclosing such composition, including to the Authorized Participants. The Fund has a limited number of institutions that act as Authorized Participants, or that may act as AP Representatives. If these institutions exit the business or are, for any reason, unable to process creation and/or redemption orders with respect to the Fund, or purchase and sell securities in connection with creation and/or redemption orders, as applicable, and no other Authorized Participant or AP Representative steps forward to create or redeem, or purchase or sell securities, as applicable, Shares may trade at a premium or discount to NAV and possibly face trading halts and/or delisting.*

Portfolio Transparency Risk. *Unlike traditional ETFs, the Fund does not tell the public what assets it holds each day. Instead, the Fund provides a VIIV, calculated and disseminated every second throughout the trading day. The VIIV is intended to provide investors with enough information to allow for an effective arbitrage mechanism that keeps the market price of Shares trading at or close to the underlying NAV per share of the Fund. There is, however, a risk, which may increase during periods of market disruption or volatility, that market prices will vary significantly from the underlying NAV of the Fund. Similarly, because Shares trade on the basis of a published VIIV, they may trade at a wider bid/ask spread than shares of ETFs that publish their portfolios on a daily basis, especially during periods of market disruption or volatility, and therefore, may cost investors more to trade. Although the Fund seeks to benefit from keeping its portfolio information concealed, some market participants may attempt to use the VIIV to identify the Fund's trading strategy, which if successful, could result in such market participants engaging in certain predatory trading practices that may have the potential to adversely affect the Fund and its shareholders. The Fund's website (www.fmcx.com) contains a historical comparison of each business day's final VIIV to that Business Day's NAV and the specific methodology for calculating the VIIV.*

Investors may see a list of securities invested in by the advisor by viewing the Fund’s SEC filings. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of securities discussed in this article.

15632330-NLD 09/21/2022

As of January 1, 2023, FMC Group Holdings LP (“First Manhattan”) provides brokerage and investment advisory services through its wholly owned operating subsidiaries. First Manhattan Co. LLC, a wholly owned operating subsidiary, is an investment adviser registered with the SEC. Through First Manhattan Co. LLC, First Manhattan is the investment advisor to FMCX. Independently owned and operated, First Manhattan has more than six decades of fundamental, research-based investing experience.