

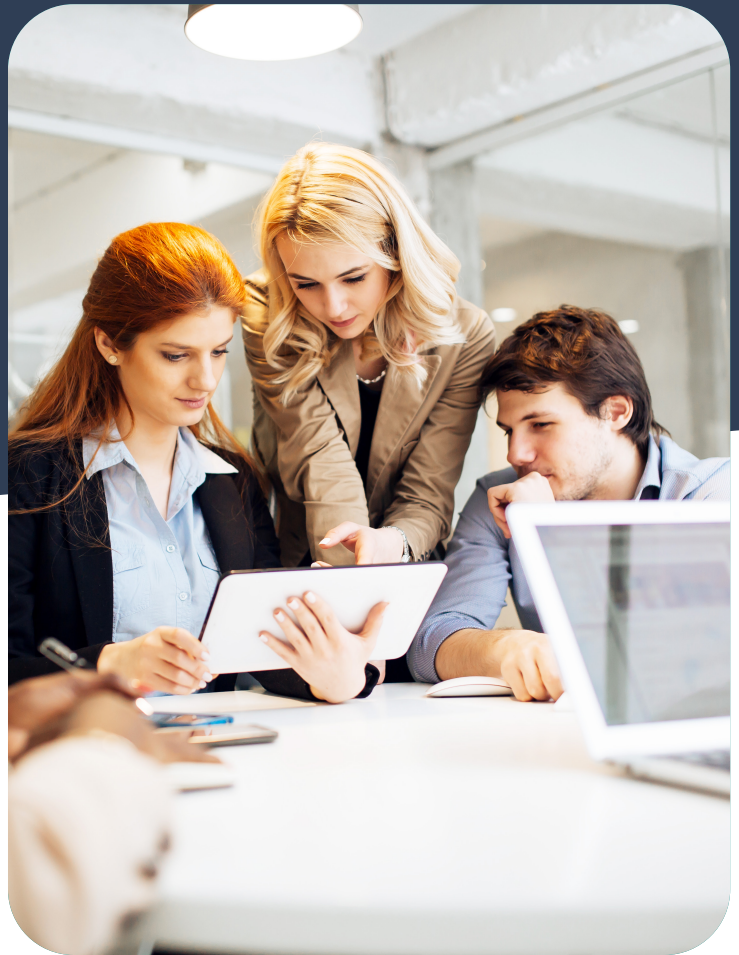
Impact of Latest Macroeconomic Factors for Venture Fund Investors

Private markets face numerous intersecting headwinds: growing volatility, geopolitical uncertainty, inflation, rising interest rates and more. These events have led to large drops in market valuations of many startups and difficulties raising new capital in follow-on financing rounds.

These challenges have sparked concerns among portfolio managers that venture capital funds will be highly impacted in this stressed market environment. Moreover, the FED has just recently announced a further 0.75% increase in the base rate, and other central banks may follow suit.

In light of these current developments, CEPRES has revised its predictive analytics model assumptions for venture capital investments in a stressed market environment and offers this as a worst-case market scenario to consider in risk management. These model adjustments are based on historical data — especially focusing on the period around the dotcom bubble in 2000/2001.

While there are distinct differences between the current market and the dotcom bubble, it is worthwhile for conservative risk management cases to use this tail event to derive a stress scenario for the current situation in venture capital markets.

