

LMM COMPASS



Dear reader

Venture capital is an asset class that often appeals to the younger generation with trendy start-up investments. In addition, high returns are promised. In addition to the opportunities, however, it is also important to understand the risks. We discussed with an expert on how best to approach this asset class and what needs to be considered.



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THEMES



Market data
Markets and strategies



Interview
Venture Capital –
what needs to be considered



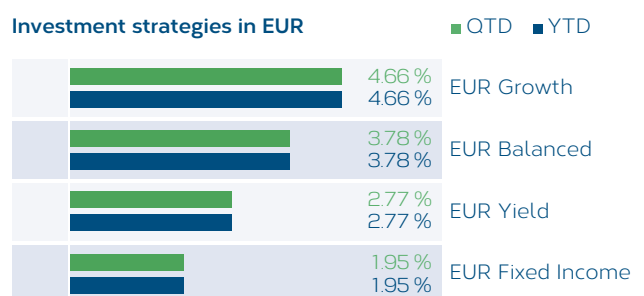
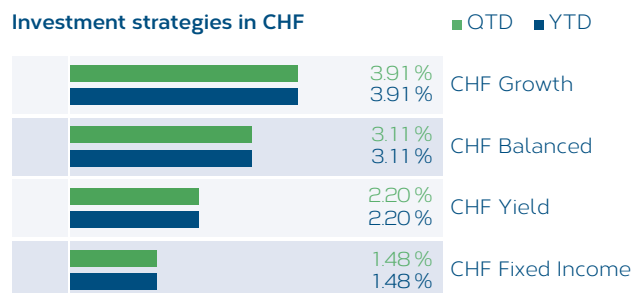
MARKETS AND STRATEGIES

The financial markets are looking for a new equilibrium. After the sharp rise in inflation figures last year, financial experts expect the first signs of an easing in the coming months. At the same time, they assume a weaker economic development. Interest rates have already reacted to this with a decline, especially in the USA. With regard to future interest rate hikes, the central banks will closely observe the further development of inflation and economic figures.

In the 1st quarter, most investment strategies were able to achieve a plus. After an interim high in the first quarter, bond yields declined. This led to a performance increase in interest rate strategies. Equity markets also benefited. The world equity index achieved a plus of around 7% in CHF (around 6% in EUR) in the first quarter. Gold showed a significant increase of over 6% (in CHF and EUR). Overall, investment strategies with a higher equity exposure were able to outperform.

		Value	% QTD	% YTD	Currency
Currencies	EUR / CHF	0.99	+0.51	+0.51	
	EUR / USD	1.09	+1.79	+1.79	
	USD / CHF	0.91	-1.26	-1.26	
	USD / JPY	133.09	+0.87	+0.87	
Bonds	Switzerland		+1.40	+1.40	CHF
	Europe		+2.09	+2.09	EUR
	USA		+2.96	+2.96	USD
	EMMA (Hard Currency)		+2.27	+2.27	USD
	Inflation Linked		+4.47	+4.47	USD
	High Yield		+3.15	+3.15	USD
	World		+3.01	+3.01	USD
Equities	Switzerland		+5.38	+5.38	CHF
	Europe		+8.61	+8.61	EUR
	North America		+7.59	+7.59	USD
	Pacific		+4.71	+4.71	USD
	EMMA		+3.96	+3.96	USD
	World		+7.31	+7.31	USD
Alternatives	Real Estate		+1.04	+1.04	USD
	Commodities		-6.47	-6.47	USD
	Gold		+7.96	+7.96	USD
	Private Equity (listed)		+6.92	+6.92	USD
	Hedge Fonds		-0.00	-0.00	USD

