# Liberty Street's Munafo On Opportunities In Late-State Private Venture

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Chuck Jaffe, in this episode of The NAVigator podcast interviewed Christian Munafo, chief investment officer at Liberty Street Advisors, which runs the Private Shares Fund. Read the Q&A below as Christian and Chuck discuss how late-stage private venture companies are generating a huge chunk of economic power off most investors' radar. Christian says now is the time for many investors to pursue the opportunity, coming off of two years in which private shares struggled, and markets for taking those companies public stalled. Munafo believes the recent pickup in IPOs is a positive sign. He also discusses Destiny Tech 100, an exchange-traded closed-end portfolio that has been trading like a meme stock with massive gains but also nosebleed losses since its debut in March.

The podcast can be found on AICA's website by clicking here: https://aicalliance.org/alliance-content/pod-cast/

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**CHUCK JAFFE:** Christian Munafo, chief investment officer at Liberty Street Advisors which runs the Private Shares Fund is here, we're talking investment opportunities in private markets, IPOs and more now on The NAVigator. Welcome to The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, which is a unique industry organization representing all facets of the closed-end fund industry from users and investors to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator will point you in the right direction. And today we're pointing in the direction of late-stage venture-backed investing, and we're going unicorn hunting with Christian Munafo. He is chief investment officer at Liberty Street Advisors, which among other things runs the Private Shares Fund, that is PRIVX, it is an actively managed continuously offered closed-end interval fund. You can learn more about the firm at LibertyStreetFunds.com, you can learn about the fund itself at PrivateSharesFund.com. And if you want to learn more about closed-end funds, interval funds, and business-development companies generally, check out AICAlliance.org, the website for the Active Investment Company Alliance. Christian Munafo, welcome back to The NAVigator.

**CHRISTIAN MUNAFO:** Hi Chuck, great to be back.

**CHUCK JAFFE:** Let's start with what you guys are most known for, which is private markets. You know, it's very interesting, when I talk to people about, "Oh, you want to do alternatives," et cetera, everybody's pointing in the direction of private credit, but that's not your space, your space is private shares, and again looking for that late-stage venture-backed stuff. So how has that market been doing? And also, what's your take on IPOs? Because of course the idea is to get that late-stage venture to then go IPO, and the IPO market has been "meh" this year.

**CHRISTIAN MUNAFO:** Yeah, that's a great question. There's been a lot of interest, as you noted, I think, in private credit over the past several years for a variety of reasons, and we think that's a good area for investors to have allocations to. Private equity, venture capital, growth equity has been around for decades. We think in terms of portfolio construction, if you look at dynamics over the past couple decades, Chuck, there just continues to be this proliferation where private companies are staying private for longer and just growing much larger inside of the private markets, which is why you're seeing such a massive increase in fund inflows to private equity and venture capital growth-oriented funds, including ours. And so we kind of continue looking at the landscape, and from a technology standpoint, which is where we focus, the last two years up until the end of '23 were definitely tough, right? As you had a retrenchment after the real busy pickup in activity in capital deployment, which followed a period of very low interest rates, let alone Covid, and so I think what you had is you've been having a step-back and a reassessment, which we think frankly is a good thing. We think there was a lot of discipline lost in that time period, and there was quite frankly a lot of companies that got funded and a lot of managers that raised capital that perhaps shouldn't have, and so the market's going to go ahead and resolve that. But while that's happening, you have also a significant number of higher quality assets and managers outperforming, so the higher performing assets will always get rewarded. So we're looking at an incredibly opportunity frankly, Chuck, to take advantage of that correction with dislocations creating more attractive entry points for investors like us to get our clients exposure. So it's been a fantastic time for investing, and the better companies continue performing well, but it has not been without challenge and some headwinds. We think we're through a lot of that, and to your point on the IPO market, it still is well below historical norms, but you've absolutely seen a pickup year to date with a number of companies going public, we had one of ours going public last week called Rubrik. So we're not expecting an immediate resurgence, but we're definitely seeing signals that things are picking up this year.

**CHUCK JAFFE:** Although you're looking at pickups, help people understand, when we've been talking about this market with almost anybody, the story for the longest time has been the mega caps, that it has been a few names carrying the broad market, small caps have lagged dramatically. Well, you're not even talking about micro caps, you're talking about pre-micro caps in some cases. So why should someone expect that market to be able to get the kind of traction that some caps really haven't been able to get to this point?

**CHRISTIAN MUNAFO:** Yeah, well, it's really interesting, Chuck. I think looking 20 years ago, your average venture-backed company I think actually fell right into what you're referencing, which is that micro-cap space. If you look at late-stage venture and growth companies today, these companies staying private now 10, 12, 15 plus years, they're actually now generating in many cases hundreds of millions to billions in revenue. We have a number of these in our portfolio that are very mature businesses, some of them already profitable. These are not yesterday's venture-backed companies, and they actually rival, if you look through some of the operating metrics you'll see in indices like the Russell 2000, that's actually the closest comp for what we do given the market cap-adjusted weightings of those companies. So I would say when you look at where we're focusing on, which is on these much more mature assets, they would have frankly been public already 15 years ago, but because the private markets have grown so significantly, those companies can now stay private longer and continue financing themselves in the private market and not have to force an exit event, not have to force an IPO. So from an investor standpoint, if you don't have access to these late-stage private companies, you're actually missing out, we believe, and the data tells you, on a large portion of the economy. I mean, just one reference point, Chuck, if you look at today, US-based companies generating north of $100 million in revenue, more than 75% of those are private, and many of those are generating billions and billions in revenue. So to say that they're micro caps, I think you have to take a step back and assess the entire landscape, and the early-stage venture I think you're correct, but looking at the late-stage venture and growth-equity stage companies, they're actually quite substantial companies.

