BERGOS PRIVATE BANK

THIS IS THE MONTHLY NEWSLETTER BY AND FOR THE BERGOS NEXT COMMUNITY.

# NEXT

## MONTH

THIS MONTH IS **JUNE**

# INSIDE ISSUE 29

# JUNE CONTENTS

**Many people who would like to invest in startups are held back by one thing: They are afraid to commit capital for several years. In this article, we look at the best strategies you can use to overcome this problem.**

— Eugen Stamm

# ILLIQUIDITY

## THE MAIN CHALLENGE OF STARTUP INVESTING

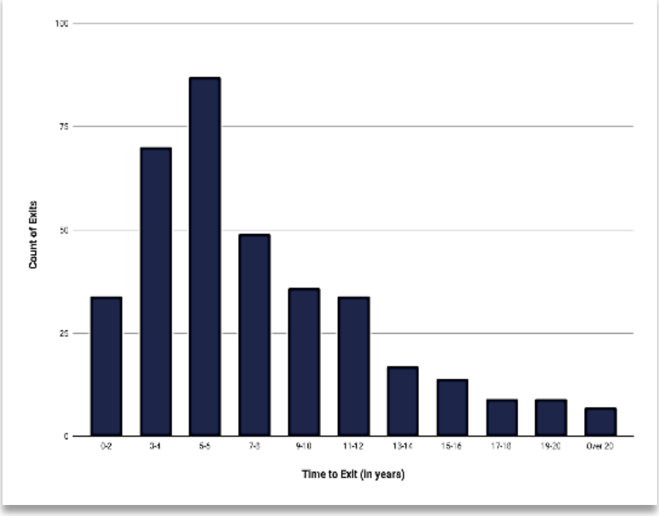
Who wouldn't want to invest in young companies that become great success stories? And by doing so, help bring technology that improves people's lives to the market?

If you are comfortable enough to think about wealth creation, not just wealth preservation, you can afford to think long-term. This ability sets you apart from other investors.

But there are several reasons why many investors with the means for it don't invest in startups at an early stage. One of them stands out: Illiquidity.

This technical term describes the fact that shares of a private company or startup are hard, if not impossible, to sell. Stocks are considered liquid assets: you can sell them right now if you need the cash for something else. That's nice; everyone likes the freedom to change their minds.

Things are different if you buy shares in startups. Your only way out is when a startup gets bought by a bigger company or goes public. Only then, after a liquidity event known as an “exit”, do you get your money back. You also don’t know when and if it might happen. An analysis by Verve Ventures of Swiss exits in the past two decades shows that the median time to exit was 6 years (see chart below).




This sounds scary enough for most people to say: “That’s not for me.” After all, who knows what the future will bring? If you think of your wealth as a safety net, as a way to deal with life’s emergencies, you want liquid assets.

However, for people that assume the worst, no amount of money will ever be enough to make them feel safe. They shouldn’t invest in startups. Because the mindset of the startup investor is optimistic by nature. How else could you be able to comfortably imagine that a group of young entrepreneurs can take an idea and turn it into a business worth millions?

Think about it from the investee’s perspective. Listed companies don’t care too much about individual investors selling or buying shares. For a startup, your investment does make a difference.

## BUT HOW TO DEAL WITH ILLIQUIDITY?

## START SMALL, START SLOW, AND START NOW.

Starting small means sizing your individual investments with the goal of making at least a dozen, preferably more investments. What small means depends on your total wealth and the portion of it you want to dedicate to startups. For some investors, a single investment of EUR 10’000 is small, for others, it’s EUR 500’000. Diversification is your friend, and this is true for startup investments in particular. The larger your startup portfolio is in numbers, the higher your chances of investing in a company that achieves outsized returns for you.

