The Case for Venture

In 2020, there are 4 very powerful and visible phenomena, the convergence of which is likely to bring tremendous change and disruption, much of which will be at the expense of incumbent business models and with significant investment implications.

First, we are at the end of a 40-year cycle of falling interest rates.

Second, post-global Financial Crisis of 2008, we are 12 years into the biggest economic experiment ever undertaken by Central Banks in the form of QE, or money printing, without really knowing how this ends. The 1930s offers an analogy for the last time rates were this low, money printing so rampant, and the wealth divide so big.

Third, we are only 10 years into exploring the possibilities of cloud computing. Businesses can and are being built from anywhere in the world at minimal cost and very, very quickly. It took the airline industry 50 years to reach 50 million customers. It took Pokemon GO just 19 days. It took Lloyds Bank in the UK a century to acquire 7 million customers. Paypal added this many in just 3 weeks in April this year (2020). Quantum computing is next.

Last, the younger generation is arriving into the workforce with record levels of student debt and facing real estate prices four times what they were 25 years ago. With asset prices so far removed from income streams, this generation simply doesn't have access to the same levels of prosperity as the previous one. And so it has to be reimagined. This changes everything – renting over owning, services over assets.

The coincidence of these 4 observations favors private over public, innovation over legacy – the fourth industrial revolution. And this is starting to get acknowledged.

Cambridge Associates, the leading investment consultants, and asset allocators published an important report in Q1 of 2020 suggesting that an allocation to venture greater than 15% may be appropriate. On October 8th 2020, Goldman Sachs reported on Bloomberg that while the returns from a traditional 60/40 portfolio have delivered 7/8% annualized over the last 10 years, such a strategy will deliver just 2/3% annualized real returns over the next decade. The FT has also reported this in September 2020 talking of a "nuclear winter" for 60/40 strategies.

This explains the seismic new legislation introduced in the US in May 2020 to allow pension plans, so-called 401ks, to invest in private equity and venture capital.

This makes sense – these pension plans and other bigger pools of capital can't possibly generate the 7% returns required to meet their liabilities. But, if they can allocate 10% of their assets to venture, which proposes to earn 30% annual returns, then they can achieve 3%, or half of their target return of 7%, with 10% of their capital.

Since 2012, profit growth in the S&P500 outside of the technology sector has been only 1%. Over the same period, the value of private disruptive technology companies has grown 14 times. It is estimated that by 2025 there will be 100bn connected devices. The internet of things, quantum computing, and artificial intelligence will provide secular tailwinds for the investment landscape for the foreseeable future.

The case for an allocation to venture of 10, 15, or 20% of a portfolio is a matter of preference, but it is clear in 2020 that it can no longer be zero.

One of the consequences of bigger pools of capital – for example, the US pension plans and other – coming to venture is that it creates “crowding” at the later stage, usually at the 2 years pre-IPO part of the market. The $2 trillion of “dry powder” that it created is competing with Softbank’s money, Growth capital, Late Stage Venture funds to invest in the most exciting opportunities. Unsurprisingly, well-known Silicon Valley VCs are now, as a result, moving to earlier stages – where Antler operates – to achieve outsized returns through better-priced access. There is a clear strategic advantage in allocating to early-stage venture capital.

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About Antler
Antler is a global early-stage venture capital firm that invests in the defining technology companies of tomorrow. The firm has offices across six continents and most major entrepreneurial hubs, including cities such as London, New York, Singapore, and Sydney

Founded in Singapore in 2017, Antler is on a mission to fundamentally improve the world by enabling and investing in the world's most exceptional people building the defining companies of tomorrow. Antler has already invested in and helped build over 200 companies since launch. Several of these early-stage startups have since secured follow-on investment by top-tier VCs. Of these companies, 40% have at least one female co-founder, and the founders represent 70 nationalities.

Antler enables exceptional people to build impactful technology startups by building complementary co-founder teams, supporting the teams with deep business model validation and providing a global platform for scaling their startups. Learn more at antler.co.