# Let's Hunt Unicorns With Management of the Sharespost 100 Fund

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Chuck Jaffe, in The NAVigator podcast, interviewed Christian Munafo, chief investment officer for SP Investment Management. Read the Q & A below as Chuck discusses with Christian his firm's Sharespost 100 Fund, an actively managed, continuously offered closed-end interval fund that buys late-stage venture-backed private companies. Munafo discusses how the fund looks for unicorns, the unusual company that can move from start-up to billion-dollar private company on the way to someday going public.

Christian Munafo

The podcast can be found on AICA’s website by clicking here: [https://aicalliance.org/alliance-content/pod-cast/](https://aicalliance.org/alliance-content/pod-cast/)

**CHUCK JAFFE:** Christian Munafo, chief investment officer for SP Investments Management, the firm behind the Sharespost 100 Fund is here, and we're hunting unicorns today 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 that represents all facets of the closed-end fund industry, from users and investors to fund sponsors and creators. Let me tell you, there are not many creators doing anything like what we're going to be talking about today. Because my guest is Christian Munafo and he is with SP Investments Management, they are the folks behind Sharespost, so Sharespost.com, on Twitter @Sharespost, and they run the Sharespost 100 Fund. Now I don't want to lose you in jargon, so I want you to keep in mind the term 'unicorn', which I'll get back to in a second. But the Sharespost 100 Fund is an actively managed continuously offered closed-end interval fund. It trades under ticker symbol PRIVX, and yes, it's unusual that a closed-end fund has a five letter ticker symbol. But what they are looking for is late-stage venture-backed companies, the kind of thing that high net worth investors and institutional investors have been buying for years that induvial investors couldn't get into. In common terms, they're looking for the unicorn. The Facebook before it becomes Facebook on the exchanges. Again, if you want to learn more, Sharespost.com. If you want to learn more about closed-end fund investing in general, go to AICAlliance.org, the website for the Active Investment Company Alliance. Christian Munafo, great to have you on.

**CHRISTIAN MUNAFO:** Hi Chuck, it's great to be here. Thanks for the opportunity.

**CHUCK JAFFE:** So I think I described it right. I don't want to put you in mythical terms, but the basic idea here is you're hunting unicorns with this.

**CHRISTIAN MUNAFO:** Yes, that's certainly part of what we do. You did a very articulate job of describing the fund. It is a very unique product in the market. There's been an interesting trend that's been going on, Chuck, for the last fifteen years that many people don't realize. That is that the number of publicly traded companies has essentially been cut in half, from somewhere in the eight thousand range to approximately four thousand. While that's been happening, the number of private companies has surged. What's interesting is, these private companies, particularly these private venture-backed companies are staying private for longer due to a combination of factors. Which ranges from regulatory changes that make companies less excited about being public, to general concerns about experiencing unnecessary volatility. Some of these companies, while they're still maturing and high growth, they're still evolving their business models. Sometimes as we know, the public markets tend not to be that tolerant of those types of changes. Perhaps the most important fact, Chuck, is the amount of capital that has been made available to the private market landscapes, to these types of companies, has absolutely soared over this time period. Which means that companies essentially don't need to tap into the public markets to raise capital. Just a quick example, back in 1999, the average venture-backed company was going public within roughly four years from inception, that compares to approximately thirteen years today. Now while these companies are staying private for longer, and this gets to your point on the unicorn, they're also growing quite significantly in value. So the value of the companies at the point that they go public, or in many cases also get acquired, has surged over this time period and it's created this unicorn phenomenon where you have a lot of these companies that have reached billion dollar plus valuation status. So that is absolutely part of the universe of companies that we are looking for. We're also looking for companies that are on track to achieve that billion dollar plus status. They may not yet be there, but they have the same characteristics and pattern recognition that we think that they can achieve that. But yes, part of what we do is looking for these late-stage, highly valued companies.

**CHUCK JAFFE:** You've got an interval fund here, which is not necessarily the standard closed-end fund. An interval fund tends to normally be a little trickier with liquidity. You're dealing with late stage private companies. There's not an exchange where this stuff is valued. It's kind of valued out in the ether when we see it in traditional mutual funds or what have you, on those rare occasions when they get it. You're never quite sure how your fund is valued. So this fund, how is it valued? Because with a five letter ticker symbol, my audience has been hearing about closed-end funds and thinking, "Discount. Look at the discount." There's no discount here. This trades like your traditional mutual fund even though it's not even your traditional closed-end fund.

