

# Private Markets Overview

# Introduction to the Private Markets



Private Market Performance

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Private equity and venture capital funds have outperformed public equity markets over the past decade, with higher returns and lower volatility.



# Public Market Volatility

The public equity markets have experienced significant volatility in recent years, with the S&P 500 index fluctuating widely in response to economic and political events. InvestorAppetite

There has been a growing appetite among institutional investors for private market investments, driven by the potential for higher returns and diversification benefits.

The recent performance of private and public markets highlights the potential advantages of a balanced investment portfolio that includes both private and public market exposures.

# Crowdfunding and the JOBS Act of 2012



## 2013

The SEC (Securities and Exchange Commission) proposed rules to implement the crowdfunding provisions of the JOBS Act, allowing non-accredited investors to invest in startups.

## 2018

Crowdfunding platforms like Kickstarter, Indiegogo, and others saw a surge in activity, with over \$5 billion raised globally through crowdfunding campaigns.

# 2022

The SEC proposed updates to the crowdfunding rules, including raising the annual fundraising limit to \$5 million and allowing startups to use crowdfunding alongside other funding sources.

# 2012

The JOBS Act (Jumpstart Our Business Startups Act) was signed into law, enabling crowdfunding as a way for startups and small businesses to raise capital from the public.

# 2016

The SEC's crowdfunding rules went into effect, enabling startups to raise up to \$1 million per year from the general public through regulated platforms.

# 2020

The COVID-19 pandemic drove more small businesses and startups to turn to crowdfunding platforms to raise capital, as traditional funding sources became scarce.

# Private Markets vs Other Investments

Average Annual Returns (2010-2020)





# Successful Private Market Investments



# Airbnb



Airbnb, a private accommodation rental platform, has seen significant growth and outperformed its public competitor Expedia in terms of market valuation and user adoption.

## SpaceX



SpaceX, a private space exploration company, has made rapid advancements in reusable rocket technology and successfully launched numerous missions, surpassing the performance of public aerospace companies.

#### Instacart, a private on-demand grocery delivery service, has experienced rapid growth in user base and revenue, outpacing the performance of public competitors like Uber Eats and GrubHub.

Instacart

# Stripe

Stripe, a private financial technology company, has revolutionized online payments and processing, outperforming public payment processors like PayPal in terms of innovation and market share.

# **Regulatory Changes and Investor Access**



### **JOBS Act Provision Overview**

 The Jumpstart Our Business Startups (JOBS) Act enacted in 2012 introduced several provisions to facilitate capital raising and investor access to private companies, including Regulation A+ for public offerings, Regulation Crowdfunding, and expanded accredited investor definitions.

#### Increased Access to Private Company Investments

• The JOBS Act has enabled more investors, including non-accredited investors, to participate in private company funding rounds and access alternative investment opportunities previously reserved for institutional and high-net-worth investors.



#### Expansion of Accredited Investor Definition

 The Securities and Exchange Commission (SEC) has expanded the accredited investor definition to include additional criteria beyond just high-net-worth and highincome thresholds, allowing more individuals to qualify and invest in private markets.

#### Impact on Private Market Performance

• The increased investor access facilitated by the JOBS Act has contributed to the significant growth and outperformance of the private markets relative to the public markets in recent years, as more capital has flowed into private companies

# **Risks and Considerations**

# **Illiquidity Risk**

Private market investments often have limited secondary markets, making it difficult to exit positions quickly or at desired prices.

## **Valuation Challenges**

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Valuing private market assets can be complex due to the lack of publicly available information and market pricing, leading to potential mispricing.

## **Information Asymmetry**

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Private market investors may have limited access to information compared to public markets, creating an information disadvantage.



## Manager Selection Risk

The performance of private market investments is heavily dependent on the skill and expertise of the fund managers, increasing the importance of rigorous due diligence.



## **Regulatory Oversight**

Private markets are often subject to less regulatory oversight than public markets, which can increase risks for investors.

## **Concentration Risk**

Private market investments have a more concentrated portfolio compared to public market investments, which can amplify the impact of individual investment performance.

# **The Future of Private Markets**



Private markets are expected to continue growing, driven by increasing investor appetite, increased competition for deals, and the ability of private companies to remain private for longer periods.

> Continued Growth in Private Markets

#### Diversification and Innovations

Private markets are evolving with new asset classes, strategies, and investment structures, providing investors with more diversification opportunities and innovative ways to access private company growth. Institutional investors, such as pension funds and sovereign wealth funds, are allocating more capital to private markets, seeking higher returns and broader diversification.

> Increased Institutional Involvement

#### Regulatory Changes and Accessibility

Regulatory changes are making private markets more accessible to retail investors, allowing them to participate in the potential upside of private company growth.

Let Spark Market empower your financial future with investment opportunities in new businesses you can be passionate about.

<u>Contact us</u> to find out more

# **SparkMarket**