Taking the Leap: The Compelling Opportunity in Secondaries

INTRODUCTION

In today's challenging environment, investors weigh on how recessionary fears, hawkish policy and geopolitics will impact portfolios. These concerns have led investors to adjust portfolio construction to optimize for an evolving landscape with strategies that can help mitigate volatility while maximizing risk-adjusted returns. As the democratization of private markets continues to offer a wider variety of options for all investors to consider based upon respective appetite for risk, return and liquidity, the result has been an increased allocation to alternative investments. These dynamics are largely what's driving the expected doubling of private market assets under management to more than USD$18 trillion over the next five years.[1]

Looking at the entire venture capital ecosystem, the first half of 2023 was challenging as deployment rates contracted, valuations compressed and exit activity remained muted. While public and private markets are not directly correlated, investor sentiment and confidence can weigh on private markets both during and following downturns due primarily to lack of transparency, lower liquidity, and information asymmetry which are often associated with higher risk assets. Although the market challenges should not be minimized, the Private Shares Fund Team (the "Team") has started to observe an improvement in private market sentiment, increased demand for growth assets and what appears to be a bottoming out of discounts particularly involving higher-caliber, late-stage venture-backed companies. Related, the Team believes that the lag effect between public and private markets has recently moderated as sentiment improves with the continued public market recovery into the second half of 2023.

Looking ahead, the venture capital (VC) industry will continue serving as the private innovation engine for the global economy, and like prior cycles, periods of dislocation often generate outperformance in subsequent years.

SECONDARIES

It is worth explaining the terms 'secondaries' and 'secondary transactions'. Unlike public markets, private markets are structurally illiquid with no ubiquitous exchange to efficiently buy and sell private assets, be it fund-through interests, company securities or more complex deal structures. However, there is a growing secondary market currently tracking at north of $100 billion in annual deal value that creates liquidity for these illiquid private assets, albeit with far less efficiency and information symmetry than public markets. This investment strategy is broadly termed secondaries, and the underlying deals negotiated with this strategy are termed secondary transactions. For sellers, the obvious potential benefit is generating liquidity for an illiquid asset. For buyers, potential benefits include discounted entry points, shorter holding periods, and greater vintage-year diversification.

1 Preqin, as of 10/05/2022

The Team believes that there is a cyclical nature of secondary markets, reflecting sentiment in the asset class. The recent cycle can be described as the following:

BULL MARKET In 2020/21, the demand for secondary investments was outpacing supply as new non-traditional 'tourists' entered the market excited by the post pandemic boom. Many names were trading in the secondary markets at a rare 'premium' to last round valuation as some investors with less discipline saw an opportunity to access companies they were unable to enter through a primary funding round.

