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Powerlaw's Dinsdale on Using a CEF to Play Public Venture Capital

"Unlocking Private Market Gains for Public Market Investors": Mike Dinsdale on Bringing Late-Stage Venture to a Listed Closed-End Fund



Mike Dinsdale
Chief Executive Officer
Powerlaw Capital Group

Chuck Jaffe, in this episode of The NAVigator podcast, interviewed Mike Dinsdale, Chief Executive Officer at Powerlaw Capital Group, whose Powerlaw Corp. (PWRL) began trading on the Nasdaq in May. Dinsdale says public venture capital is about "unlocking private market gains for public market investors," offering daily-liquid access to late-stage private companies that most investors have no ability to buy "at any price." He explains how the fund marks its private holdings, how it funds a 6% distribution, and why he believes its discount should eventually give way to a premium.

TOPICS DISCUSSED

- Why companies are staying private longer, with private tech rising from about 2% of tech market cap in 2000 to roughly 20% today, leaving about 90% of U.S. households shut out of that growth
- Why Powerlaw picked a listed closed-end fund with daily liquidity over an interval fund, and how 5% quarterly gates can trap investors in a downturn
- How PWRL values its private holdings, with a monthly NAV, last-round pricing, secondary-market signals, and outside valuation, and what advisors should look for to trust the numbers
- How the "power law" idea, where 5% to 10% of companies produce 90% to 100% of returns, drives a concentrated portfolio led by SpaceX and OpenAI, and why positions get sold down once public
- How the fund pays a monthly distribution of 6% of NAV, even though venture usually pays out little, by selling public positions like SpaceX
- Why Dinsdale calls PWRL's roughly 30% discount irrational, and how new hires, analyst coverage, and wider distribution aim to close it as the category grows

The discussion is educational in nature and intended to help investors and advisors better understand the tools, trade-offs, and data points involved in evaluating income-focused strategies.

EXPLORE THE DATA REFERENCED IN THIS INTERVIEW:

- Free CEF & BDC profile pages: cefdata.com
- 40+ CEF & BDC indexes: cefdata.com/index
- PWRL fund profile and data: cefdata.com/funds/pwrl
- Listen to the full episode: AICAlliance.org

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THE CONVERSATION

CHUCK JAFFE

We're talking public venture capital with Mike Dinsdale, chief executive officer at Powerlaw Capital Group. Welcome to The Navigator.

This is The Navigator, a podcast about all-weather active investing and plotting a course to financial success using closed-end funds. The Navigator is brought to you by the Active Investment Company Alliance, an industry organization representing the entire closed-end business, from investors and users up to fund managers, sponsors, and creators. If you're looking for excellence beyond indexing, The Navigator will point you in the right direction. And today, we're going in the direction of public venture capital with Mike Dinsdale. He's chief executive officer at Powerlaw Capital Group, which runs the Powerlaw Corp, which is a late-stage private technology fund that officially began trading on the Nasdaq at the end of May this year. It's listed under ticker symbol PWRL. You can learn more about the fund and the firm at PowerlawFunds.com, and you can learn more generally about closed-end funds, interval funds, and business development companies at AICAlliance.org. That's the website for the Active Investment Company Alliance. Mike Dinsdale, welcome to The Navigator.

MIKE DINSDALE

Thank you very much for having me. I'm excited to be here.

CHUCK JAFFE

There are a lot of ways we can go with this interview, but I want to start with a quick definition of public venture capital, because I think most people just think venture capital is venture capital, but

there is a distinct difference in public and private. So I want you to explain that difference, and also how and why a listed closed-end fund is a good structure for the public side of venture capital.

MIKE DINSDALE

I'd like to start off with just zooming up a little bit and talking about how private company investing has changed over the last 30 years. So if you look at the number of public companies today on U.S. exchanges, it's about half the number it was 25 years ago. And so we have this trend where companies are staying private longer, and so instead of going public after five to seven years, now it's 10 years, 12 years, 15 years, or longer. So there's an enormous amount of value creation happening on the private side. It's been inaccessible generally to most investors. About 90% of U.S. households have no access to the value creation happening in private companies.

Another stat that I like to go to that just sort of sets the stage as to why we did this and why we think there's a great opportunity: In 2000, about 2% of the market cap of technology companies was sitting in privates. Today, it's about 20% of the market cap of technology companies sitting in privates. So it's increased 10x over the last 26 years, and that's not reflected in most people's portfolios in terms of the access they have to the value creation that's happening.

