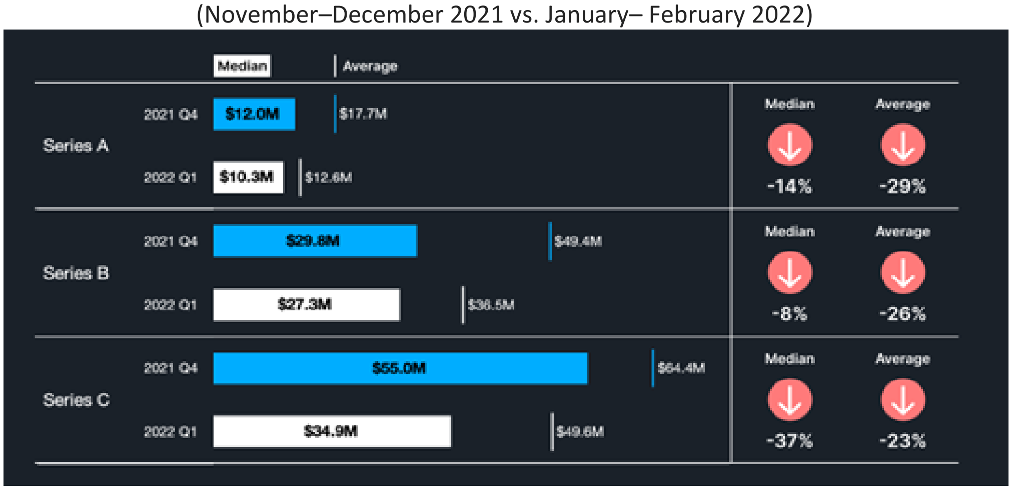
PRIVATE EQUITY

Q1 2022 brought on a new set of risks with Russia's invasion of Ukraine, rising interest rates, inflation, and continued supply chain challenges, all of which have begun to put pressure on funding and valuations. In fact, late-stage growth deal activity — which set records for both deal count and investment volume in 2021, slowed considerably over the quarter. Nontraditional investors, especially many tech-focused hedge funds that helped drive the breakneck pace in 2021, pared back their activity significantly as their public market holdings fell in value. Recent data from Crunchbase shows that global venture funding is down – startups raised $10 billion less in February compared with January, the first such dip in years. Late-stage funding was down 19%, from $41 billion to $33.2 billion, and more insulated early-stage funding also slipped 17%, from $18.4 billion to $15.3 billion on a year-over-year basis. As seen in the chart below, the average size of funding round has declined in Q1-2022 compared to Q4-2021.

Change in Amount Raised per Round

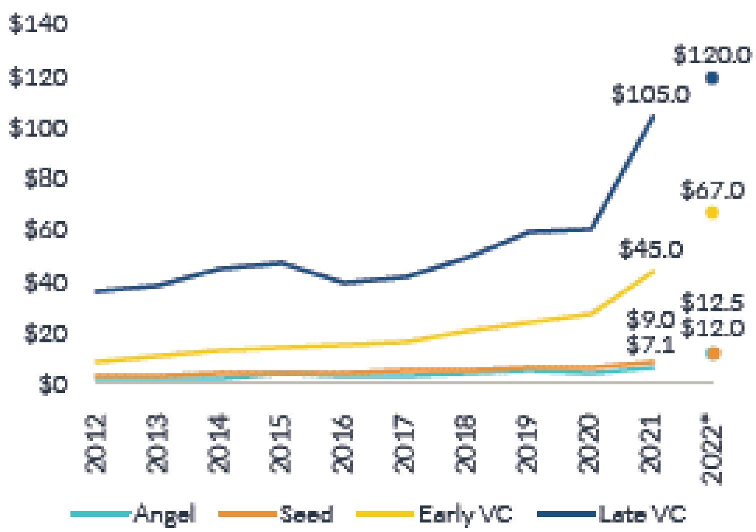
(November–December 2021 vs. January– February 2022)