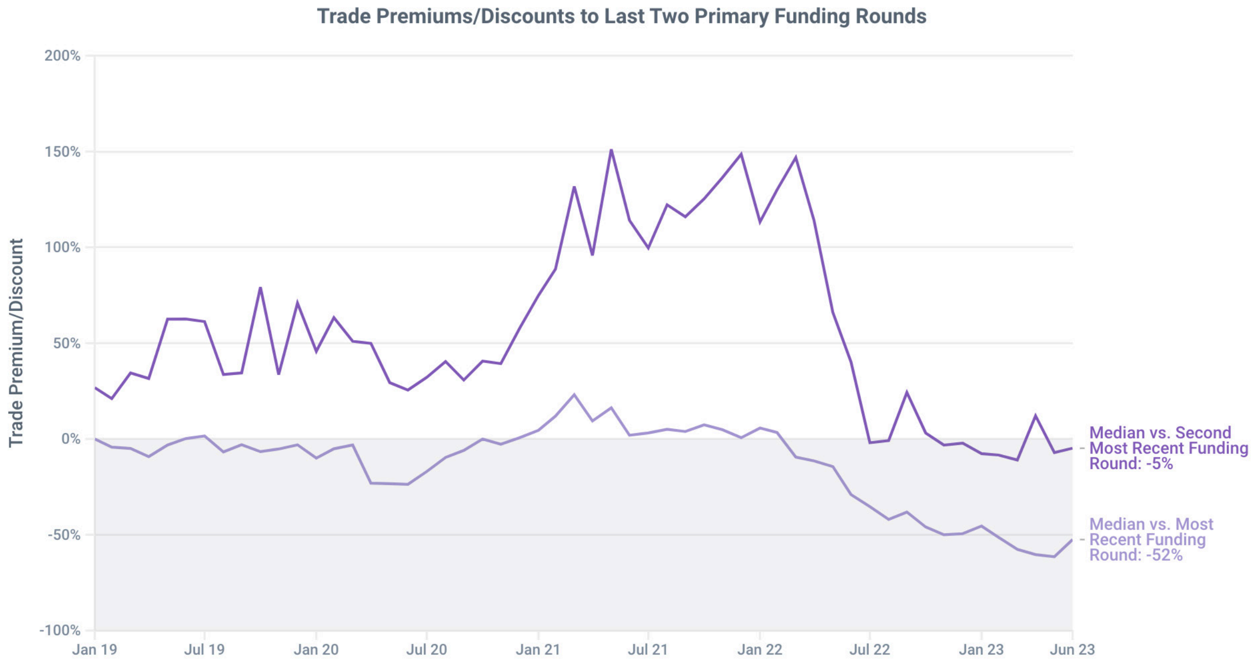
BEAR MARKET In 2022/23, this trend reversed as markets shifted and demand waned, creating an excess supply of opportunities and widened bid-ask spread entailing significant discounts to prior primary funding rounds. During this reversal, institutional investment managers have been taking advantage of dislocations and the ability to purchase shares in high quality companies at attractive prices.

RECOVERY Based on different signals, we expect to see private markets to begin to recover during the second half of 2023 which will likely entail an increase in capital deployment, improvement in valuation multiples and tightening of the bid-ask spread involving secondary transactions (i.e., lower discounts).

Below are the Team's current and forward-looking thoughts about the state of the market through the lens of a secondary investor which appear to signal that markets have begun to recover. Just to reiterate, the Team's investment decisions reflect a multi-year outlook, not quarterly, and so we encourage investors to be patient, disciplined and share a longer-term perspective to potentially benefit from the rewards these types of strategies can provide.

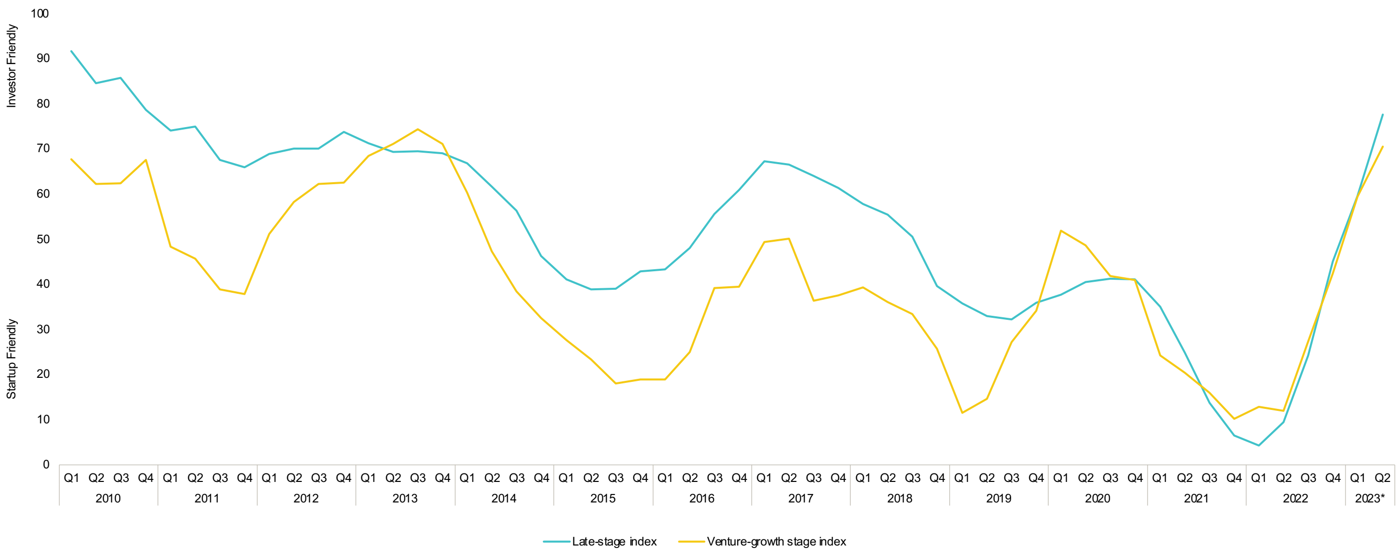
DISCOUNT TO "LAST FUNDING ROUND"