And so public venture capital is all about unlocking private market gains for public market investors, and the vehicle that we chose to do this was a closed-end fund structure. There's a bunch of reasons why. This benefits companies. It's permanent capital, and so companies like to have our capital in their cap table as they're growing their businesses, with no pressure to go public. And the idea was that if you could give access to the same types of private companies that venture funds give access to, and make that available to everybody, then essentially the closed-end fund wrapper trades. So the portfolio is within the closed-end fund wrapper, which trades on, in this case, Nasdaq, and allows everyone to have daily liquidity. So it's access to an asset class that the majority of investors in the U.S. have absolutely no ability to access, through a closed-end fund structure that anybody can buy and sell and gain access to the underlying portfolio on a daily basis. So daily liquidity with access to the best of the best big privates, which is our flagship fund, PWRL, which you talked about.

CHUCK JAFFE

Why a listed closed-end fund and that daily liquidity? Because the pre-IPO funds, things along those lines that have been created, and there are a number that have been created in the last year or two, have chosen the interval fund route. So why don't you consider daily liquidity a drawback? Because it's clear from your last answer you consider daily liquidity a positive.

MIKE DINSDALE

Yeah, no, we absolutely do. When you look at an interval fund, generally there are gates, and so there are restrictions on how capital can come out. And our belief is just that investors should have complete control of their capital, and that means liquidity, and full liquidity if that's what an investor wants, versus an interval fund, which generally is capped at 5% a quarter, or has even other gates

where perhaps it's board approved. So there are restrictions in terms of how the capital can come out and how much capital can come out. At the end of the day, the 5% gate becomes a problem generally when the market has a downturn and the majority of investors want to liquidate. They can't, and we just think that's the wrong structure. We believe that investors should have complete control of their own liquidity, so that's why we chose the closed-end fund structure.

I'd say there's been a lot of education. We have some competitors in market that are not venture investors. We, as a firm, have been doing this for 16 years. We've done 900 transactions inside of our firm over that time frame, we've invested in about 140 portfolio companies directly, and we manage about $1.6 billion across traditional venture and our go-forward, which is all around Powerlaw and building out access to private companies through leveraging the closed-end fund structure.

CHUCK JAFFE

Last week on The Navigator, we were at the Schwab Impact Conference. I talked to two different fund managers who were running pre-IPO funds, and marking to market is always important in those situations. They run interval funds. Again, you've got daily liquidity. So how do you mark private positions to market, and what should advisors be looking for in the reporting so that they trust that daily NAV?

MIKE DINSDALE

Yeah, it's a challenge, obviously, in private companies, because there is no daily mark to market in the same way that you can with public equities. And so for us, we're actually the first where we publish NAV on a monthly basis. We believe in being as transparent as you can holding private assets, and so the valuation policy matters, obviously, in this case. For us, it's last round price, unless that's stale, and then we'll look at other factors in terms of secondary markets or changes in the company's underlying performance. But it's monthly, and so looking at NAV and publishing that on a monthly basis is how we think about that, and that's really the best you can do in private companies, because things don't change as fast. So that's kind of what we do, and then we use an outside valuation firm. We have KPMG as our audit firm.

We do believe in being transparent, and we've done all sorts of other things, like publishing our thesis on the underlying companies, giving our thoughts on where we think they're going, why it's important, how we're investing in different sectors. And then the other thing that I think differentiates us in a pretty material way is we believe in the economic theory around power law, which is obviously our name. If people are not familiar, it's just the idea that in venture, 5% to 10% of the companies produce 90% to 100% of the returns. So concentration and high conviction matters.

We're building this off of our decades of venture experience: building venture portfolios with high conviction, a deep institutional diligence process, being disciplined in terms of how we approach

companies, build positions, and divest positions. And so we're actively managing our portfolio, meaning we're not only selling down positions once public. SpaceX is actually our largest position in this fund, with OpenAI actually our second-largest position. And so with those companies, SpaceX is obviously already public, and OpenAI will be public in the next year, in all likelihood, and then our value diminishes, because you can buy those yourself. Our value is really giving access to privates. So as we sell down those positions, we reinvest in what's next. But it's all under the thesis of high conviction, concentration in winners as we start to see those gain market traction, and then divesting those positions on the private side as well, if we believe the position is fully valued or we think there's a better place for that capital. But high conviction and concentration matters.

CHUCK JAFFE

Yeah, and I was going to ask about the IPO process, in terms of when a company goes IPO. I would imagine that makes them much less interesting to you, because yes, everybody can buy them at that point. But also, there's a lot of feeling on Wall Street these days that, to some extent, as you mentioned when we started, there's been a big change. Companies are staying private longer, et cetera, and there are some folks who believe they only actually go to IPO when, you know, "We kind of need to pay off the venture capital investors, and we can't bring more money in." Is there reason to believe, if you have that sort of thinking, that the IPO is not necessarily the pinnacle, that maybe the best time to be in these companies is just pre-IPO? And do you find that, like, "Hey, thanks for cashing us out, we're ready to move on"? Is that kind of the way you view it, or how much do you want to go, "Yeah, OK, it's IPO, we can ride with this a little longer"?

