
Kamco Invest hosts an exclusive event on Venture Capital

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Sulaiman M. Al-Rubaie, Managing Director of Investment Management highlighted in his welcome message the importance of Venture Capital as an asset class for investors seeking diversification and wealth creation. The top SWF, Endowments, and Institutional Investors have all increased their asset allocation to Venture Capital and continuing to do so.

He added that the technology sector has gotten into a severe devaluation the past few months. This carried from the public market into the private market valuations. But with this, comes a great opportunity, the drop is a natural screening for those VC companies that are fittest. Additionally, it creates a good opportunity to start investing when valuations are saner and more defensible. Historically, vintages that came during difficult years did substantially better than ones that operated during the peaks.

Faisal AlOthman, Director of International Investment Services at Kamco Invest, moderated the discussion between Fahad AlSharekh, Adviser to the Investment Committee of The JEDI Fund, and Jake Zeller, Founder of Powerset & Advisor to The JEDI Fund.

AlOthman commenced the discussion with an overview of the venture capital as an asset class that is performing at a level far exceeding analysts' projection. US venture fundraising activities are strong and witnessing higher raised amounts year on year. Some of the main factors that led to this increase are the shifts in industry dynamics, accelerated technology adoption rates, and role of technology in enhancing life. The potential to generate attractive returns while making a significant and positive impact has embraced VC as a critical component of long-term investment strategies for institutional and high net-worth investors.

The panelists agreed that the risk of venture capital is overstated and based on historical data that goes back to the 90s with 51% loss ratio and 65% impairment ratio. Today the average loss ratio is closer to 20% and performance is higher when leaning on the experiences of seasoned professionals in the field that have experience in identifying the right opportunities established and managed by the appropriate quality of entrepreneurs. Because valuations of assets in a VC portfolio occur only when capital is raised for the opportunities, the asset class has been able to navigate the deteriorating pricing environment that occurred in 2022. This gave the opportunity for the asset class to achieve the best performance relative to nearly all other asset classes.

The previous argument that VC opportunities were offered at a significant valuation to historical averages no longer holds true as 2022 has presented the same opportunity sets at a significant discount when compared to previous years. This offers investors in VC significant opportunities of value creation over the coming years as these investments are now offered at even more attractive prices than previously seen. Thus enhancing the potential return profile moving forward and alleviating concerns of high valuations of the past.

They also agreed that Silicon Valley is much more developed compared to other markets as it has been a large return driver, has the positive network effect, and is the center of concentration for talent, financing, and most of all, expertise globally. Offering the qualities mentioned earlier at a scale higher than other key jurisdictions combined.

AlSharekh mentioned that venture capital is globally becoming more important due to the need of transformation and change. Silicon Valley, for an example, has one of the most mature and active tech ecosystems worldwide in terms of innovation and exits. The industry is almost 70 years old with a high concentration of talent, innovation, entrepreneur's academia, and capital, with investors showing a strong appetite for shares of companies making their publicly traded debuts.

He added that the venture capital industry has evolved since 2000, and fund managers are implementing a more rigorous, risk-managed assembly of companies. Venture capital funds are surrounding themselves with "incubator" forums and core communities of advisors, as well as setting

aside capital for follow-on needs. These additional measures provide critical resources that enable startup companies to find solid product market fit and to scale accordingly. There needs to be a healthy balance of investing in emerging managers and direct investments in companies that have been filtered and invested in by emerging managers to provide acceptable returns within a balanced risk profile.

Venture capital is currently outperforming other assets classes in the US and the world's top institutional investors have allocated 5-15% of their portfolios to VC or early-stage PE. Some of the more mature endowments hold up to 20% of their AUM in VC, such as Yale University Endowment. As such, top performing institutional investors understand the importance of venture capital and its positive impact on their portfolios. This has been a key driver in increasing venture capital allocations, reaching a mean of 15% of their portfolios.

Zeller noted that it is important for investors to understand how the risk profile of venture capital investing has changed considering that today's market is not the same as it was 20 years ago. The industry has evolved, and fund managers have learned from their mistakes. Before the 2000 tech bubble, venture capitalists relied on capital and luck, since then, they started implementing a more rigorous and disciplined risk management approach. They focus on how to add value and scale their portfolio companies.

Zeller believes that when looking at venture capital, the focus is on the areas where all the returns are happening and that is usually a few outsized examples that drive all the returns. He prefers investing in a single opportunity where returns are concentrated and capable of achieving gigantic scale versus other 100 startups that end up being irrelevant.

Although Silicon Valley is one of the two major tech capitals of the world, Zeller considers it to be the ideal hub for startups: thanks to the innovative ecosystem and strong network of industry leaders across various functions. Furthermore, the venture capital deal flow from San Francisco is much larger than any other market.

AlOthman concluded the session by emphasizing that Kamco Invest aims to provide its clients with access to best of breed opportunities in various global asset classes, including VC. Sharing the approach of seasoned and successful industry professionals in open discussions falls under the Company's commitment to provide investors with valuable insights on some of the opportunities available in the investment world today.

Kamco Invest hosted an exclusive event to provide investors with deep insights on the importance of the venture capital as an asset class, the international venture capital scene, and valuations during the volatile market environment.