The Private Shares Fund

Interest Rates

The rising interest rate environment over the past 2 years has pressured many asset classes, including public and private stocks and bonds. The venture capital ("VC") ecosystem was no exception, including late-stage VC, with valuations contracting and capital raising activities subdued. With futures markets and many economists now pricing in that the next move in interest rates will be lower, the Private Shares Fund team has received many inquiries about how interest rate movements affect late-stage VC companies.

Direct vs indirect impact – VC-backed companies generally finance a majority of their activities through the issuance of equity from private capital sources and in some cases convertible notes. As these companies mature and scale, we often see some finance their operations and growth initiatives through profitability, while others pursue public listings on stock exchanges to access public capital sources. Late-stage VC companies rarely issue debt and, as such, are not directly impacted with rising coupon rates on debt as interest rates rise. However, some investors wrongly conflate late-stage VC with other forms of private equity investments such as leveraged buyout strategies which typically involves leveraged funds buying leveraged companies, in some cases heavily leveraged. Said differently, concerns about debt service requirements should be muted in the VC space relative to other segments of both the public and private markets.

However, these late-stage VC companies are not completely immune from rising rates. For example, these companies obviously have customers who purchase their goods and services. As these customers experience the impacts of higher rates, their spend rates may decline. While this cannot be avoided completely, it can be mitigated by owning companies that provide essential services less likely to be trimmed by their customers, such as Cybersecurity. Furthermore, companies that provide disruptive or more innovative solutions can also help reduce the impact of higher rates by providing their customers with greater efficiencies that can help improve margins by reducing various costs, including headcount reduction. One example involves the utilization of artificial intelligence and machine learning ("AI/ML") which can create significant operational efficiencies to companies across the economy through automation, advanced detection of anomalies, predictive analytics, etc.

Late-stage VC companies have also been impacted by a reduced level of financing activity over the past several years. This contraction is the result of more than a decade of record low interest rates and roughly $5 trillion in Covid pandemic stimulus payments, during which private markets had attracted massive capital inflows as many investors (both institutional and individual) increased their risk tolerance in search for higher potential returns, in many cases with less discipline. As we have observed from prior cycles, this investor behavior led to a bifurcated market which became more broadly evident in early 2022, and was subsequently followed by 11 consecutive rate hikes. For the first time in several decades, investors could earn an attractive return in their bank accounts and on government securities, leading to less risk tolerance and a shift in capital allocation away from growth assets, which also impacts valuation multiples and capital markets activity. While there are many examples of high-quality companies that have recently raised capital at flat or even higher valuations, many have not raised capital at all, while others did so at reduced valuations. This often results in companies executing greater discipline with their capital expenditures and trying to achieve more with less, which the better companies can typically accomplish. All of that said, it is important to note that the effect of rising interest rates also works in reverse as interest rates decline, meaning that we will typically see investors increase allocations to growth assets, capital deployment rates increase, valuations rise, and capital markets activity improve.

So where do we go from here? While there is broad consensus that interest rates have likely peaked, the pace and magnitude of the declines remain uncertain. However, the belief that rates will not go higher has resulted in an increase in public and private capital markets activity, with the Russell 2000 being a strong indicator for late-stage VC companies given its large composition of small-cap growth companies. Capital that has largely sat on the sidelines the past couple years in treasuries or other low risk assets has started to look for higher rates of return. Therefore, we anticipate that high quality late-stage VC companies will experience more favorable terms as they seek to raise additional capital while investors increase their appetite and capital deployment pace. Similarly, we expect to see a pickup in both M&A activity and public market offerings over the next few quarters, particularly for best-in-class companies exhibiting a healthy balance of growth and profitability.

While we never advocate trying to time markets, particularly with strategies like ours which require a longer-term perspective to benefit from capital appreciation and exit value creation, we believe all signals point to this being an unprecedented investment opportunity to access a high quality portfolio of late-stage, growth-oriented private innovation companies at what we believe to be a very attractive entry point and with a path to significant potential upside.

RISKS AND 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 sub¬stantially 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 dis¬cussions about investments that may or may not be held by the Fund. All current and future holdings are subject to risk and to change.

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