Starting slowly means deploying capital

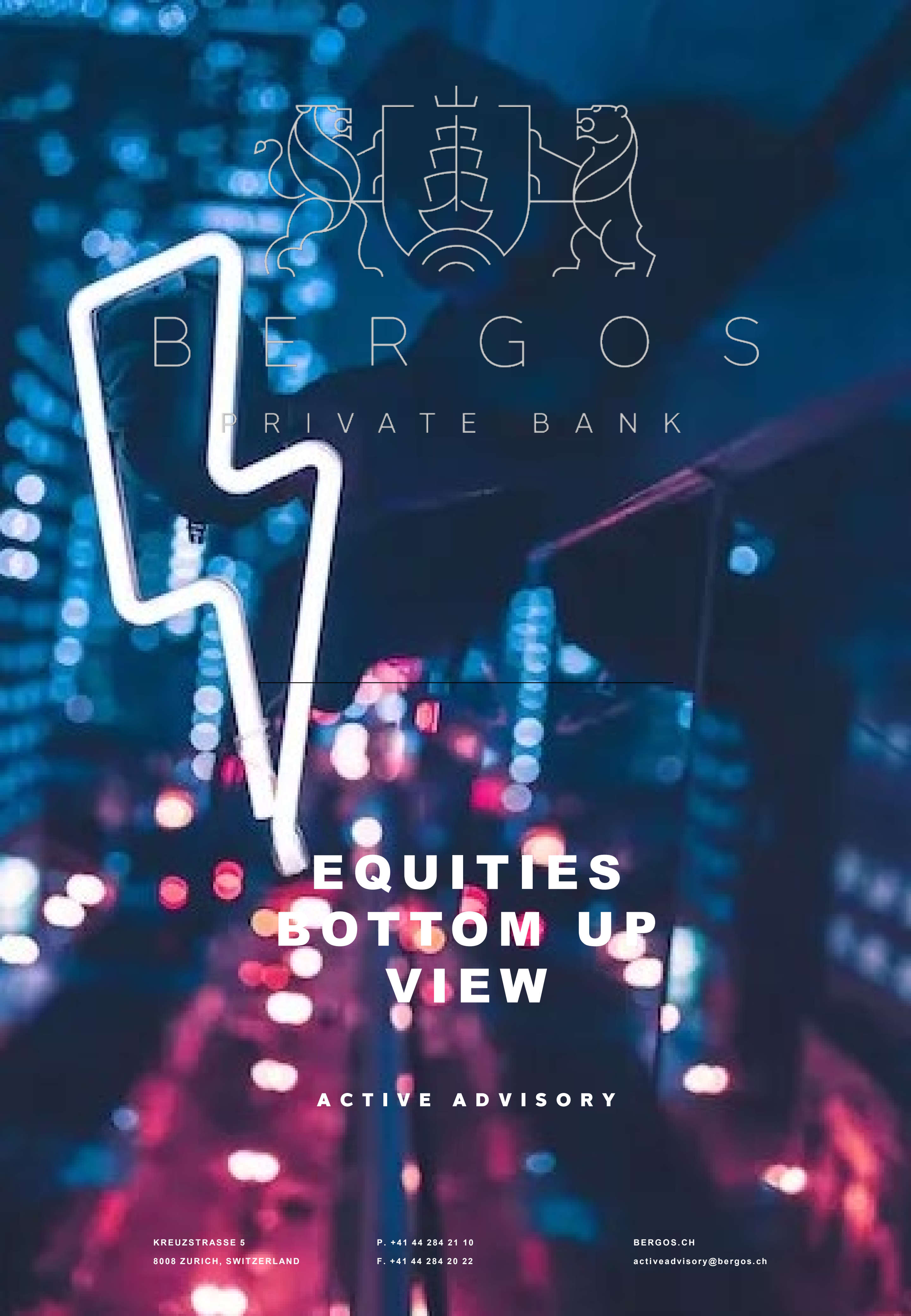
over several years. There will be very interesting opportunities you don't know about yet. So no need to rush it and think that you need to rapidly build up a portfolio. Spreading your investments in time will also give your investments time to mature. The feedback loop of investing in startups is glacial. Stocks move up and down every millisecond, but growing a young company takes years. Constant slow investments allow you to learn and adapt your way of thinking.

