

SDX for Private Markets

Human relationships are a fundamental element in private investing. How can technology help investors to create closer quality partnerships?

Human relationships are a critical component of venture capital (VC) and early-stage private equity investing, and this will never disappear. However, new technologies – including distributed ledger technology (DLT) – could help augment the investment process, to the benefit of issuers and allocators.

Historically, fundraising has been a laborious and time-consuming endeavor for start-ups. It is a documentation heavy process requiring many intermediaries, which ultimately creates inefficiencies and hinders growth. Increasingly, issuers and investors are evaluating the merits of DLT as a means by which to speed up the investment process and eliminate unnecessary steps in the value chain.

One of the primary benefits of DLT is that it enables investors to receive information and reports directly from the founders and from the very beginning start a direct relationship with the company. An emerging phenomenon suggests that companies that tokenize data and equity offerings are receiving exposure and distribution among investors more in line with their core parameters, potential, and risk profiles.

One of the key aspects of DLT is that it moves away from the push/pull model where information is pushed or retrieved by users or mediated by software. DLT allows data to be propagated across investors networks instantaneously while specific actions are automated. This leads to a better user experience, reduces the distance between founders and investors and fosters a more human and direct relationship.

The automation benefits of DLT are also highlighted by Chris Wilk, CEO of Aequitec. "Issuers can now automatically create processes and package audited records in a way that is automatically propagated to investors. Subsequent fund raising, subscription certificates, rights to participate in non-dilution events, obligations to pay money and any corporate actions can be logged and made available to investors thereby creating an entire company timeline where the legal title chain matches every financial transaction carried out by the issuer".

The ability to provide highly structured information to investors will help shorten the custody chain and allow custodians to be more effective in servicing investor's assets, and in the future, make these assets transferable across different custody networks and block chains.

Through automation, DLT can eliminate many of the manual or time intensive pain points synonymous with early-stage investing. This allows issuers and investors to allocate more of their resources to working together on business activities, which are genuinely added value. "DLT enables an investing experience with less friction. The technology handles the investing part seamlessly, allowing founders and investors to focus on what really matters: getting to know each personally," said Raphael Abersold, Marketing Director at Aktionariat.

Banks and traditional financial institutions will continue to play a crucial role in providing

the tools and access to capital that will underpin issuers and investors. Leveraging the existing infrastructure, regulatory compliance, and trust among their customers can bring more capital leading to increase growth and development. However, adopting the right technology and adopting an attitude oriented towards innovation, will create that all-important space for human interaction.

As investors in private companies – from VCs to Angels – become more sophisticated, correspondingly the underlying technology DLT has the potential to not only democratize the value chain for early investments, but additionally to create new dynamics in the relationship between founders and investors. The technology will enable founders to concentrate more time on delivering on their objectives while simultaneously creating an environment enabling closer and more regular dialogue between investors and issuers.

About the author



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Massimo is dedicated to enhancing the funding process for private companies and improving the issuance, custody, and transfer of digital securities in SDX's regulated CSD. He is responsible for reinforcing the interaction and collaboration between equity investors and companies in the digital age.

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