MIKE DINSDALE

For us as a fund, our value is absolutely in giving exposure to private companies, which is something that the majority of investors have no access to. I'd say, in terms of Anthropic, OpenAI, and SpaceX, there probably is some truth that they could not raise additional capital in the private markets, and so they are going public. But when you think about the value that's been created, we have for the first time in history three trillion-dollar private companies in SpaceX, Anthropic, and OpenAI.

And so the "what's next" is becoming one of the most important things for us as a fund, and making sure that we have strong belief in the next cohort of companies. So obviously, space and defense matters. You can agree or disagree that AI is overvalued, but nonetheless, our world has changed more in the last three years than it has in the last 100, just in terms of AI and what it's going to continue to do in all of our lives. So it's a pretty interesting time in history, and I think we have the right vehicle in terms of leveraging the closed-end fund structure, and the right thesis in terms of being concentrated, in something that I believe all investors should be adding to their portfolio in the right way, whatever allocation makes sense for their own circumstances. But gaining access to private value creation is incredibly important as you think about portfolio construction and wealth creation.

CHUCK JAFFE

> Wealth creation, unlocking gains, venture capital. Venture capital is not known for producing and generating steady income, and yet at PWRL, recently there was an announcement about locking in a 6% distribution moving forward. So where does that income come from, and how much is it impacted by things like the IPO market? Because if we get a year where companies don't go IPO, what happens?

MIKE DINSDALE

> I'm going to start with the first part of that question, around venture and distributions. When you look at essentially vintages 10 years old, you're seeing DPI, which essentially is return of capital, below one. It's about 0.7 for vintages nine years ago. So your capital is locked up for essentially 10 years, and you haven't even returned your investment. That's traditional venture, and that's top 25%, by the way. So if you look at top decile, it's about 1.3 times capital over 10 years. This is not a good situation.
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> So that's where we wanted to open up the aperture in terms of building and innovating on the structure to give access to privates and the underlying portfolio appreciation. Just to give a sense of that piece of it, since we listed, our NAV was essentially $14; it was $13.97. And so the distribution, the monthly distribution that you just cited, is 6% of NAV. We wanted to innovate and build a product that had a monthly distribution along with the underlying portfolio appreciation and access to the value creation happening in privates.
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> In terms of funding that going forward, SpaceX is clearly a piece of this. Our thesis is that our value is in privates, and so we will continue to, at the right time, sell down that position and reinvest in what's next. But we have line of sight to fund our monthly distribution for some number of years with the existing companies in our portfolio that are already public, so this is not something that necessarily concerns us in terms of being able to fund that distribution going forward.

CHUCK JAFFE

> When PWRL launched, it immediately went to a premium. By the fall, it's trading at a fairly big discount, around 30%. What happened, and what, if anything, is management planning to do to narrow the discount?

MIKE DINSDALE

> Yeah, that's a really interesting one. We feel really good about the investments we've made and the growth of the underlying portfolio, but there is a disconnect to market price. And I think, in our minds, it's all around this: We're taking an existing closed-end fund structure and closed-end fund universe, reformatting that, and putting different types of assets in it. And so when I look at this longer term, I think it's all around category creation, doing things like this, and getting the word out that we've created something that's different. And a mindset shift: Closed-end funds traded at a

discount for numerous reasons, embedded fees, tax. You're buying maybe assets that you can buy anyway. So what value is really being provided by the manager, versus what we've provided or we're building?

To me, it's not rational that longer term it trades at a discount. I believe it should trade at a premium, because what we've done is we are providing exposure to assets that the majority of investors, and when I say the majority, I mean the great majority of investors, have no ability to buy at any price. So we brought two things together, created a new category, added this monthly distribution, and it's rational to me as awareness grows and the category grows. Venture will change over the next 10 years. Instead of 3,000 venture firms, I think we're going to see 1,000, and I think we're going to see 500 of these giving exposure to privates. I think it's going to be a shift in how venture investing is done at growth stage, and that's kind of my answer.

That's where we as a team have been focused, building out our public markets expertise internally. So we've made numerous hires, brought in people that understand public markets and understand how to market to closed-end fund investors. We have our first coverage by a major bank in terms of covering our stock. We're talking to numerous other analysts. We're focused on channel distribution, awareness, as much great media as we can, and participating in conversations like this to just create awareness around the category. I think ultimately that picture changes.

CHUCK JAFFE

Mike, great stuff. I really appreciate the time and the interest. We'll be watching what the fund does, and I'm sure we'll talk to you again down the line on The Navigator.

MIKE DINSDALE

Really appreciate it. Thank you so much for having me.

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Mike Dinsdale is chief executive officer at Powerlaw Capital Group, which runs Powerlaw Corp., a late-stage private technology fund trading on the Nasdaq under ticker symbol PWRL. Learn more about the fund and the firm at PowerlawFunds.com. Visit AICAlliance.org for more on BDCs, closed-end funds, and interval funds.

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