BUYOUTS

Five Questions with DSC Quantitative Group, CEO and Founder Art Bushonville and President Jeff Knupp

September 25, 2017 By Sam Sutton

What is DSC Quantitative?

Jeff: The idea, really simply and at its core, is to provide a more efficient way to access the return streams of private equity and venture capital.

Art: Two of the products we've developed and launched in conjunction with Thomson Reuters are an investable private equity index and an investable venture capital index

What do you mean by more efficient?

Jeff: It could mean different things to different people. For us, it means different investors have different issues they're trying to solve.

The first thing we looked at was liquidity. … Other investors have been challenged in terms of maintaining their allocation to the asset class. Inherent to the capital-call structure framework is you're often not fully invested. You don't know when you're going to be asked to commit capital or when it's going to be called or distributed.

The other thing we were looking at is the fees in the asset class. So, to and if there was a way we could replicate the return stream … on a gross basis as opposed to a net basis.

How did you formulate investable indices to mimic PE and VC's return?

Art: For both private equity and venture we've effectively created two indices. One is a non-investable research index — and we do that with the data that Thomson Reuters collects. And that tracks the performance of the underlying portfolio companies that the venture funds or PE funds invest in. By tracking the asset class at the portfolio-company level, rather than the fund level … we're tracking the performance before the private equity firms take their fees [or carried interest].

How does that tie back to the investable index?

Art: The purpose of the research index is really to provide a credible return prole tied directly to the asset class for the investable index to replicate. Once we established the return prole of the research index, we developed models to replicate those returns with liquid, publicly traded assets to make it investable. The way we measure this, really, is tracking between the investable index and the research index [and that they] stay fairly tight. The annualized returns going all the way back for private equity [are] just under 17 percent and just under 20 percent for VC.

Who invests in this investable index? Is it viewed as a replacement for a PE program? Or something to supplement it?

Jeff: We look at this as a tool, very complementary to larger, established private equity programs. Some of the folks we've been speaking with look at it as a way to solve specific problems. We've had some very large investors look at it as a way to increase liquidity in their portfolio.

Others are looking at this as sort of a core satellite framework for private equity, which, historically, that framework hasn't been appropriate for this asset class.

Art: If you go down the investment spectrum a bit. You might have investors who are a little bit subscale, who don't have the amount of assets to diversify across different managers, sectors, vintages and so on. So they might look to a fund-of-funds, they might have a portfolio that's not fully diversified. This becomes a tool to get a fully diversified exposure to the asset class.