**CHRISTIAN MUNAFO:** Yeah, it's a great point and it's a question that we commonly are presented with. But it's not just companies that have become household names. Because sometimes the price that you need to pay to acquire securities, whether they be preferred securities or common securities. I don't want to get too deep into the weeds here, but sometimes the price that you need to pay to get entry if you will, some of these more popular names, doesn't warrant us pursuing them. Because at the end of the day, our mission is to also provide attractive risk-adjusted returns for our clients. So our mission is to not only identify these very exciting companies, but it's also to find ways to structure attractive entry points that allows us to generate strong returns for our clients. So you'll see in our portfolio, names that you might be familiar with, including SpaceX, 23andMe, Palantir, and FUNBOX, but there's also a lot of other names that you may not have heard of. We think these companies have the same types of characteristics, but we've been able to get into them in some situations at better valuations because they're not as popular. But on a valuation front, when we created this product a number of years ago, we worked very closely with the SEC, with our auditors, and with private valuation experts to come up with a very comprehensive valuation analysis. Chuck, the most important valuation input when you're looking at private companies, is almost always the last round of financing. So that's usually the most effective indicator of what the value of the business is. Now if the last time the company raised money was three, four years ago, the validity of that statistic obviously, may not be as relevant. And so that's usually the main driver, but there's other drivers that will factor into our valuation. Which includes, what are the operating metrics of the business? Are they hitting the plan that we've been provided? How do those operating metrics compare to companies that we've identified in the public and private markets that are comparables? So how do they trade? If there are exits that have happened in companies that are similar to the specific company that we're looking at, what type of valuations have those companies exited at? So we'll look at revenue multiples, if the companies happen to be generating positive cashflow. We'll look at EBITA multiples. We'll also look to see if there's been significant changes within the senior management team. We'll look at also what other folks that may report their values, such as the public groups you mentioned. What they mark their books at, just to see if we can have any correlation. But it's a fairly comprehensive valuation process that we implore here. Again, it's one that's been thoroughly examined and approved.

**CHUCK JAFFE:** It is continually priced. It doesn't trade at a discount. It has all these sorts of things in it. How should an investor be considering it? Because this is a way to get into an asset class that, truthfully, unless you're a high net worth individual, you really have never had any exposure to. But how much of a portfolio do you want to let that be? Because you are talking about an area of the market that, while it sounds great when we're talking about unicorns, you have to understand that you don't find unicorns that often, even in today's markets. And sometimes when you hunt for unicorns, you come away wondering if they're a myth. That being the case, how do we mitigate risk by making sure that it's not too much of anybody's portfolio?

**CHRISTIAN MUNAFO:** Great question. I would start by saying, unless you believe that you've identified an asset manager that has a track record of investing in this asset class, has the sophistication that institutional processes that allow you to effectively due diligence these types of companies, you probably shouldn't be pursuing it. But assuming you have that, such as we have here at Sharespost, we look at a variety of factors here. It's hard for us to establish a specific percentage that the average person should allocate. We see institutional grade investors, some putting thirty, forty percent of their books in alternative investments, of which this would fall into one of them. But I think when we talk to investment advisors representing all types of clients, we're often seeing some type of a single digit percentage of someone's overall portfolio construction that would be allocated to this type of an investment class. Again, it really depends, and we're not going to advocate on what that should be. But just generally speaking, we often see something in the single digit percentage of someone's overall portfolio, as a portion of their alternative investment allocation.

**CHUCK JAFFE:** Well Christian, really interesting stuff. I think we all learned something today. Thanks so much for taking time out to join me on The NAVigator.

**CHRISTIAN MUNAFO:** It's a pleasure, Chuck. We appreciate everything you're doing for the market. Look forward to speaking soon.

**CHUCK JAFFE:** Christian Munafo is chief investment officer for SP Investments Management, which runs the Sharespost 100 Fund, ticker symbol PRIVX. You can learn more about the firm and fund at Sharespost.com, on Twitter @Sharespost. The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I am Chuck Jaffe, your host, and you can learn more about my show at MoneyLifeShow.com. To learn more about closed-end funds and business-development companies and how you can invest in them, go to AICAlliance.org, the website for the Active Investment Company Alliance. On Facebook and LinkedIn @AICAlliance. The NAVigator podcast is available for your every Friday, subscribe at your favorite podcast platform. We'll see you again next week.

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