Finally, the sooner you start, the sooner you will have your first liquidity events. By then, ideally, you'll have a portfolio of startups at different stages. You're still invested in an illiquid asset class on an individual level, but exits start happening at a more regular interval. On aggregate, your portfolio isn't that illiquid anymore. You'll be able to recycle the exit proceeds for more, and hopefully, even better investments.

In some cases, you might be able to sell shares of startups before they get acquired or go public. New institutional investors want to deploy large sums of money, and offer to buy shares of existing older investors. Once again, your options increase.

In quintessence, startups are an illiquid asset class. But there are ways to address this challenge if you have wealth that exceeds what you need to cover unforeseen events and if you have the patience, and optimism, to start small, start slow, and start now.

Eugen Stamm joined Verve Ventures in 2018 and covers startups and investment topics. He has invested in more than 30 startups and joined the board of directors of a fintech startup. Eugen has more than a decade of experience in financial journalism (including working for Neue Zürcher Zeitung) and wrote a book about family governance. He is an official partner of Bergos AG.



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# EQUITIES BOTTOM UP VIEW

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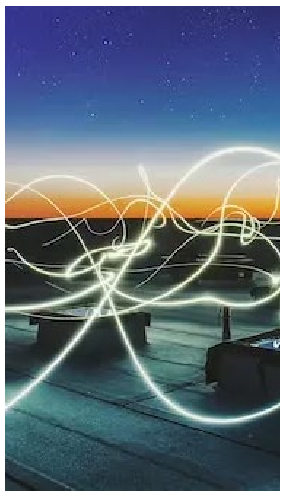



**WRITTEN BY MARTINA OETIKER**


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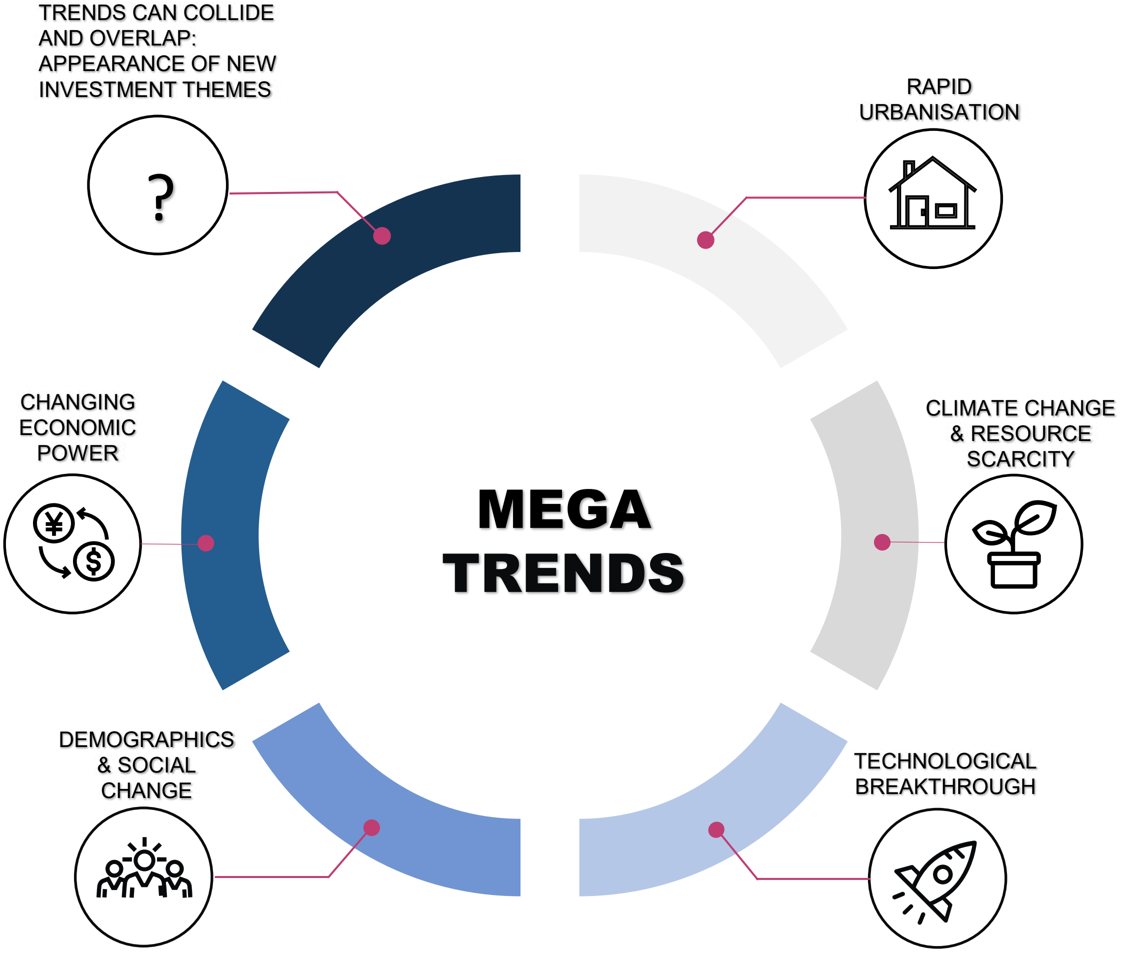
# MEGATRENDS

