

The big interview Steffen Pauls

The Moonfare founder tells **Sebastian McCarthy** he is still confident about private equity’s push into retail investment despite recent concerns about semi-liquid vehicles

‘For some investors it has been a tough lesson to be learned: that semi-liquid does not mean liquid’

Steffen Pauls
Moonfare

Key facts

Moonfare
Founded
2016, Berlin
AuM
More than £2.1bn
Staff
About 200 employees and a presence in 25 countries
Members
Some 53,000 members
Valuation
Moonfare is valued at more than \$600m – based on a recent extended Series C round that raised \$130m

Does your local doctor invest in private equity? It would have been an unfathomable question just a decade ago, when the asset class was still closed off to all but the wealthiest institutions. But now buyout bosses are opening up their funds to the masses, looking to raise billions of dollars of dry powder from “mom-and-pop” retail investors.

“In the US, our largest group of investors are doctors,” says Steffen Pauls, the founder of Moonfare, a tech platform that allows wealthy individuals to invest in private equity.

He adds: “We’ve also got people from the media and advertising industry, and we even have former biotech entrepreneurs who have no clue about private equity. It’s becoming more and more mainstream.”

Pauls, a 54-year-old German entrepreneur, is on the front line of private equity’s push into the retail market. The idea came to him out of a personal need: when he left US buyout giant KKR as a managing director nearly a decade ago, it dawned on him that his access to the world of private equity investing would be shut off.

“I realised that with my £100,000 I would never make it directly into a fund like KKR, which required a \$10m minimum investment. When I realised you can’t do it alone, I thought it could be done as a community.”

In 2016, Pauls set up Moonfare, a company that pools commitments from individuals and acts as a one, large investor. His aim is to “democratise private equity” and there are signs he is making progress: the company has over 50,000 members, more than £2.1bn in committed capital and eight offices. Based on a recent Series C funding round, Moonfare is now valued at more than \$600m, according to sources.

Moonfare’s typical investor is a millennial, he says. “What we see is that this younger generation is far more open for private equity

than the previous one. The older group believes a stock portfolio is still sufficient to generate returns – 80% said it was fine – but in the younger world, only 20% said a portfolio with bonds and stocks was sufficient. They understand that you need to add private equity.”

Global expansion

Pauls arrives at his London office near Selfridges straight from the airport, and he will stay in the capital for a few days before jetting off to Singapore and then New York.

Despite the hectic schedule, the frizzy-haired executive, who plays classical piano in his (limited) spare time, shows little sign of fatigue. “We are active in 25 countries. We want to increase our penetration in those countries, in particular the UK, as well as Germany, France, Singapore and the US. These are the places where we want to double down our activities.”

Moonfare kicked off its global expansion drive 18 months ago, wanting to target individuals beyond its European base in markets across both Asia and the US. Has the expansion been dented by the economic downturn?

“When we talked to our investors, 84% said they want to increase their allocation to private equity, but in Q4, they sat on the sidelines, taking a wait-and-see approach.

“So it was a bad mood pre-Christmas, but people came back from vacation and it felt like going back to normal. We’re seeing this in terms of inflows on our platform.”

He adds: “We’re seeing extremely strong interest for inflation-protected strategies, such as buyout and infrastructure, and people are turning back to growth and to tech, despite interest rates, because they’ve understood that valuations have compressed to such a degree that you could see good buying opportunities in the industry.”

Moonfare’s plan to crack the retail investing code

Withdrawal woes

While inflows have picked up from last year’s lows, the push to encourage more individuals into private equity has suffered a major blow in recent months.

Blackstone’s Real Estate Income Trust (Breit), its large retail real estate fund, has been hit by a wave of investor redemption requests, leading to the US private equity giant capping withdrawals. The redemption frenzy has sparked a wider conversation about the risks of semi-liquid funds, which have become a favoured product for buyout giants like Blackstone that are looking to raise more money from individuals.

“This has been a dramatic setback, in my view, for semi-liquids,” says Pauls. “Blackstone didn’t do anything wrong, but it’s an education matter. In my view, for some investors it has been a tough lesson to be learned: that semi-liquid does not mean liquid.”

Blackstone limits investor redemptions from Breit to 2% of its net asset value monthly and 5% quarterly.

Pauls says: “I believe people read the word

‘liquid’, but probably don’t go into the details about the 5% number, and have been surprised by the non-liquidity of the product.

“It’s a matter of education from the intermediaries, the banks, and also the general partners, to make crystal clear that this is not an ETF. You are still buying a private markets product, with some liquidity to give you more flexibility, but not full flexibility.”

Despite the Breit saga, he doesn’t harbour concerns of a regulatory clampdown.

“The regulators are smart and they have their reasons to regulate, with the lack of liquidity and some difficult products. But the willingness to open up even more is clearly there.”

In a bid to tackle liquidity concerns, two years ago Moonfare launched a semi-annual digital secondary market, where investors can sell their fund stakes for cash. The firm teamed up with secondaries fund manager Lexington, which can participate alongside Moonfare clients as a buyer of stakes in the tech firm’s funds.

Pauls says: “Lexington serves as a professional backstop. They can participate in the auctions, although they don’t have

to and they probably have a different price expectation in terms of what they need to make their returns. Since the private marketplace has been functioning so well, so far they haven’t been engaged in any transaction.”

Liquidity isn’t the only issue on Pauls’s mind. His growth plans include building out “Moonfare communities”, where its members can discuss the investment opportunities with one another.

“Revolut [a banking fintech platform] and Robinhood [an online trading company] and all these platforms are gaining customers rapidly. The reason is that the traditional advice from your relationship manager – your private banker and independent financial adviser – is being replaced by your peer group.”

This year’s priorities

He also says he has three main priorities in the year ahead. One goal is to ramp up Moonfare’s focus on the “single family office space”, becoming an outsourced, complementary partner for high net worth groups.

Another aim is to develop new products “that are even more retail”, citing the UK regime for long-term asset funds (LTAF).

Finally, Pauls and his team want to continue with their rapid global expansion, partly to source better fund opportunities.

“We want to bring in the best opportunities, be it mid-cap funds in the US, a strategy in health tech, a strategy in AI, from the best fund managers out there, not only the KKR’s and Carlyles or EQTs, but also the mid-caps and small-caps. We’ll complement our programme with emerging managers.”

How does Pauls choose managers to back in the current uncertain environment?

“The active ownership approach from the industry is more important than ever. That is why we have a tendency to prefer funds that have proven in downcycles or difficult economic environments that they have the resources and experts.”

Pauls says he is looking to back GPs who have proven M&A buy-and-build capabilities and experience doing take-privates, “which will be a big topic as we see valuations come down in the stock market”.

Alongside fund managers with active operating teams, he plans to allocate capital to “more niche strategies”, such as small and mid-cap players in industries such as healthcare or AI. Despite these ambitions, perhaps the biggest goal for Pauls and his team is to convince the sceptics that private equity can truly open itself up to individuals.

As Bain and Co summarised in its annual private equity report in March: “Experience so far suggests the industry has yet to really crack the code on retail.”

Few people are trying harder than Pauls to crack that code.



Steffen Pauls says the willingness to open private equity up to retail investors is clearly there among regulators and the industry

Moonfare