Tech start-ups

Hedge fund puts $550m into technology stock option financing

Investment in SecFi comes as start-up employees look for ways to unlock wealth before IPO

SecFi says it has completed about $200m in so-called forward purchase agreements for employees at companies including Pinterest and Uber before they went public © Bloomberg

Miles Kruppa in San Francisco 3 HOURS AGO

A New York hedge fund is injecting $550m into the grey market for start-up employee share options by providing financing for SecFi, a platform that allows workers to cash out without waiting for their companies to go public.

The big bet by Serengeti Asset Management, which manages more than $1bn in private and public debt and equity, is another example of the competition among hedge funds and other non-traditional investors for access to late-stage private investments.

The funding comes as technology start-ups such as Palantir and Stripe are choosing to avoid the scrutiny of public markets in favour of taking financing from private investors.

That has left many employees sitting on millions of dollars in untapped stock options. SecFi, which bills itself as the first "pre-wealth management platform", uses so-called forward purchase agreements to supply employees with cash in exchange for proceeds from future share sales.

According to SecFi chief executive Wouter Witvoet, the company has completed about $200m such transactions for employees at companies including Pinterest and Uber before they went public.

"Companies are staying private longer, and the traditional financial outlets just haven't caught up yet," Mr Witvoet said. He declined to comment on the terms of the deal with Serengeti.

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Andrea Walne, Manhattan Venture Partners

Serengeti is best known on Wall Street for pursuing claims tied to Lehman Brothers' 2008 bankruptcy. Founder Jody LaNasa said his firm had already worked with SecFi to finance more than 100 transactions totalling $125m, with another $300m in the pipeline. Serengeti is also an equity investor in SecFi itself, which has raised $7m in venture capital.

"This is one of the more interesting niches that I'm seeing in the credit markets today," said Mr LaNasa, a former partner in Goldman Sachs' special situations investing group. "We are able to create a diversified portfolio of the leading, fastest-growing tech companies in the world at a significant discount to the valuation of the last [funding] round."

SecFi is part of a growing and lucrative sector catering to the financial needs of start-up employees, offering a range of costly services.

SecFi's forward purchase agreements carry payment-in-kind rates between 7 per cent and 12 per cent on top of a portion of share proceeds; other services can take more than a third of the proceeds.

The publicly traded credit group Oaktree Capital Management has entered the field, committing at least $200m to Troy Capital, which operates the options financing service Quid.

Morgan Stanley has also recently been active in start-up share financing after paying $900m last year to acquire the stock plan administrator Solium, whose private tech group clients include Instacart and SpaceX.

Privately held start-ups have typically not been keen to see employees enter contracts backed by their shares and options. But Andrea Walne, a partner at Manhattan Venture Partners, said with more than a dozen groups now offering financing tied to start-up stocks and options, she hoped a marketplace would develop.

"Companies have been leaning far too much on their inability to provide financial and tax advice as a cop out to supporting employees with their stock options," Mrs Walne said.