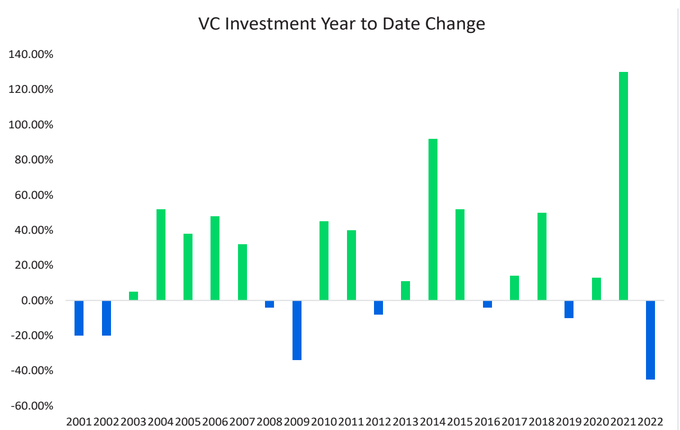
Private Equity and Venture Capital

Private markets remained quiet to finish out 2022, with one of the biggest year-over-year percentage declines in venture capital activity of all-time, albeit from record highs. Tech companies have continued to reduce headcount into 2023 while re-orienting their business models around more sustainable growth. Many private tech companies claim a cash runway of 24+ months, so the focus has been on growing into their valuations, many of which were set in 2021. Very few companies are actively raising capital if they don't need to, and those that are raising are often agreeing to more onerous structural terms rather than resetting their valuations. Bloomberg columnist [Matt Levine] provides more insight on the matter [here.]

Likewise, the buyout market also remained muted as obtaining financing in the current market environment has become a challenge after years of loose lending. Banks, in particular, have significantly curtailed their lending after getting "hung" with steep losses earlier in the year. Of the 47 leveraged buyouts financed in the fourth quarter through early December, only one was financed in the broadly syndicated leveraged loan market, with private credit funds stepping in to fill the gap.

Figure 11. The drop in VC funding in 2022 was larger than even after the dot.com bubble.



Source: Bloomberg

If the buzz word of 2021 was Web3, the buzz word of Q4 2022 is surely Generative AI. OpenAI's ChatGPT has taken the internet world by storm. This trend appears to have real potential, as Microsoft, which has invested a reported $1 billion into OpenAI, announced plans to launch a new version of its Bing search engine powered by ChatGPT in an effort to dethrone Google atop the search engine market. Jasper, another leading player in the generative AI space, recently became one of the few unicorns minted in 2022, raising $125 million at a $1.5 billion valuation. Both OpenAI and Jasper are RockCreek portfolio investments.

We continue to see opportunities within the private biotech space. Biotech stocks rebounded in the fourth quarter with the NASDAQ Biotech Index (NBI) delivering an 11.8% return, though the index still finished the year down -10.9%. In December, BioAge Labs, a RockCreek portfolio company, announced positive results from its most recent trials. BioAge is a drug development company that focuses on the treatment of therapy areas and indications associated with aging. The initial drug in the company's pipeline, BGE-105, also known as Azelaprag, is being developed to treat muscle atrophy, and results from the Phase 1b trial showed significant improvement in muscle size, quality, and protein synthesis during ten days of bed rest compared with a placebo. On the back of these results, the company is planning to initiate a Phase II trial in the prevention of ICU diaphragmatic atrophy and critical illness myopathy.

While we have previously written about the FTX debacle, it's important to continue monitoring for potential signs of contagion into broader financial markets. One such development is the recent bank run on Silvergate Bank, an FDIC insured bank which has positioned itself at the nexus of crypto and traditional finance markets. Silvergate, founded in 1998, began offering traditional banking services for many of the largest US digital currency exchanges and global investors in 2013. In addition to deposit account services, the bank established the Silvergate Exchange Network ("SEN"), a proprietary payment network that enables efficient and rapid movement of dollars between digital currency exchanges and institutional investors in digital currencies. During the first week of January, the company reported that deposits declined during the fourth quarter from $12 billion to $3.8 billion, sending the stock down more than 60% on the news. It's important to note that the company still has an estimated $4.6 billion of cash on its balance sheet, which exceeds total deposits. Likewise, SEN continues to function well with $1.4 billion in volume per day, per Axios.

Last year could be characterized as a year of paralysis within private markets. Looking ahead to 2023, it's likely that there will be a pickup in private market activity as insider bridge rounds and highly structured rounds give way to externally priced rounds, albeit at potentially lower valuations. Similarly, venture capital and private equity funds, sitting on an estimated $580 billion and $1.3 trillion of dry powder respectively, will face increasing pressure to put capital to work.