



Christian Munafo on private markets, AI impacts



Christian Munafo, Chief Investment Officer, Liberty Street Advisors, Inc., and Portfolio Manager of The Private Shares Fund, explores the reasons why many companies are staying private for longer. He says that while public markets are slowly reawakening, mergers and acquisitions remain scant, concluding that “there really aren’t a lot of paths today for these companies to exit as we’ve had in prior cycles.” Munafo also explains how recent regulatory changes have helped maintain this

current state of affairs. Other topics he explores include late-stage companies and the market impacts of artificial intelligence.

Learn about [Liberty Street Advisors](#) and the [Private Shares Fund](#) (“the Fund”), a listed closed-end interval fund with the Nasdaq ticker symbols PIIVX (Class I), PRIVX (Class A), and PRLVX (Class L):

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Jane King: Christian Munafo has 21 years of experience in financial services and investment management, with the last 16 years focused on secondary investments involving venture-backed and growth equity oriented companies and funds. Now during that time he’s also served on the boards of many of these companies and funds as well, and he’s currently the CIO of Liberty Street Advisors and portfolio manager of The Private Shares Fund. Great to have you back, Christian.

Christian Munafo: Great to be here Jane, thank you.

Jane King: I know last time we talked about how companies are staying private longer.

Christian Munafo: Right.

Jane King: Are you still seeing that? And what is the feeling, why are companies choosing that route?

Christian Munafo: Yeah, we're definitely seeing that continue, especially given the tightening of the exit window, right? We're seeing the public market start to open up, which is nice to see as investors in the ecosystem, but the floodgates are far from open. M&A activity continues to be slow, so there really aren't a lot of paths today for these companies to exit as we've had in prior cycles, but even before the slowdown in the cycle a few years ago, we continued to see this proliferation of staying private longer.

One, it's been made easier from a regulatory standpoint to stay private longer with some changes in the JOBS Act, but conversely the regulatory environment is also very expensive and administratively burdensome for companies to be public so a lot of companies opt to stay private for longer. It also brings sometimes unnecessary volatility to your stock price, right? And then probably the biggest reason quite frankly is the availability of capital to private companies over the past couple decades has really just skyrocketed, so you don't have to public to raise capital.

Jane King: They don't have to have an IPO to raise money.

Christian Munafo: Exactly, correct.

Jane King: Yeah, I know that the private fundraising has been very big over the past few years. Now there's also been a lot of technological disruption that you've seen.

Christian Munafo: Yeah.

Jane King: The latest being AI. What is going on there?

Christian Munafo: Yeah. I mean, it's fascinating. I think many people now realize that AI and machine learning has been with us for decades, but certainly I would say advancements in computational processing power and speeds, a better collection of datasets, and more availability of tools to analyze those datasets has really created this opportunity set that pervades, we think, the entire economy regardless of sector or industry. At its core, what this technology really does is it uses these high-powered computers to analyze these very complex datasets to identify patterns, and when you recognize patterns, the idea is that you could make informed decisions on the future.

Then you can take it to the next step and actually use the technology to generate content, to generate text, to generate imagery and all sorts of things. So there's lots of applications and use cases that have essentially grown in the advent of this increasing technological advancement, and we see that across the economy. Some areas that we're most excited about are manufacturing, so when you think about manufacturing, you think about automation, robotics and utilizing this technology.

We have a company called Nanotronics, which utilizes AI and machine learning to inspect what I would say defects are at nano layer particles in things like semiconductor chips that could have

never been done before, and then to study what's going on in the manufacturing process that's creating those defects so the machines can then learn how not to make them the wrong way. And then ultimately they're using it to create what are going to be the world's first autonomous chip factories. We're also seeing manufacturing used in the automotive industry, building materials, aerospace and defense with these advanced technologies. So I see manufacturing as a big area.

We're big advocates of the space economy, clearly launch has been a big area and SpaceX has been one of the major disruptors there, but there's also the community aspect, the constellations of satellites which SpaceX is also a leader in with Starlink. But then there's companies like Axiom Space that's building the world's first commercial space station, the current space station we retired this decade, and so there's now this kind of attempt to create these new future commercial space stations. And you could think of space as a destination, space tourism, R&D in space, aerospace and defense in space, so we think the space economy, you're seeing a lot of this technology and disruption.