## WHAT IS THEMATIC INVESTING?

New long-term trends are transforming the global economy. Thematic investing is about finding companies that are set to benefit from a global structural change backed by the Megatrends, which we believe will drive outperformance compared to global equities in the long-run. Moreover, thematic investing seeks to align asset selection with certain economic, political, and social themes prevalent in modern society. In order to represent a long-term component in the portfolio, we seek to capture the arising opportunities across sectors and geographies.



# DECARBONIZATION

## THE NEXT INDUSTRIAL REVOLUTION?

Organizations have shaped the path of the human history and directly impacted the story of the planet. In order to better understand, where organizations are heading to the future, it is crucial to first understand the past. History has been impacted by Industrial Revolutions.





| 1.0 | 2.0 | 3.0 | 4.0 | 5.0 |
|---|---|---|---|---|
| **Mechanization** | **Electrification** | **Automation** | **Digitalization** | **Decarbonization** |
| 1760 | 1870 | 1969 | 2000 | 2020 |
| Mechanization, water & steam power | Mass production, electricity | Computers, automation, robotics | Internet, data analytics, connectivity | Connecting humanity, the Planet and Purpose |

For over 150 years, fossil fuels (including coal, oil, and natural gas) have been empowering economies. The 1st Industrial Revolution represents a major turning point in history making the first energy transition, underpinned by the use of coal. The late 19th and 20th century saw the 2nd Industrial Revolution, which introduced new technological systems and which indicated another energy transition, primarily underpinned by the use of petroleum. The ground-breaking invention of the petrol engine made vehicles more powerful and has significantly increased demand for the associated energy consume. Key drivers behind rising energy consumption are economic development, an increasing as well as ageing population, and various technological breakthroughs. Energy consumption is a productivity, ultimately leading to economic growth. But since the turn of the century, the disruptive effects of fossil fuels utilization on the climate have driven humanity to develop new supposedly cleaner as well as more efficient inventions and technologies.

