Liberty Street Advisors' Christian Munafo on the Drive to Democratise Private Markets Access

The democratisation of private market opportunities is core to the mission Liberty Street Advisors has set for itself. Indeed, the firm is deeply involved in the curation and dissemination of private market opportunities to as broad an investor base as possible, currently in the US, and shortly in other parts of the world. Hubbis met recently with Christian Munafo, CIO at Liberty Street, who manages a portfolio of privately-owned, late-stage, growth companies. While traditionally such access to private companies has been available only to institutional and high net worth investors through high-minimum, complex and paperwork-laden private placement vehicles, Christian and the team at Liberty Street have made it a priority to broaden access to as wide a range of investors as possible. Christian carefully elaborated on Liberty Street's vision to democratise access to private assets, and shared his insights as to exactly why private market assets are so important. Private companies today stay private for on average three times longer, and the pool of public stocks available continues to decline sharply, a trend that has been accelerating particularly in the US for the past two decades. Liberty Street recently announced a strategic partnership with GAM Investments, which will provide GAM clients with access to leading privately-owned, late stage, high growth innovation companies.

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CHRISTIAN MUNAFO
Liberty Street

Christian opens the

conversation by explaining that a core mission is the democratisation of private market strategies, extending the distribution well beyond the large institutional buyers. "We want to open the doors to as wide a range of investors as we can," he reports. "We offer entry to private assets at USD2,500 per investment, which of course can provide access to a lot of potential investors, and that is dramatically below the institutional type entry levels for these types of assets, of perhaps USD500,000 and above."

Target: pre-IPO disruptors

Christian explains that the team's key focus is on late-stage, venture-backed, and growth-oriented companies, often referred to as pre-IPO companies. "That is not the exclusive focus," he explains, "but it is our core focus, as this is a really important and dynamic part of the market to which we believe as wide a range of investors as possible should have exposure."

He reports that there are some significant market trends that have been developing for the past couple of decades, in particular in the US, where the number of publicly traded companies on American exchanges has fallen by some 50%.

"Quite simply," he reports, "there are fewer alpha generating opportunities available in the public market domain. And while that's been happening, the number of investable private companies in the market has surged to unprecedented levels, primarily because many private companies have decided they don't want to go public early in their lives, for a variety of reasons, ranging from the administrative burden and the costs of being public to the adaptability staying private offers, especially for high growth companies that are rapidly evolving their business models. Many of these companies prefer not to be restricted or held back, possibly by the demands of quarterly earnings. And it is

Getting Personal with Christian Munafo

Christian was born in New York and grew up in the local metropolitan area, and studied Economics and Finance, even though he had set out with a view to becoming a medical doctor. "In my second year at university, I decided to take some business courses, and ended up with an internship at Merrill Lynch," he recalls. "I actually completed my whole premedical sequence, but my actual degree is in Economics and Finance." Throughout his professional career, he has also lived in New England, the San Francisco Bay Area and spent significant time throughout Europe.

Married with two daughters of six and three, he quips that his wife says his hobby is working in his spare time, but he says he does still find time for the outdoors life, and for keeping fit and active. "We love to travel in normal times and love experiencing new cultures," he reports, "but for now we are simply enjoying as much of the outdoors as possible."

As to the prospects of more normalised travel, he says he hankers after Italy, which as his name might suggest is in his heritage. "We have been there a few times, but we look forward to spending more time in Rome and Tuscany, and then of course countries like Switzerland and France which we love. There is a lot of choice once you cross the Atlantic, at least in normal times." Other destinations high on his list include Australia and certain parts of Asia.

His final word is that he loves what he does and is greatly relishing the prospect of expanding the concept into new markets in partnership with GAM Investments. "The chance to keep expanding the universe of investors, and at the same time expand our footprint into new markets and opportunities is a challenge I relish," he says. "We are disrupting, like many of the companies we buy into, and along with my colleagues I am really enjoying the chance to open the doors to private markets for many more people."

that category of high growth, later stage companies that we concentrate on."

A far bigger pool and many more targets

Additionally, the volume of capital that has been targeted at late-stage venture-backed companies in the private market has risen dramatically in the same timeframe. Christian estimates that the pool has risen by over USD1 trillion in the US alone. "If you look back to the 1980s and 1990s, your typical private market high growth technology company would go public roughly four years from its inception, so the Microsofts of the world, the Amazons, the Oracles, and others would see most of their dramatic market value appreciation occur in the public arena," he explains.

"Our data shows very clearly that in the US, the private market investor who came in at the last round phase can significantly outperform investors who waited to access those companies once they became public. Moreover, as I explained, many of those companies never actually go public, so in many cases public market investors would never gain access to these companies."

"But today, those four years from inception to public market status have tripled to 12 years, and based on the data available, the average market caps for these companies have increased by nearly 800% while they mature in the private market. In fact, the number of private companies with market caps in excess of USD1 billion, commonly referred to as unicorns, has soared from one back in 2010 to more than 900 at present globally, of which roughly half reside in the US. Moreover, many of these companies never list on public exchanges, but rather get acquired. Unless investors have access to private market strategies, in our view they are missing out on a significant capital appreciation opportunity as we believe alpha generation potential has shifted markedly to the private market," he reports.

Small to medium cap exposures

Christian explains that the average market cap of the companies he and his team curate are valued in the single-digit billions, in other words a proxy to what traditionally would have been a small to medium cap public portfolio. "And importantly," he notes, "private markets are not correlated to the public markets, so investors are not exposed to the volatility of the public arena."

A clear mandate

As to target companies the team focuses on, Christian explains that the themes centre on technology, innovation and disruption, 18 different sectors. Their focus is predominantly on North America, but they also invest

in Europe and in some highly developed Asian markets such as Singapore, while typically steering clear of emerging market opportunities.

The companies they look at range from the space economy to cybersecurity to education technology, transportation technology, healthcare, genomics, agricultural technology, food technology and so forth, he reports. "And we are not focused on start-up stages; we are typically not taking on that early-stage risk. Rather, the typical company has at least USD50 million in revenue and often hundreds of millions, in some cases billions. We have many key determining factors for the selection process, but in broad terms, we need to see very strong long-term value metrics in these businesses, companies that are going after large markets, and businesses with differentiated offerings and diversified customer bases."

A two- to four-year horizon

He also explains that they target investments that are usually two to four years from an exit event such as a listing or a takeover, which he says the latter historically accounts for roughly two-thirds of all such private market exits. "Our data shows very clearly that in the US, the private market investor who came in at the last round phase can significantly outperform investors who waited to access those companies once they became public. Moreover, as I explained, many of those companies never actually go public, so in many cases public market investors would never gain access to these companies."

The long-term view

He draws the discussion towards a close by commenting that they will remain true to their vision of discipline and expertise. "Markets of any type are volatile, history shows us, so with private markets, although they are not in the public domain, we need to make sure we demonstrate the appropriate sophistication and discipline to navigate what can at any time become turbulent waters. We run an institutional, rigorous process, and while we will not be right every time, our goal is to be right most of the time." ■

Key priorities

"We believe we are at the early stages of the private market evolution," he says, "and our objective is to democratise access to all types of investors globally which will meaningfully scale our business. So, our number one priority is to position ourselves for that growth with best-in-class product offerings and curating the right investments for the future."

Another priority centres on sustainability, as many of the target companies, some intentionally, some unintentionally, have decreased or reduced their carbon footprint, or might be directly in regenerative agriculture, water, soil or other innovative technologies. "The ability to continue to marry great investment opportunities with thoughtful approaches around impact is another focus for us, and certainly a priority," he says.

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