A mismatch between seller expectations and buyer demand has led to a widening range of secondary prices of venture-backed companies. This notable shift from the 2020/2021 company-friendly to 2022/2023 investor-friendly environment meant that active investors gained negotiating leverage. The first chart below from Forge[2] shows an analysis of pricing trends during the first half of 2023. Like the 52% discount to most recent funding round cited by Forge below, The Private Shares Fund completed approximately 60 secondary transactions from second half of 2022 through first half of 2023 at an average discount to last round of 49%.



2 Forge, as of 06/30/2023

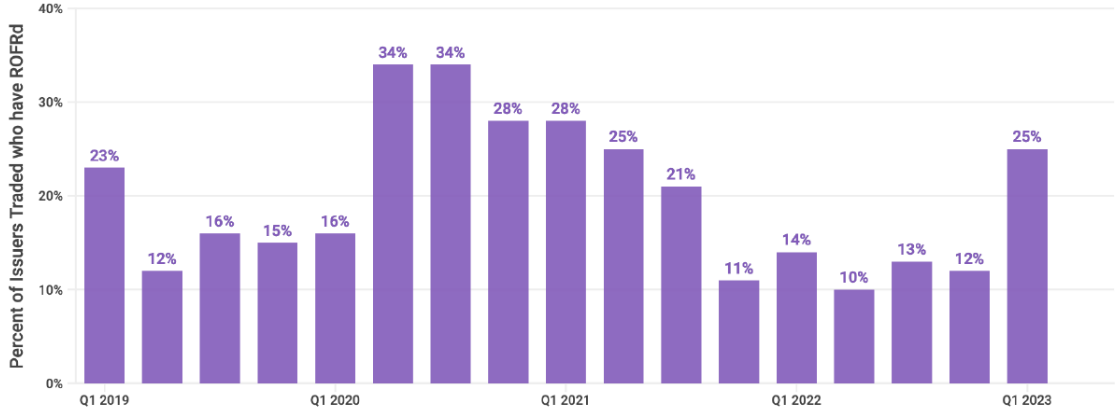
The second chart below from Pitchbook's NVCA Venture Monitor 2Q23[3] illustrates investor sentiment for dealmaking. Clearly, we are currently experiencing the most 'investor-friendly' deal environment in over a decade for both venture-growth and late-state venture companies, following late-2021 which was highly 'founder-friendly'. An increase in 'investor-friendliness' can be noticed in all stages of venture capital as investors require favorable terms including lower valuations, higher liquidation multiples and other benefits including warrants and cumulative dividends.



Finally, data from Carta, a provider of equity management solutions, recently stated that for the first time since Q3 2021, the number of venture investments on their platform increased in Q2 at every stage from Series B onward.[4] While it may appear counter intuitive, periods of increased volatility and uncertainty in markets often create attractive buying and investing opportunities, particularly for investors with a longer-term view. This is precisely why the Team has continued actively deploying capital during this challenging environment, but while maintaining discipline, conducting a comprehensive due diligence process, and leveraging relationships across the private market ecosystem. The Team is of the belief that barring a significant macroeconomic or geopolitical event, the bottom of the market is likely to have been reached.

RIGHT OF FIRST REFUSAL

Right of First Refusal ("ROFR") is a provision that gives an underlying company and/or certain shareholders the first opportunity to purchase shares that an existing shareholder is trying to sell through a secondary transaction to a third party based on pre-negotiated terms. If the ROFR holder chooses to surrender their right, the existing shareholder can proceed with selling their shares to a third party.