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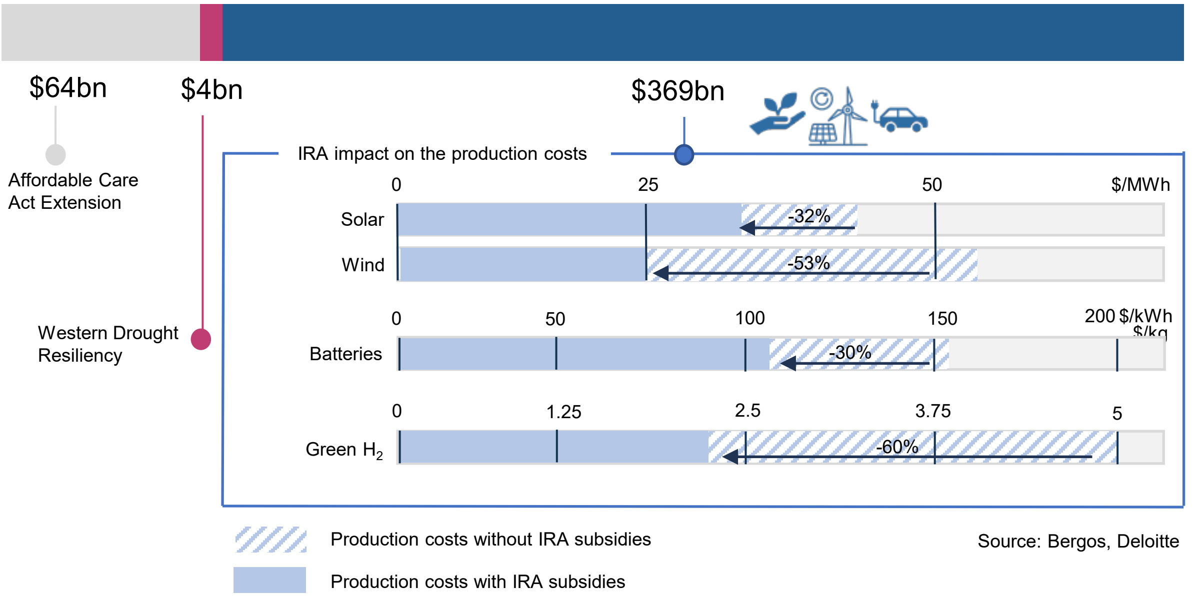
# DECARBONIZATION

## THE NET ZERO RACE

Capital discipline has been key for energy companies in recent years, as investors have turned to 'cleaner' sectors, and this race to net zero continued in 2022 despite the rise in commodity prices. Meanwhile, energy supply crunches have resulted in an acceleration of policy support for clean energy – such as the US Inflation Reduction Act (IRA) – providing additional tailwinds and investment in this space. The IRA will likely decrease US emissions by an additional 7-10% by 2030 by focusing on one key instrument: tax credits, which support operational expenditures (OPEX) or capital expenditure (CAPEX) of companies. The figure below demonstrates the estimated effect of subsidies on production costs of supported products.




Source: Bergos, Deloitte

## EU NET ZERO INDUSTRY ACT (NZIA)

The Net Zero Industry Act (NZIA) can be seen as a response to the US Inflation Reduction Act (IRA) and is essentially a reshoring attempt to increase the EU's manufacturing capabilities in clean energy technologies and avoid heavy dependencies on other regions. Its goal is for the EU to produce at least 40% of the technology it needs to meet its climate and energy targets by 2030 domestically.

On March 16, the European Commission released a set of regulatory proposals as a follow-up to the EU's Green Deal Industrial Plan. The proposals address the overarching question of how to promote green industries in Europe.

- The Net Zero Industry Act,
- The Critical Raw Materials Act and
- Reforming the EU Electricity Market.

# DECARBONIZATION

## STRATEGIC NET ZERO TECHNOLOGIES

The Act identifies eight Strategic Net-Zero technologies which should benefit from more attractive conditions to entice investments into their manufacturing capacity:

1. Solar photovoltaic and solar thermal
2. Onshore and offshore wind (plus other offshore renewables technologies)
3. Batteries and energy storage
4. Heat pumps and geothermal energy
5. Electrolysers and fuel cells
6. Sustainable biogas/biomethane
7. Grid technologies
8. Carbon capture and storage

The proposal includes very ambitious targets to ramp up local manufacturing for many of these technologies, such as targeting 30 Gigawatts (GW) per year of domestic solar module manufacturing capacity by 2030 (compared to 1.5GW of PV cell production capacity at present). Domestic wind manufacturing capacity is targeted for 36GW/year by 2030, while battery manufacturing is targeted for 550GWh/year by 2030 (compared to 20GWh in 2020).

