Evergreen Funds: An Emerging Frontier for Accessing Venture Capital and Growth Equity

Some of the most innovative and fastest-growing companies in the world are private. To this end, a substantial amount of innovation and growth in the global economy is driven by venture-backed, growth-oriented companies – *OpenAI* and *SpaceX* being two examples of leading disruptors in their respective industries. As these companies achieve more of their growth curves under private ownership, they increasingly resemble characteristics that investors historically sought after in small to mid-cap public growth companies. Furthermore, the diminishing incentives of being publicly listed continues to motivate companies to stay private for longer due to:

1. The regulatory and administrative burden/costs of being a public company.
2. The adaptability that staying private offers high-growth, disruptive companies still shaping their business models.
3. The amount of capital that is available to high-quality, well-managed private companies.

As a result, an allocation to venture capital and growth equity is becoming more relevant for nearly all investors. Historically, this asset class has been limited to institutional investors – pension funds, endowments, insurance companies, sovereign wealth funds and family offices. Retail investors and financial advisors have typically been unable to access this market due to a number of restrictions such as high investment minimums and eligibility requirements, as well as both administrative and operational complexities, which has typically limited portfolio construction to public equities and fixed income. Over the past decade, the growing importance of alternative asset classes and the availability of more retail-friendly products has slowly led to changing perspectives about asset allocation. According to Morgan Stanley[1] who expects the private capital market to grow at a 12% compounded annual growth rate over the next five years, "An expanded sandbox of private market capabilities makes 'alternatives' less alternative, instead opening a path for private markets as a substitute for traditional fixed income and equity...Our growth thesis is predicated on continued, relative private-market outperformance relative to public markets, and asset allocation shifts in favor of private markets."

Consequently, growing demand from ‘private wealth' channels for venture capital and growth equity reflects a better understanding of the portfolio diversification benefits along with the potential for attractive capital appreciation. This trend also coincides with regulators allowing greater individual participation in private markets by easing investor eligibility requirements and embracing new product structures. A recent example occurred in 2020, where the SEC loosened definitions of ‘accredited investors' with the motivation of opening private markets access to more investors with adequate knowledge and expertise. Additionally, the Department of Labor recently opened the door for private market funds to be considered in participant-directed retirement savings plans.

Long Term Portfolio Benefits

The ongoing economic and public market volatility has also led to increased interest in alternative asset classes such as venture capital and growth equity. According to Preqin[2] who expects private market assets to double and exceed $18 trillion by 2027, “the challenging macroeconomic environment, including rising inflation and geopolitical uncertainty, is expected to push investors towards asset classes that have historically performed well in volatile markets."

[1]Reuters (2022).

Venture capital and growth equity investments can offer the potential for greater diversification, higher returns and lower volatility compared to traditional asset classes. Not surprisingly, financial advisors have expressed enthusiasm for the ability to access these types of strategies for their clients via 'turnkey' structures that were unavailable in the past. This has paved the way for private equity and venture capital to become a portfolio allocation within employee retirement and defined contribution plans such as 401(k) plans.

As companies continue staying private for longer and going public much later in their life cycles, a significant portion of value creation is taking place outside of the public markets. Venture capital and growth equity provide exposure to these disruptive, innovation-driven companies across long-term growth investment themes, such as artificial intelligence, the space economy, cybersecurity, and healthcare. Disruptive innovation investment themes are not always available in public markets, or at least not at the rapid stage of growth. Finally, the dwindling number of public market companies illustrates why a dedicated exposure to venture capital and growth equity should be considered.

> *"Venture capital and growth-oriented strategies typically involve investment decisions based on multi-year holding periods, a view that should be shared by investors to benefit from potential future capital appreciation."* -Christian Munafo

Democratizing Venture Capital and Growth Equity – *An Evergreen Approach*

The shift to democratize access for all investors to alternative asset classes is a sign of the changing landscape. As alternative investment strategies are often complex and typically require a longer-term view, private market firms are increasingly introducing new evergreen fund structures to meet the requirements of different investors. The most common evergreen fund structure in the U.S. is the 'interval fund', brought to market over 30 years ago under the guidance of the Investment Company Act of 1940 (40' Act). The Interval fund structure provides a variety of administrative benefits for investors and flexibility for investment managers to pursue alternate investment opportunities.