Source: Carta

While the pace of investment activity slowed since 2021, we believe that innovation is as vibrant as ever and the venture ecosystem remains robust. The first quarter reflected a healthy recalibration of the market after a period in which investors were 'throwing money' at everything on the expectation that valuations could only move higher. This frenzy is over; now investors are more selective on capital deployment and have stronger valuation discipline to generate attractive returns. Moreover, more restrained valuations should be an overall positive for the ecosystem as there should be less pressure on the entrepreneurs to hit the 'lofty' growth targets justifying the valuation which, in turn, should lead to less failures. With general partners and our own direct investments, we continue to invest in innovations across sectors such as healthy living, software and hardtech, climate innovations, global access to education, and financial inclusion – many examples of interesting companies that continue to grow. One such example is Esusu, a fintech solution built to create equitable financial access that provides rent reporting and data solutions for credit building. In January, Esusu announced their Series B and became the sixth black-led unicorn.

Median US VC pre-money valuations ($M) by stage



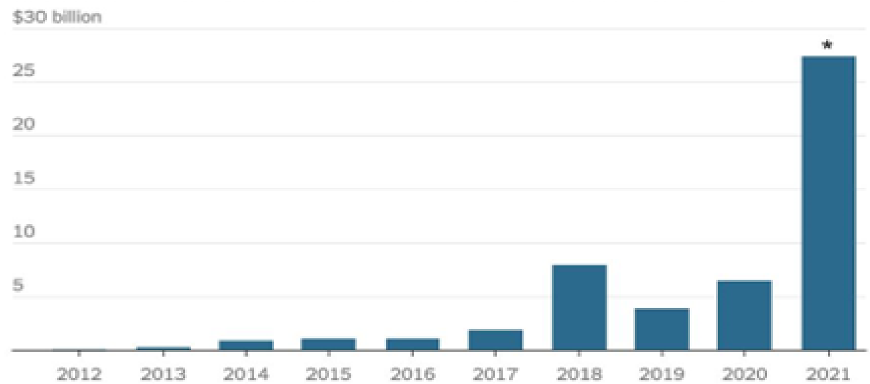
Source: Pitchbook Venture Capital Report (Q1 2022)

The public market performance and economic uncertainty did cause a pause in exits as IPOs of venture backed startups came to a complete halt during the quarter and SPAC combination deals have fared only marginally better. However, the change in the liquidity environment has yet to have an impact on valuations with median pre-money valuations rising across all stages, even late-stage. This has started to change, however, as we move into the second quarter. The sizes and valuations of late-stage growth investments have recalibrated to reflect public market valuations as they seek new funding.

VENTURE CAPITAL AND RISE OF WEB 3.0

One key theme of interest is the evolution of blockchain technology, decentralized finance, and other segments of the Web 3.0 ecosystem. RockCreek added exposure to the sector primarily through our venture capital allocation. Last year was a pivotal one, as the broader ecosystem realized that Web 3.0 is not only likely here to stay but could potentially be a major technological innovation since the advent of the Internet. Over the past year, we have seen talent and capital flow into the Web 3.0 ecosystem, with massive innovation emerging in the underlying decentralized technology stack, as well as consumer-facing applications that are disrupting finance, and even the internet itself. However, despite the increased focus, the sector is still in its early infancy stage as less than 10% of the global population own tokens and decentralized financial applications currently hold around $100 billion in assets, a small drop relative to the traditional financial system. Moreover, Web 3.0 apps have reached tens of millions of users, yet still pale in comparison to the billions that are using Web 2.0 apps.

Global Venture Capital Investment in Cryptocurrency and Blockchain Companies



Source: Pitchbook Venture Capital Report (2021)

As depicted in the chart above, VCs bet big on crypto start-ups in 2021, investing ~$30 billion globally as of late November across 1,278 deals. The average day in 2021 saw blockchain-related startups raise $20 million, and the average seed raise has risen from $1.5 million in 2020 to $3.3 million. Moreover, large crypto-focused funds have become commonplace with two of the giants in the sector – Andreessen Horowitz and Paradigm – raising multi-billion funds. Katie Hahn, a former Co-Managing Partner of Andreessen Horowitz's crypto strategy, recently completed fundraising for her own fund at $1.5 billion, well above the $900 million target and the largest ever fund raised by a single female GP. And larger and well-established funds including Tiger Global and Sequoia, which have historically stayed away from crypto, are now aggressively entering the market through late-stage growth equity investments.