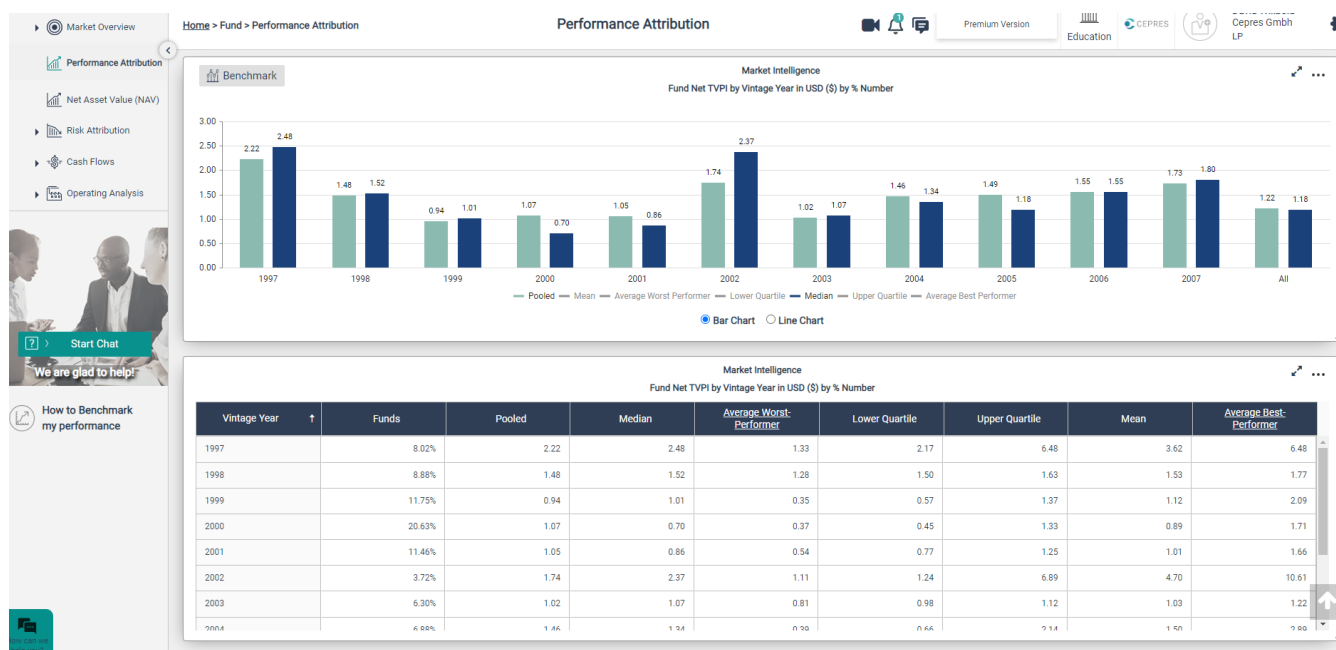


Based on this analysis, we find two focal points of adjustments: a reduction of lifetime return expectations (TVPI benchmarks) for certain vintage years and a partial deferral of the expected distributions in the next three years.

Lifetime TVPI benchmark adjustments for VC funds

Historical data shows that the concrete vintage year plays a crucial role for the funds' lifetime returns. The performance attribution feature within CEPRES allows users to analyze the lifetime TVPI of VC funds by vintage year and other parameters.

Figure 1: Screenshot from Performance Attribution feature of CEPRES



Source: CEPRES

In particular, funds that have invested mainly at highly-inflated prices in the period of 1999–2001 have suffered most in terms of performance. Based on the historical decays of TVPIs during the dotcom bubble, we apply the following reductions to benchmark TVPIs of recent VC investments.

Table 1: Adjustments of VC funds' lifetime TVPI benchmark

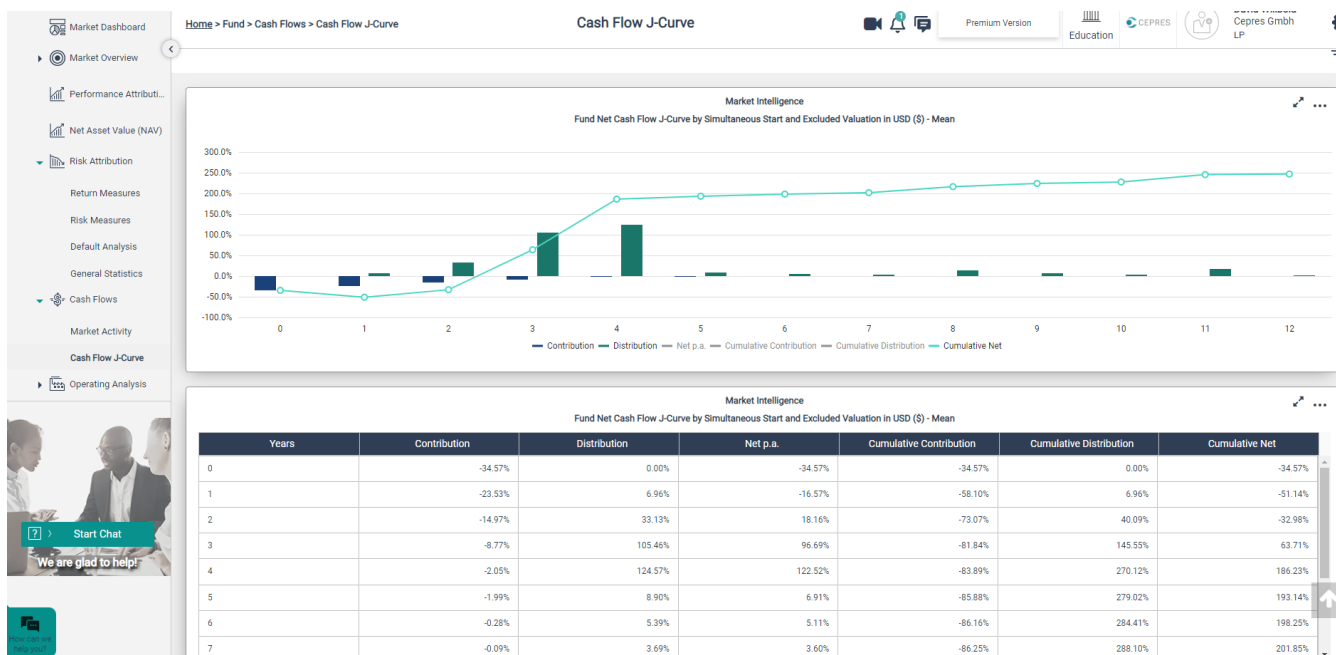
Example: US VC fund benchmark				
Vintage year (Reference vintage year)	Adjustment	Normal market	Stressed scenario	Percentile*
2019 (~1998)	-15%	1.82	1.54	~38th
2020 (~1999)	-46%	1.82	0.98	~18th
2021 (~2000)	-57%	1.82	0.78	~13th
2022 (~2001)	-49%	1.82	0.92	~16th

* Numbers reflect the percentile of the normal market probability distribution.