Overall, interval funds have experienced significant growth which can largely be attributed to their convenient administration, low investment minimums, immediate allocation/diversification, and evergreen features. In addition, these funds price the underlying assets on a more regular basis and typically provide more asset-level visibility compared to traditional private market fund structures, thereby improving transparency, and providing investors with a better understanding of the underlying portfolio. While most interval funds launched to date have involved alternative asset classes such as real estate and private credit, there are several that have achieved scale which provide access to different segments of private equity and venture capital. The Private Shares Fund is an interval fund with scale that focuses exclusively on asset-level venture capital and growth equity investment opportunities.

The Private Shares Fund ("the Fund") is structured as an SEC-regulated, closed end interval fund that falls under 40' Act regulations. The original fund was incepted in 2014 with the intention to democratize access to private growth equity. The Fund has always strived to make the asset class more accessible to a wider range of investors. The Fund focuses on investing in high-growth, later-stage private companies, that have the potential to generate attractive upside typically over a two to four-year period. This has been achieved by offering a structure that addresses some of the key challenges of investing in venture capital, such as high investment minimums, performance fees, capital calls and illiquidity. For example, the Fund has a minimum investment of USD $2,500 and eliminated performance fees in favor of a flat management fee. This makes the Fund more accessible for investors of all types, both accredited and non-accredited, thereby expanding the audience that can benefit from the potential returns of venture capital and growth equity. Furthermore, investors can gain immediate exposure to a broad portfolio of holdings without the need for capital calls, and the Fund offers quarterly tenders with a liquidity window of up to 5% of the net asset value[3] ("NAV"), giving investors more flexibility.

[2] Preqin (2022).
[3] Shares in the Fund are highly illiquid, and can be sold by shareholders only in the quarterly repurchase program of the Fund. Due to transfer restrictions and the illiquid nature of the Fund's investments, you may not be able to sell your shares when, or in the amount that, you desire.

"Many of our typical investors are those who in the past might have faced headwinds getting access to traditional PE or venture, so they have come to us as we offer new and innovative ways of getting exposure to these asset classes." -Kevin Moss

The Fund targets investments that are typically two to four years away from an exit event, such as Mergers and Acquisitions (M&A) or an Initial Public Offering (IPO). M&A historically accounts for roughly two-thirds of all private market exits, meaning that investors without access to venture capital and growth equity strategies have historically missed out on a large segment of the opportunity set. Our data also shows that in the US, private market investors who participate in final private funding rounds can often outperform investors who wait to access those same companies once they become public.

Things to Consider

Private market investing is typically a long-term investment strategy, and fund structures can have a significant impact on the performance of an investment portfolio. As such, investors and advisors need to carefully consider their investment objectives when choosing a specific strategy and fund structure. When considering venture capital and growth equity strategies, it is important to understand the inherent risk-reward and liquidity profile this segment of the private market entails. We believe the following factors should be considered when choosing a specific investment strategy and fund structure:

- Quality/experience of the manager
- Track record
- Origination capabilities
- Investment process
- Approach to valuations
- Liquidity management

Looking Forward

As the democratization of private markets continues, strategies like venture capital and growth equity will likely become more accessible to retail and mass affluent investors. These strategies can potentially enhance portfolio diversification, lower volatility, and provide less correlation to more traditional investment strategies. In parallel, we expect to see greater utilization of evergreen structures by investment managers for investors and advisors to access these types of strategies given the various administrative and operational benefits.

The Private Shares Fund Top Holdings* as of 9/30/23

GrubMarket	nanotronics	Tradeshift	Space Exploration Technologies	AXIOM SPACE
Contrast SECURITY	Motive Formerly KeepTruckin	NextRoll	Lookout	Betterment

*Represents 29.73% of Fund holdings as of September 30, 2023. Holdings are subject to change. Not a recommendation to buy, sell, or hold any particular security. **Current and future holdings are subject to risk.** The Fund's website updates top holdings and total holdings frequently. For a list of the Fund's current holdings, please visit the Fund's website: https://privatesharesfund.com/portfolio/

Important Disclosures

As of December 9, 2020, Liberty Street Advisors, Inc. became the adviser to the Fund. The Fund's portfolio managers did not change. Effective April 30, 2021, the Fund changed its name from the "SharesPost 100 Fund" to "The Private Shares Fund." Effective July 7, 2021, the Fund made changes to its investment strategy. In addition to directly investing in private companies, the Fund may also invest in private investments in public equity ("PIPEs") where the issuer is a special purpose acquisition company ("SPAC"), and profit sharing agreements.

