

Healthy Capital Markets and Economic Growth to Boost IPOs and Other Private Market Opportunities

By Jennifer Banzaca

As the economy reopens, and many companies are able to successfully raise funds, investment opportunities in IPOs, private equity and venture capital could take off, particularly in the second half of this year.

During the IPO and Other Private Market Opportunities panel during the **Active Investment Company Alliance's (AICA) Interval Fund Boot Camp and Manager Spotlight** on March 31, Bob Long, CEO of Conversus, a wholly owned subsidiary

of StepStone, said that there will be a significant rebound in valuations this year, and that will lead to increased investment opportunities in the private markets.

"Economic growth, secular tailwinds and healthy capital markets drive performance in private markets just as they do in public markets, and I believe all three are in place for the foreseeable future. As vaccination levels rise and people start getting back out in the world, I think we'll also see meaningful economic growth."

Daniel Wildermuth, CEO of Wildermuth Advisory, added that while markets rebound and M&A, IPO and direct listing activity is expected to pick up throughout this year and into 2022, his firm is focusing on its current portfolio.

"We're in a bit of a different situation in that we're not looking for a lot of new opportunities over the next year. We're investing in things we're familiar with. Most of our entrepreneurs favor us as a fundraising source. They don't particularly enjoy raising capital so we can often negotiate terms that can be highly favorable to us," Wildermuth explained.

"That will change over time, and we do have some things in the pipeline that we could potentially go into. But, for the next year or two we have enough already identified in our portfolio," he added.

Wildermuth said he is looking forward to a potential market rebound this year after a challenging 2020.

“Because some of our portfolio companies were impacted by COVID and because most of our companies were effectively early companies or market disruptors and they weren’t able to generate the revenue during 2020, we saw valuations stay basically flat over the year.”

Long said the most challenging part of 2020 for his firm was launching a new, innovative fund during the pandemic with fundraising done without in-person meetings.

“Traditionally, funds like ours that are distributed via financial advisors build traction from in-person, educational meetings. In 2020, we leveraged technology to establish and develop these relationships virtually. While a pandemic is a hard time to raise money, it was a great time to invest, and our early investors have experienced an attractive return.”

Kevin Moss, a Managing Director of Liberty Street Advisors, Inc., said his company, which has spent the past few years building its portfolio of late-stage venture, is expecting some type of exit for several portfolio companies, whether it be an M&A, IPO, SPAC, direct listing.

Surprisingly, Moss said his portfolio companies started to “take off” in 2020.

The COVID-19 pandemic accelerated the business models of a lot of companies, particularly those in the education technology, digital health companies, medical companies, and digital advertising.

Moss said these companies were able to raise capital at higher valuations, which obviously had a positive effect on the portfolio. With the opportunities available now, Sharespost will try to build a deep bench of portfolio companies diversified across different sectors, different types of companies, and different vintages so as not to miss out on higher valuations.

One trend that interval fund managers are watching for potential negative impacts on private market opportunities, namely IPOS, is the surging interest in special purpose acquisition companies (SPACs), as many private companies look to access the public markets quickly.

So far, the proliferation of SPACs has not had an overall negative impact on interval funds looking for opportunities to help companies go public.

According to Moss, Liberty Street believes it is investing in real businesses, with anywhere from \$50 million to \$1 billion in revenues that are on their way to an exit within the next year or two.

“Some that are closer to an exit have now begun getting targeted by SPACs, and, in

their opinions, that this is a cheaper and quicker way to get to the public market and to take advantage of some fairly high valuations. And we have benefitted from that.”

On the flip side, Moss noted that any time there is a craze in any one thing, there is a risk of bad actors.

“People are concerned, and probably rightfully so, that there’s a lot of groups that are launching SPACs that have no business launching SPACs. And they’re targeting companies that have no business being public companies.”

Moss said some of their portfolio companies talked to SPACs and decided to not go public just yet.

“These companies were 12-18 months away from potentially going public and it was our opinion that they weren’t ready, and they were not going to get the right valuation today. We feel lucky that they decided to wait.”

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