Cybersecurity, we were just talking early about the outage that we experienced, and even though it doesn't necessarily seem to be a cyber hack, there are cybersecurity footprints here in connectivity with Microsoft's and CrowdStrike's update. I'm not sure who you use for a carrier, I use AT&T, we just learned recently that a lot of our data has been compromised over the past couple of years, so cybersecurity in terms of autonomous threat detection, intrusion identification and response.

Finance, I was talking to your son earlier about the whole kind of digital assets revolution, blockchain, healthcare, personalized medicine, predictive medicine, gene therapy, digital health. And then also agriculture, which doesn't necessarily seem to be something you would think of with innovation and disruption, but using technology to digitize the food supply chain for optimization of crop production. We have a lot of issues with diseases, citrus greening being a main one, so using technology also to help solve for that. So those are areas that we think are interesting, and this technology is really proliferating across it.

Jane King: Yeah. No, I mean, it's fascinating when you think of all the different applications that you could have. I was talking to someone who does AI for healthcare, and these AI agents handle all the back office stuff; verification of people's claims and things like that, and they're more accurate and the turnaround time is quicker. It's just a fascinating application, there's so many.

Christian Munafo: There are. And even one step further, if I can just say. Healthcare is also using this technology to identify anomalies in your images, in your blood tests.

Jane King: That's right, yeah.

Christian Munafo: That humans may not be able to capture everything. Using technology, we have a company called Devoted Health, which is using it with a tech stack to provide the right care in the right place at the right time to patients, today in Medicare Advantage, but soon other areas. So technology to improve medicine, to improve health is a big area, and also for the administrative part as you mentioned.

Jane King: Right. Well, AI can take us places we haven't been able to go before.

Christian Munafo: Certainly.

Jane King: So it's amazing. Now in terms of early stage, late stage, what is going on in that area, and how do you evaluate a company that you're looking at investing in?

Christian Munafo: Yeah, so I think they're both absolutely vital for this kind of growth ecosystem and innovation ecosystem to thrive and develop. Early stage comes with a different risk-reward profile, as does later stage, and so for our clients we focus on later stage companies that have already validated there's a technology that works, which an early stage company is in the process of trying to accomplish. Later stage companies you can also identify a working business model, right?

Some of the best technologies I've seen in my career have never actually been able to be commercialized, so you may validate a technology works but if there's not a product market fit or demand for it, you don't really have a whole lot. So waiting to see that there's actually demand, the ability to analyze financial metrics is important. And then obviously seeing you have a well-built-out team, the right governance, the right financing structure, so our focus is more on later stage companies dealing in typically hundreds of millions to billions in revenue that 15-20 years ago would have already been public.

But because of this staying private longer dynamic, a lot of these companies today are not available to your typical investor. That's one of the things we try to solve for, is democratizing access so that all investors, regardless of your wealth, can get access to these types of innovation companies.

Jane King: Yeah, so explain how that works for average investors. Can they buy shares in your fund and have some kind of exposure to these companies? How does it work exactly?

Christian Munafo: Yeah, so we have something that's called a 1940 Act interval fund, we launched it about a decade ago. I think you've seen in the last 10 years, many more traditional asset managers utilizing these more retail-friendly fund structures. Our fund can be purchased essentially with a ticker daily.

But we remove a lot of the administrative burdens that come with traditional private markets investing, so these very lofty multi-hundred thousand to multi-million dollar minimum investments, the significant accreditation and qualification requirements, there's tax reporting burdens, this whole lengthy subscription process, you need lawyers to tell you what documents that you're reading and signing.

So I think we and others in the industry are trying to create more efficiency to broaden the accessibility and to make private markets, to make innovation more accessible. So we have a fund called The Private Shares Fund, which investors can access, we own a portfolio today of over 80 companies that span some of the sectors that we talked about and more. We're excited, we think we're just getting started.

Jane King: Yeah. Well, and it's great that people can have an opportunity to get some exposure to these areas. They're not public companies but yet they can get a little piece of that, and it's more diversified with something like your fund as well.

Christian Munafo: We think so. We think from a portfolio construction perspective too, it gives clients access to different pockets of strategies that complement their public equities, their fixed income, their real estate holdings, and they can do it in a more efficient way than has been traditionally accessible. Our fund today covers about 20 sectors, including some of the ones that we mentioned, and it's exciting. We have a multi-trillion dollar market here that we're just starting to prosecute.

Jane King: Okay, Christian, thank you so much for sharing your insights with us.

Christian Munafo: Thanks again, Jane.

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