Investors should consider the investment objectives, risks, charges and expenses carefully before investing. For a prospectus with this and other information about The Private Shares Fund (the "Fund"), please download** here**, visit the Fund's website at** PrivateSharesFund.com **or call 1-855-551-5510. Read the prospectus carefully before investing.

The investment minimums are $2,500 for the Class A Share and Class L Share, and $1,000,000 for the Institutional Share.

Investment in the Fund involves substantial risk. The Fund is not suitable for investors who cannot bear the risk of loss of all or part of their investment. The Fund is appropriate only for investors who can tolerate a high degree of risk and do not require a liquid investment. The Fund has no history of public trading and investors should not expect to sell shares other than through the Fund's repurchase policy regardless of how the Fund performs. The Fund does not intend to list its shares on any exchange and does not expect a secondary market to develop.

All investing involves risk including the possible loss of principal. Shares in the Fund are highly illiquid, and can be sold by shareholders only in the quarterly repurchase program of the Fund which allows for up to 5% of the Fund's outstanding shares at NAV to be redeemed each quarter. Due to transfer restrictions and the illiquid nature of the Fund's investments, you may not be able to sell your shares when, or in the amount that, you desire. The Fund intends to primarily invest in securities of private, late-stage, venture-backed growth companies. There are significant potential risks relating to investing in such securities. Because most of the securities in which the Fund invests are not publicly traded, the Fund's investments will be valued by Liberty Street Advisors, Inc. (the "Investment Adviser") pursuant to fair valuation procedures and methodologies adopted by the Board of Trustees. While the Fund and the Investment Adviser will use good faith efforts to determine the fair value of the Fund's securities, value will be based on the parameters set forth by the prospectus. As a consequence, the value of the securities, and therefore the Fund's Net Asset Value (NAV), may vary. There are significant potential risks associated with investing in venture capital and private equity-backed companies with complex capital structures. The Fund focuses its investments in a limited number of securities, which could subject it to greater risk than that of a larger, more varied portfolio. There is a greater focus in technology securities that could adversely affect the Fund's performance. The Fund's quarterly repurchase policy may require the Fund to liquidate portfolio holdings earlier than the Investment Adviser would otherwise do so and may also result in an increase in the Fund's expense ratio. Portfolio holdings of private companies that become publicly traded likely will be subject to more volatile market fluctuations than when private, and the Fund may not be able to sell shares at favorable prices, such companies frequently impose lock-ups that would prohibit the Fund from selling shares for a period of time after an initial public offering (IPO). Market prices of public securities held by the Fund may decline substantially before the Investment Adviser is able to sell the securities.

The Fund may invest in private securities utilizing special purpose vehicles ("SPV"s), private investment funds ("Private Funds"), private investments in public equity ("PIPE") transactions where the issuer is a special purpose acquisition company ("SPAC"), and profit sharing agreements. The Fund will bear its pro-rata portion of expenses on investments in SPVs, Private Funds, or similar investment structures and will have no direct claim against underlying portfolio companies. PIPE transactions involve price risk, market risk, expense risk, and the Fund may not be able to sell the securities due to lock-ups or restrictions. Profit sharing agreements may expose the Fund to certain risks, including that the agreements could reduce the gain the Fund otherwise would have achieved on its investment, may be difficult to value and may result in contractual disputes. Certain conflicts of interest involving the Fund and its affiliates could impact the Fund's investment returns and limit the flexibility of its investment policies. This is not a complete enumeration of the Fund's risks. Please read the Fund prospectus for other risk factors related to the Fund. The Fund may not be suitable for all investors. Investors are encouraged to consult with appropriate financial professionals before considering an investment in the Fund.

The views expressed in this material reflect those of the Fund's Investment Advisor as of the date this is written and may not reflect its views on the date this material is first published or anytime thereafter. These views are intended to assist in understanding the Fund's investment methodology and do not constitute investment advice. This material may contain discussions about investments that may or may not be held by the Fund. All current and future holdings are subject to risk and to change.

The Fund is distributed by **FORESIDE FUND SERVICES, LLC**