



# Structured Securities in Growth Equities: An Emerging Opportunity Set

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## Finding Opportunity Amidst the Stress in Growth Businesses

For several years, there has been a capital vacuum in the market for companies that have chosen to stay private for longer periods of time and may be lacking a natural investor base. In response, many investors have generated attractive performance by filling this vacuum with growth equity. With the inflation shock of the past several months, a major sector rotation has occurred and the valuations of public comparables have severely declined. We believe the result is an emerging opportunity to continue financing some of the most attractive businesses in the space with deal structures that can provide an enhanced risk/return profile for investors.

One of the major impacts of elevated inflation in the economy has been the change in monetary policy expectations from market participants. As the market began pricing additional rate hikes from a more hawkish Federal Reserve, there was a major rotation of investor capital from growth to value investments in the public markets. As public comparables for private growth businesses traded down materially from all-time highs, many private companies now find themselves unable to finance their businesses in the normal course with common equity. Doing so would result in a down round from the previous valuation, which management teams typically seek to avoid. With capital requirements often needed to continue operating their business prior to an IPO, many growth companies are looking for an alternate solution.

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**Past performance is not necessarily indicative of future results. No assurance can be given that any investment will achieve its given objectives or avoid losses. Unless apparent from context, all statements herein represent GCM Grosvenor's opinion.**

**Select risks include: market risk, macroeconomic risk, liquidity risk, interest rate risk, and operational risk.**

We believe preferred or structured capital is an attractive option for companies in this situation because they can raise the necessary capital without signaling to the market a lower valuation on their common equity. This often takes shape through convertible or structured securities.

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## Accessing the Opportunity

We believe structured securities can offer investors a more favorable payoff profile, particularly in today's volatile environment. They can be negotiated to include a downside mitigant, such as a coupon or a dividend, while also maintaining upside with the option to convert into common stock at a fixed conversion ratio. For that reason, we believe structured securities can help offer investors equity-like returns with credit-like risk. Some growth businesses also have publicly-traded convertible securities that trade at compelling valuations in the secondary market, providing an alternative entry point to this compelling opportunity set in structured securities.

Access to structured securities provided to stressed growth companies is limited to those with deep experience, strong relationships, and substantial scale. Growth businesses often do not fit the investment profile for conventional private equity buyout funds or liquid hedge funds, which can make accessing them through traditional means a challenge. Over time, hedge funds with longer duration capital bases have emerged to fill this gap, amassing proven tracks and brand recognition for their partnership with growth companies helping them to transition to publicly traded companies. Of the small group of investors pursuing this activity, we believe there are even fewer top-tier managers generating sustainable alpha in the space.

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## The GCM Grosvenor Advantage

Investing via structured securities in growth companies is a niche approach that many investors cannot access through traditional programs. GCM Grosvenor's Strategic Investments Group (SIG) is uniquely positioned with a strong sourcing platform and flexible mandate to provide clients with access.

SIG leverages GCM Grosvenor's unparalleled deal sourcing platform, which includes long-tenured relationships with elite, less-liquid hedge funds and crossover investors that are typically hard to access. Combined with a flexible strategy designed to capture opportunities across asset classes, liquidity profiles, capital structures, and geographies, our clients gain broad exposure to strategies, including growth, that are often overlooked or inaccessible through traditional asset allocation models.

SIG has been active in providing structured capital to growth businesses, as detailed in the case study below. We believe today's market conditions are conducive to more structured securities, thus we expect there to be many more of these opportunities in the near- to medium-term.

Learn more about our Strategic Investments Group [here](#).

# Deal Spotlight



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# About GCM Grosvenor

GCM Grosvenor (Nasdaq: GCMG) is a global alternative asset management solutions provider with approximately \$72 billion in assets under management across private equity, infrastructure, real estate, credit, and absolute return investment strategies. The firm has specialized in alternatives for more than 50 years and is dedicated to delivering value for clients by leveraging its cross-asset class and flexible investment platform. GCM Grosvenor's experienced team of approximately 520 professionals serves a global client base of institutional and high net worth investors.

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For illustrative and discussion purposes only.

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