Calculation LMM: Period 01.01.- 03.31.2023

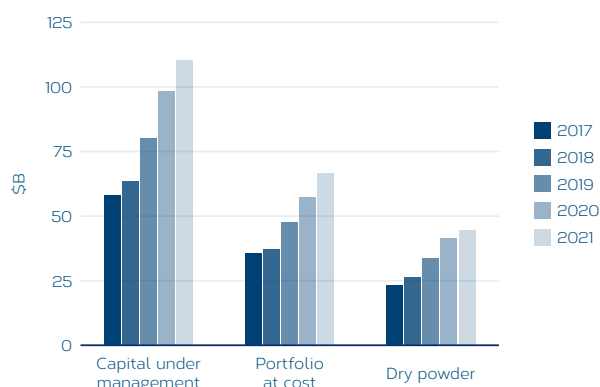


Note: the figures are before costs
Calculation LMM: Period 01.01.-03.31.2023

VENTURE CAPITAL – WHAT NEEDS TO BE CONSIDERED

The share of "private market investments" in the portfolios has steadily increased in recent years. In addition to private equity funds that invest in established companies ("later stage"), funds that invest in early-stage companies ("venture capital") have also had high inflows.

Capital under Management



Source: Invest Europe

We spoke with Daniel Keiper-Knorr, Founding Partner of the VC investment manager Speedinvest, about the opportunities, risks and special features of venture capital:

Mr Keiper-Knorr, what basic principles should be kept in mind when investing in the VC asset class?

Basically, the same principles apply to VC investments as to other asset classes. Due to the inherent illiquidity, special attention should be paid to sufficient diversification and a long-term investment horizon.

What points should the investor consider when choosing a VC manager?

Due to the long-term nature of the investment horizon, the team, the track record and the consistency of the investment strategy are of particular importance. Therefore, one should definitely ask for references

before deciding on a manager. Serious VC managers are usually willing to open up contacts for reference calls.

What is the expected return on a VC fund?

VC has a higher risk than liquid asset classes. Therefore, VC must also achieve higher returns. And in a long-term comparison – and only this is admissible – VC also achieves these excess returns. There are numerous studies on this. For example, the Cambridge Associates US VC index has clearly outperformed the S&P500 in the past 25 years, with an annual return of 28.1% compared to 8.0%.

Comparison of returns

12.8	11.9	12.9	20.7	30.7	34.8	0.9	Europe Developed Venture Capital Index
28.1	11.8	13.6	19.3	25.7	30.5	2.7	Cambridge Associates US Venture Capital Index
15.6	15.9	9.0	14.9	17.3	18.1	0.2	Europe Developed Private Equity Index
4.7	5.2	1.5	5.1	1.6	0.5	-18.2	MSCI Europe Index
25 year	20 year	15 year	10 year	5 year	3 year	1 year	

Source: Cambridge Associates
Data as of reporting date 06/30/2022

What are the three most important key figures for assessing the performance of a VC fund?

The performance of VC funds is usually measured in three key figures.

- TVPI: "total value to paid in" the performance of the portfolio in relation to the paid-in capital
- DPI: "distributions to paid in" actual distributions in relation to paid-in capital
- NetIRR: the annualised net return in % after all costs



What kind of capital commitment should a VC investor expect?

In any case, a capital commitment of several years is to be expected. It should be noted that the committed capital is injected over several years in so-called capital calls.

What impact does the rise in interest rates have on the VC sector?

The recent rise in interest rates is also a challenge for the VC industry. However, the normalised valuations also offer attractive entry opportunities again.

What is the failure rate for VC investments? And what is the success rate?

This depends primarily on the phase in which you invest. The earlier, the higher the failure rate. Early-stage VC expects a 50% or higher failure rate. Therefore, the more successful the investments, the higher the failure rate must be for a VC fund to achieve the re-

quired return. Often the success of a VC fund depends on one or a few individual investments, each of which can earn back the fund several times over.

Conclusion

In summary, for most investors an investment in venture capital can only be considered in the form of a fund. This is the only way to ensure sufficient diversification and professional management. A diversification according to managers and years of entry ("vintage") is advisable, but requires a corresponding minimum capital. Overall, the share of illiquid investments in the total assets must be tailored to the needs and goals of the investor.

You can read the complete interview on our website www.lmm-ic.com.



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