

March 12, 2020

Adams Street is actively monitoring developments on the spread of the Coronavirus (COVID-19) and its effect on our employees, clients, investment portfolios and new investment activity. While the events are changing daily, we want to share with you some thoughts and action steps we are taking.

Our primary focus is on the safety of our employees and the ability of our business to continue to operate through rapidly changing conditions. Out of the abundance of caution, effective immediately, our US, London and Munich-based employees will work from home until further notice. Adams Street maintains a robust technology infrastructure and business continuity plan which will allow us to effectively serve clients and communicate with our employees regardless of their physical location. We have also made the decision to cancel our US investor conference in Chicago and European investor conference in London, both of which were scheduled for June.

While the full impact on the global economy will likely remain unknown for some time, we are currently seeing both supply and demand dislocations across several industries, including manufacturing supply chains and travel and tourism to name a few. While this will all pass in time, it is an incredibly unusual period of time, which makes it particularly important to rely on facts, data, and experience to guide investment and operational decision-making, which we have done for more than 45 years across many market cycles.

Given the rapid decline (~20%) in public equities over the last few weeks, we anticipate markdowns across our portfolios in Q1 as mark-to-market valuations are applied to our investments. That is uncontrollable. On the controllable front, we have begun active dialogue with our general partners and our portfolio company CEOs to discuss scenario and contingency planning. Not surprisingly, these discussions have confirmed that we are invested alongside of great people who are thinking through their respective future chessboards. As you know, our strategy has been to invest in great managers who focus on sectors experiencing growth, dislocation and change where private companies are best suited to succeed. We have largely steered clear from highly cyclical and capital-intensive industries and we have avoided late-cycle beta investments that rely upon leverage and valuation multiple expansion to generate returns. This works well in up-markets but can be punishing in down markets. This does not mean our portfolio will be immune to problems, but we expect our problems to be fewer than those faced by the industry.

In terms of new investment activity, we continue to back great fund and company managers, but we expect a slowdown in new deal activity as we and all market participants assimilate current events. We expect to see an up-tick in delayed, elongated or terminated capital-raising and sale processes as sellers digest declining market valuations and reduced buyer demand. In fact, we are seeing a material slowdown in secondary PE market activity as buyers and sellers digest current events. This could change if sellers become liquidity constrained and are forced to sell as they were in 2008. The hallmark of our investment philosophy has always been consistent deployment of capital across time so while near-term deal activity will slow and valuations will likely decline, we expect to resume a normal investment pace as markets settle.

As always, our best wishes remain for you and your families. Please feel free to reach out with any questions or if a conversation would be helpful to address any of your concerns.

Sincerely,
Jeff Diehl, Managing Partner & Head of Investments