Update Regarding Silicon Valley Bank

What happened?

Silicon Valley Bank ("SVB"), the nation's 16th largest bank[1] with $175 billion in deposits, is a bank known for primarily serving businesses rather than consumers. Moreover, many of the businesses they serve are in the technology sector with ties to private equity or venture capital. This focus served SVB well as the technology sector boomed over a number of years and they took in considerable deposits from 2019 – 2021 growing from approximately $62 billion in 2019 to $189 billion at the end of 2021.[2]

As expected by a bank, SVB invested those additional deposits in loans and fixed income securities. Unique to SVB was the size, timing and complexion of those investments. In short, they put a lot of money to work in a short amount of time. In hindsight, the timing was poor as rates rose in 2022 and SVB's outsized exposure to mortgage-backed securities created material losses in those portfolios. At the same time, much of the technology-focused customer base was seeing pressure from declining valuations and deposits began to shrink.

As a result, SVB sold securities they purchased for a loss and sought to raise capital by selling equity to fill the gap. However, markets reacted poorly to the news and the stock price precipitously fell. As concerns rose, a classic bank run occurred. In turn, the FDIC took over the bank on Friday, March 10 2023.

What is my exposure?

Exposure to SVB bank via equity or debt funds is very limited. Exposure was primary in passive index funds whose rules-based approach seeks exposure to all or nearly all companies in equity or debt indexes. In most well-known indices, these positions were small as a percentage of total assets.

Most private equity exposures were via lines of credit and banking relationships. Over the weekend, the decision to make depositors whole and cash available materially limited the impact on those businesses and funds. At this point, funds and companies are seeking additional banking relationships to supplement or replace their relationship with SVB.

What actions should I take?

The situation remains fluid and the market is reacting to additional Federal support. Our portfolio positioning and diversification philosophy reflects the inevitability of market volatility including those caused by scenarios like this. As a result, we do not recommend any portfolio changes at this time.

Many banking relationships are changing for those invested in private markets which creates administrative complications and a higher likelihood of bad actors seeking to take advantage of this scenario. This creates the need for vigilance to correctly administer the movement of capital. For those processing money movements, we recommend paying particular attention to updates and exercising caution before moving capital.

We will continue to monitor the situation. As always, please reach out to your investment consultant with any questions.

---

[1] https://www.federalreserve.gov/releases/lbr/current/
[2] https://www.wsj.com/market-data/quotes/SIVB/financials/annual/balance-sheet