Historical analysis through modern forecasting

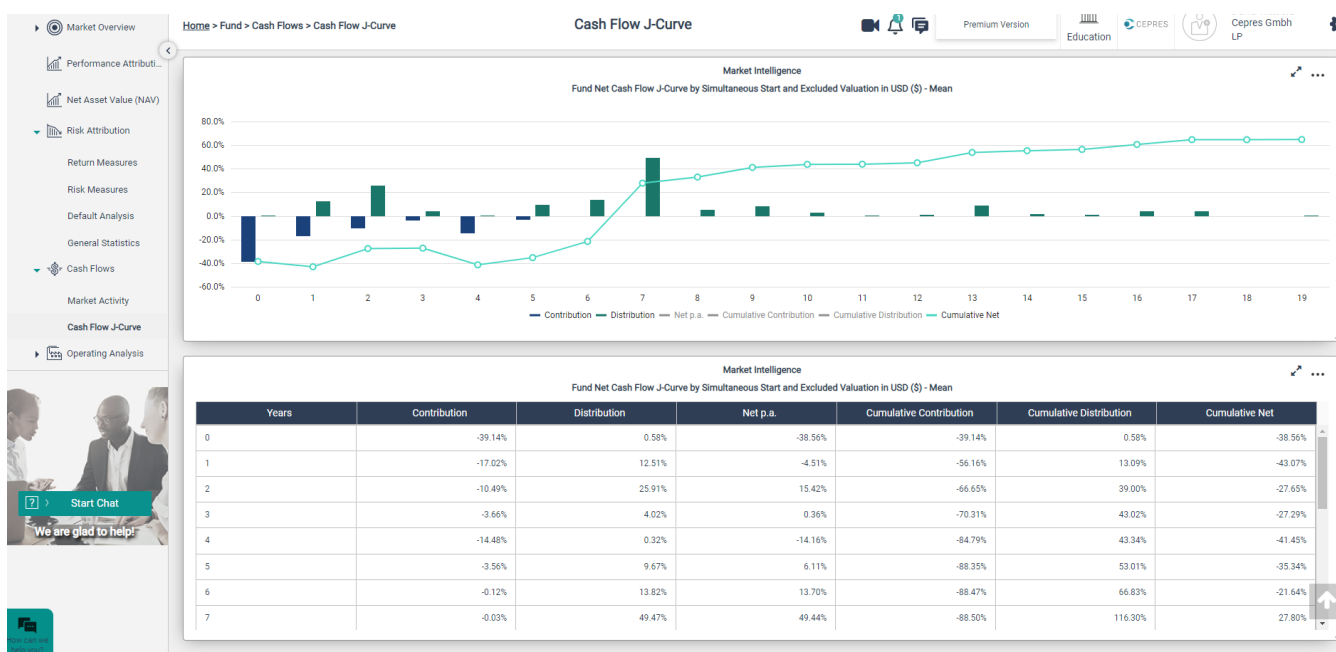
To determine the extent to which cash flows are affected in a stressed market environment, we utilize the Cash Flow J-Curve feature, which empowers users to analyze how cash flows have developed for different samples (filtered by e.g., vintage year, segment and realization status). In the three years following the dotcom bubble, we find distributions clearly fall behind normal market expectations. With a drop of almost 80%, second year distributions after the bubble burst were most affected. While still behind expectations, distributions in the third year showed distinct signs of recovery.

Figure 2.1: Screenshot from Cash Flow J-Curve feature of CEPRES platform for VY 1996 VC funds



Source: CEPRES

Figure 2.2: Screenshot from Cash Flow J-Curve feature of CEPRES platform for VY 1998 VC funds



Source: CEPRES

Based on these historical figures, we reduce our VC distribution expectations for the years 2022–2024 in our upcoming portfolio simulations as shown in Table 2. Reducing distributions in these years means, in effect, that expected distributions are postponed to later years and hence does not alter overall expected distributions. However, in combination with the reduction of benchmark TVPIs, we decrease both, the overall expected distributions, and especially the expected distributions during the next three years.

Table 2: Proposed adjustments in VC funds’ expected distributions for the years 2022-2024

Year	Adjustment
2022	-50%
2023	-50%
2024	-30%

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The massive drop in distributions after the dotcom bubble collapse was driven by a much higher deal default rate for funds of the vintages 1997-2002 (see Figure 3) with deals bursting after 2001. Also

CEPRES predictive analytics power CEPRES Predictive Intelligence

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