As strategic net-zero technologies, these projects will benefit from faster permitting and better financing provisions, as they will be granted, the highest status of national significance possible under Member State law. For example, the proposal states that permitting for net-zero strategic projects should not exceed 12 months – which will be very important for accelerating the deployment of renewables, given that permitting tends to be one of the more prominent bottlenecks in Europe. We expect this to provide long-term positive impacts throughout the wider clean energy industry – in particular renewables.

While we believe that the manufacturing targets are extremely ambitious, the Act mentions very little of direct financial incentives and funding opportunities to support such a reshoring initiative. In this sense it falls significantly short of the generous production-linked tax credits offered by the US Inflation Reduction Act (IRA). Instead, the European Commission expects Member States to prioritize domestic net-zero projects for additional private sources of financing and existing EU funding programs such as the State Aid Temporary Crisis and Transition Framework (TCTF), as well as tap into revenues from the EU carbon market.

# BERGOS NEXT EVENTS

## SAVE THE DATE

NEW ARTIST IN RESIDENCE

## NICOLETA SAVVIDOU

EXCLUSIVE
EVENING CONCERT

16TH OF JUNE 2023 IN
ZURICH

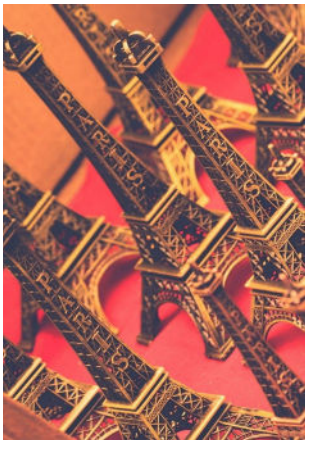
PLEASE REGISTER THOUGH YOUR PERSONAL INVITATION RECEIVED VIA EMAIL

## NEXT WEEKEND
ZURICH

15TH – 16TH OF
SEPTEMBER 2023

## OKTOBERFEST
MUNICH

19TH OF SEPTEMBER
2023



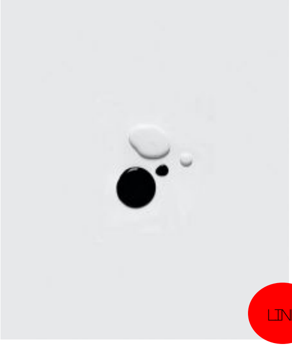
## ART BASEL
PARIS

17TH – 18TH OF
OCTOBER 2023

# OUR NEXT TIPS FOR JUNE

# CULT CULT **CULTURAL**!

## EVENTS



LINK

ZURICH ART WEEKEND
09TH – 11TH OF JUNE

LINK

OPERA FOR ALL
17TH OF JUNE

LINK

ZURICH PRIDE FESTIVAL
16TH –17TH OF JUNE

## PLACES TO GO

LINK

CAFÉ THALVIE: LET'S GO TO THE PARK

LINK

RESTAURANT BADI SEEBURG

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## WHO WE ARE

YOU PROBABLY KNOW US, BUT IF NOT, HERE ARE A FEW WORDS ABOUT US. WE'D BE HAPPY TO CHAT MORE! REACH OUT: INFO@BERGOS.CH OR NEXT@BERGOS.CH ARE GREAT WAYS TO GET IN TOUCH! SO HERE WE GO:

WE ARE BERGOS, AN INDEPENDENT, INTERNATIONALLY OPERATING SWISS PRIVATE BANK. WE HAVE A CLEAR FOCUS: PROTECTING AND GROWING PRIVATE WEALTH.

OUR NAME HONORS THE MANY GENERATIONS WHO, FOR MORE THAN FOUR CENTURIES, FOSTERED ENTREPRENEURIAL THINKING, GOOD EDUCATION, AND PERSONAL INTEGRITY. IT EXPRESSES THE IDEALS OF INDEPENDENCE, CONTINUITY, AND OPENNESS TO THE WORLD. WE UNDERSTAND, RESPECT AND VALUE THIS RESPONSIBILITY.

AND WE ARE GLAD YOU ARE HERE!

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