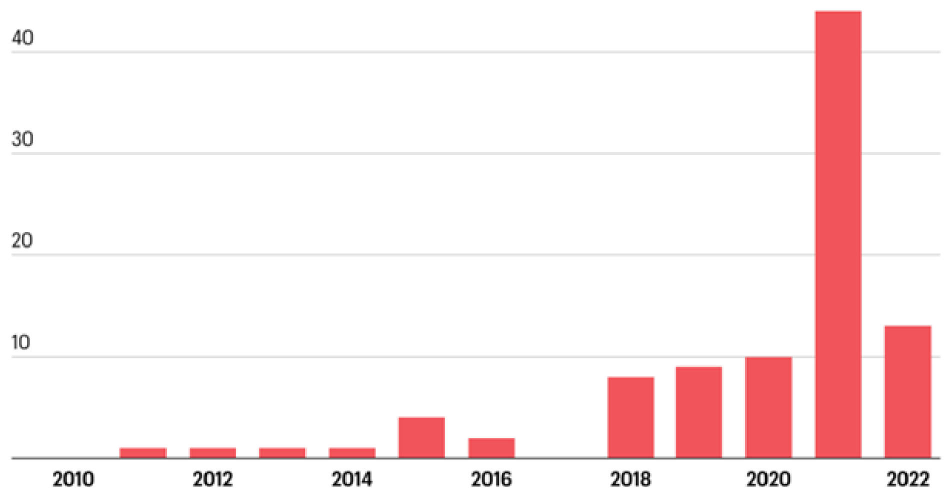
As more institutional capital flows into the Web 3.0 ecosystem, valuations could get bid-up amid competition among funds to intensify. In fact, the increasing frequency of later stage rounds has resulted in at least 65 startups in the crypto/ blockchain sector reaching $1 billion-plus valuations, with over 40 of those companies reaching unicorn status in 2021.

OUTSIDE US, INVESTORS TURN CAUTIOUS; OPPORTUNITIES REMAIN DESPITE GEOPOLITICAL TENSIONS

Beijing's crackdown on Chinese tech companies spooked global investors and prompted many to take a pause from making future commitments in the region. Some indicators have already painted a precarious outlook for Chinese startups seeking venture investments, as venture fundraising activity in China during the first quarter declined 46% on a year over year basis to $13.6 billion. While public market valuations have re-rated significantly, private valuations have not, and expectations hold that it will take another six months to see any material changes. GPs have been urging their existing portfolio companies to seek liquidity through IPO exits and have been very deliberate about deploying capital, especially in late-stage growth and rather choosing to take a wait-and-see approach on how the regulatory winds are likely to blow.

In India, the growth in the number of unicorns is booming as investors continue to flock to the country's sizzling tech scene. The chart below depicts the number of new Indian unicorns over time. 2021 was a record year for the Indian startup ecosystem as VC investments reached $38.5 billion — which was 3.8x growth over 2020 with increases in average deal size and volume. India recently minted its 13th startup worth more than $1 billion this year, one of the country's fastest rates of unicorn creation to date.

New Indian Unicorns by Year



At this point last year, India had minted five unicorns; between October and December last year, it minted 15. For all of 2021, India added 44 firms to its unicorn ranks, easily dwarfing the 37 firms that had hit the $1 billion valuation milestone in the previous decade combined. The number also surpassed China's 42 unicorns in 2021 and leapfrogged India to third place in terms of total active unicorns globally after the US and China. The pace of unicorn creation this year – roughly one per week – signals that the investment surge in 2021 wasn't a blip – and that global investors who turned their attention to India last year remain focused on opportunities even amidst a volatile global market. A study from PwC suggests the pace of unicorn creation will continue in 2022 with the report estimating that India could add more than 100 unicorns providing ample investment opportunities for investors.