

FUND FINANCE FRIDAY

Life ... And Finance ... Move Pretty Fast

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Finance Forum Welcome Remarks

Good afternoon. Welcome to the Cadwalader Finance Forum. I'm Wes Misson, the Co-Chair of the Finance Group at Cadwalader.

We all know from personal experience that we're occasionally presented with life decisions that will prove defining for years to come. These moments are not confined to our personal stories: Many business leaders have set to pen their process for identifying inflection points in their business and how they navigated the change.

You're probably thinking of a book or two right now, and in reality there are many more than we can count. If I can make the first recommendation you hear at today's conference, it's this:

Get your book on facing future-defining crises and transformation in front of publishers now! The demand is insatiable, if the number of bestsellers on the topic is any indicator. But you better hurry – AI is going to take over the space!

All kidding aside: Here are some facts on how fast things are moving:

(1) The average life-span of companies listed in the S&P 500 has shortened from 61 years in 1958 to just 18 years today, according to data from McKinsey.

(2) Every year about 600,000 new businesses are launched in the U.S., half of which will fail within the first five years.

And finally, (3) many of the largest companies in existence today are kids of the nineties – Facebook, Google, Amazon, and Netflix, to name a few.

Here's where I'm going with this: Change isn't limited to those big defining moments, but is constant. That's not a new idea. An ancient Greek philosopher, Heraclitus, is credited with

coining the saying, “The only constant in life is change.” He’s also the guy that wrote “no man ever steps in the same river twice.”

What may be new today is not change itself, but the rate of change. Think about how many Zoom meetings you did in 2018, how your grandparents would understand cloud-based data, or how much you knew about natural language learning models last year.

Modern day philosopher Ferris Bueller (... Bueller?) once said “Life moves pretty fast. If you don’t stop and look around once in a while, you could miss it.” The fact is, things around us are changing fast, and perhaps faster than ever. That’s a big part of why we’re here today.

That, and the open bar at 5:30. I get it.

But as you ponder that change, it’s also important to pick the signal out of the noise and prioritize the changes that will matter over time. We are a resilient and adaptive bunch... This year shows that.

So, let me cover a few of the big changes around us, some of which will naturally weave into the panels and fireside chats today, and some which may not, but are nonetheless worth thinking about:

(1) Capital formation is increasingly moving out of the regulated banking system.

Over the past five years, roughly a trillion dollars has been raised by private debt funds. The market is migrating to sourcing debt and equity capital from long-horizon draw-down vehicles. While these funds may be subject to less oversight, they rely mostly on institutional limited partner funding rather than depositors.

(2) Western economies have moved the dial far over to the “safety, or stability” setting and away from the “unimpeded financial markets” setting.

The Federal Reserve has assumed an expansive role through its reverse repo facility, standing repo facility, and by paying interest on excess bank reserves, all in addition to recently directing Treasury and mortgage-backed security yields by deploying its balance sheet.

Setting aside any value judgements, let me just note that the Fed’s expanded role and possible future expansion should be viewed as the normal base case for how markets function today.

(3) The low interest rate environment marked by abundant and cheap capital has ended.

We continue to see upward pressure in prices for wages and commodities. The unwinding of globalization may also mean the unwinding of its pricing benefits we experienced over the past decade. A large Federal deficit and an active Treasury issuance outlook complicate the picture.

We’re increasingly reminded to separate out real, inflation adjusted, data in evaluating markets and our business in place of simple nominal measures.

(4) We’re in an age of sweeping technology transformation.

We’ve all thought about this, but here’s a forward-looking example: U.S. Data center electric power consumption is expected to double between now and 2030 to reach 30 gigawatts,

according McKinsey research.

30 gigawatts?! That's enough to power 25 flux capacitors in a time traveling DeLorean.

And today, it's not all tied to time travel... it's tied to computing power for AI and its applications like self-driving. Someone in each of our respective businesses will be first to figure out how to harness AI to automate data harvesting, storage, retrieval, interpretation, and presentation.

(5) I would change this if I could (...trust me), but we're all getting older.

According to Census data, the median age rose from 30 in 1980 to 35 in 2000 and now to 39 (as of 2020). By 2030, one in five Americans will be 65 or older, up from 13% in 2010. That's one of the key demographic trends changing our country. Another one that's obvious if you pay attention to license plates in Charlotte is the continued population migration out of the Northeast, Midwest, and Pacific coast urban centers to the South. Who does the work, where they do it, and how they do it are all in motion.

(6) Finally, and maybe a little closer to the edge of your comfort zone, we're in an unusual period of declining institutional credibility.

Time will tell whether this matters in the context of finance, but in June, Gallup reported public confidence in U.S. institutions was at or near the all-time lows, depending on the institution. Each of these themes are not just significant in their own right, but will have second order effects that will take time to tease out. Some of them will interact with each other.

As for advice, I'll point you to the ample volume of literature – only with the point that Ferris Bueller was right. Life does move pretty fast.

Making time to look up and consider the fundamental changes in our business is critical, and especially important for those of us who have some element of repetitive processes in our work, be it fundraising, loan origination, or deal issuance.

I hope you find today's discussions fruitful, and we welcome the opportunity to participate in the conversations you have flowing out of what you hear today.

Thank you for being here.