**CHUCK JAFFE:** Yes, I may have phrased it wrong, but I was to some extent also moving to something that is coming in this next question, which is we've seen a very interesting thing happen in this space, and specifically in closed-end funds. I guess we'd have to say it's with a fund that is a competitor of yours, so I hope you're going to be willing to discuss it. But back, I want to say in March, the Destiny Tech 100, which is an exchange-listed closed-end fund, debuted, and it's the kind of thing that owns private technology firms like SpaceX and OpenAI and Epic Games and what have you, and it gained 1000%, literally 1000% off of its debut, and has now given virtually all of that back. I mean, I can't chart that with the Private Shares Fund, it's not even a comparable graph. I don't even know that I could find software to put the two of them on the same thing and go, "Oh yeah, that makes sense to me." But talk about what happened there, and does that mean that even if you're not going in those spaces, that you expect some kind of frothiness? Or you're not going to have it because you're an interval fund, so they can't play you the way they're playing this?

**CHRISTIAN MUNAFO:** Yeah. No, it's caught a lot of attention, including our own. I think there's a saying in general, not specific to this fund, Chuck, but what tends to go up like a rocket tends to fall like a bomb. That's just kind of a general observation. Look, we as investors in the late-stage technology ecosystem always want to see other groups be successful, we're familiar with this group. What I would say is, it's important for investors to understand the fund structure more than anything, and also the way that the fund are owning the underlying assets. So what I could tell you with our fund is this is a closed-end interval fund structure, that's not entirely dissimilar to what investors think about historically when you think about mutual funds, except for the fact that there's the daily subscription amount with a daily net asset value, and then there's a quarterly redemption process, so kind of daily purchase, quarterly redemptions up through 5%, and we value the underlying portfolio daily. Inflows we get from the underlying investors, we can directly invest and continue growing the fund. We've grown this fund from $100,000 to roughly a billion dollars over the past 10 years with audits, very institutional-grade processes. The fund structure that you're mentioning is a closed-end listed fund, it's quite different. They essentially converted from, we believe, a small private fund that had maybe roughly $50 million of asset value, and then they essentially listed it, and there's quite a lot of differences between the structures which is where I'll focus. That fund structure essentially only values its portfolio on a quarterly basis, but they're making it available, from what we can tell given its listing, for investors to invest daily. What's really unique about that is that the market itself is now valuing the portfolio, and as you readily pointed out, that fund which had about $50 million of asset value, was irrationally in our view priced up to roughly a thousand times that, if you will, or whatever the math was. It was an insane premium, maybe 1000% premium you'd be paying for these companies. And as you could tell, once the market gained a better understanding of what the underlying structure entails, we think they've, let's just say kind of come back down to earth. So the investors who are investing in that stock, the proceeds of that stock cannot actually be used to grow the portfolio. So unless a fund like that issues additional shares, you're sitting on a $50 million portfolio. If clients believe it's appropriate to value it at a billion, we'll let them make that decision, we don't think that makes sense. But it's definitely an interesting structure, I think the market is looking closely at it. I think you're seeing what happens in terms of volatility with these listed vehicles, and we'll continue watching.

**CHUCK JAFFE:** Obviously a very, very different way to invest in private innovation, but help somebody understand as we've had this discussion, what would be the selling point on private innovation to somebody who's been mostly a plain vanilla investor? If they're hearing us talk and going, "Okay, well, I love the idea of going after the unicorns, but I also don't necessarily love that risk," what is the portfolio benefit for them to have access to private innovation?

**CHRISTIAN MUNAFO:** I think the first thing is portfolio construction and understanding what I was mentioning earlier in terms of how public and private markets have changed. And I think if you look at that data closely, what you'll see is that it's increasingly important for all investors, regardless of their size and net worth, to have exposure to the private innovation economy. The question then to your point, Chuck, is down to how to get access to it. Our recommendation is always to, one, make sure you're looking at managers who have long track records of doing this, and to make sure you're looking at structures that also have a long track record of being basically regulated and overseen with proper audits and controls in place. There's always going to be different ways to invest in different types of strategies, but again we think that investors would be well served to be prudent and look for seasoned investment teams with legitimate track records and a pretty clear establishment of processes, controls, and auditing measures in place. That's what I would say to that question. I think you can find managers out there across different asset classes and [inaudible 0:12:43] classes that bring those attributes.

**CHUCK JAFFE:** Christian, great stuff, really interesting. Thanks so much for joining me on The NAVigator to talk about it, I look forward to following up with you down the line.

**CHRISTIAN MUNAFO:** Thanks Chuck, we'll talk to you soon.

**CHUCK JAFFE:** This has been The NAVigator, which is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. And I am Chuck Jaffe, and I'd love it if you'd check out my hour-long weekday show on your favorite podcast app or by going to MoneyLifeShow.com. To learn more about interval funds, closed-end funds, and business-development companies generally go to AICAlliance.org, that's the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance. Thanks to my guest, Christian Munafo, chief investment officer at Liberty Street Advisors, which runs among other things the Private Shares Fund, PRIVX, which is an actively managed continuously offered closed-end interval fund. Learn more about the firm at LibertyStreetFunds.com and about the fund at PrivateSharesFund.com. The NAVigator podcast is new every Friday, make sure you don't miss an episode by following along on your favorite podcast app. And if you like this podcast, leave a review and tell your friends, because that stuff really does help. But until next week, happy investing everybody.

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