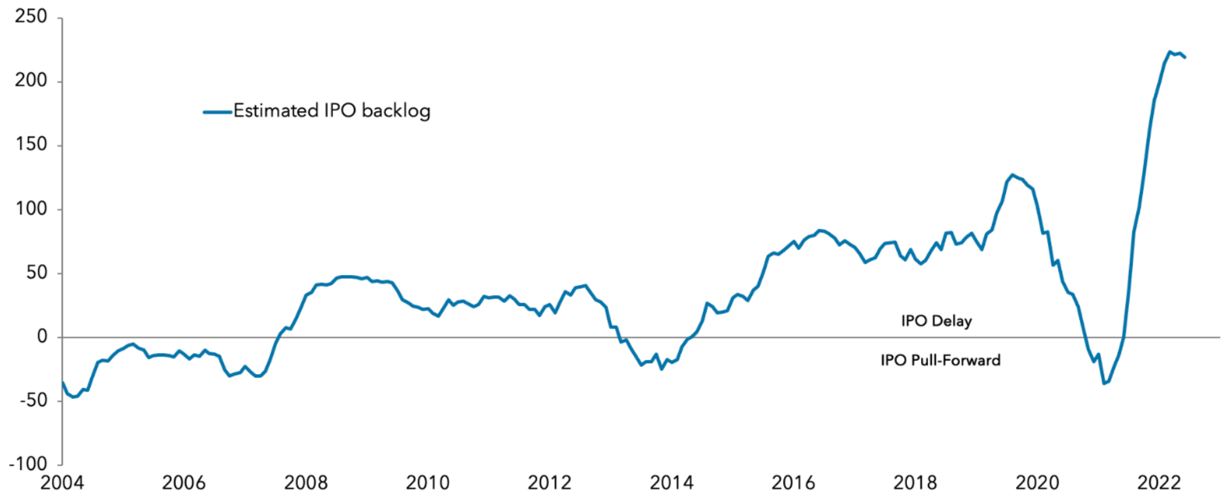
3 Pitchbook, as of 6/30/2023
4 Carta. As of 6/30/2023

An increase in the execution of ROFR provisions may reflect the companies' and/or existing shareholders' belief that the negotiated terms are attractive and potentially undervaluing the assets. That said, companies and existing shareholders are often capital constrained during more challenging market cycles which often results in capital preservation, and thus often surrendering their ROFR rights. Interestingly, data obtained from Forge[5] shows that venture-backed companies executed their ROFR rights on average 34% of secondary transactions in 2Q2020 which fell to 10% in 2Q2022. As of 1Q2023, this ROFR execution statistic increased to 25%, which the Team continues monitoring as another potential signal of the market shifting.

IPO MARKETS

The two most common exit paths for late-stage venture-backed companies are mergers and acquisitions ("M&A") and public market listings. While direct listings (also known as direct public offerings, or "DPOs") and special purpose acquisition companies ("SPACs") became popular in recent years as public listing alternatives to traditional initial public offerings ("IPOs"), the latter will likely continue representing the majority of public listing activity. At present, the Team believes there is a very deep, high-caliber backlog of IPO candidates and sees green shoots developing in the second half of 2023, particularly if public and private market sentiment continues improving. To further support the Team's view, the chart below from iCapital[6] illustrates an unprecedented backlog of more than 200 venture-backed companies waiting to go public which could lead to a flurry of IPOs in late 2023 and early 2024. While this view is also held by several of the Fund's underlying portfolio companies and co-investors particularly in areas such as artificial intelligence, cybersecurity and fintech, the Team believes such activity depends on a continued strengthening macro environment.

Estimated number of VC-backed companies awaiting to go public



SUMMARY

While the last 12 months have been a challenging environment for most private market investors, the Team believes that this cycle is bottoming, and that sentiment is slowly shifting. Despite the challenges, the Fund's broad portfolio of more than 90 positions has remained resilient and the Team has continued actively deploying capital across new and existing positions, albeit at a slower pace, while taking advantage of various dislocations. Many of our companies have differentiated business models, are operated by seasoned management teams, backed by strong VCs, and have healthy balance sheets to help manage through market cycles. For these reasons, the Team remains resolute that the Fund may ultimately reward its investors through both capital appreciation and exit events as the environment improves, but patience is paramount.

5 Forge, as at 06/30/2023
6 iCapital, as at 06/12/2023

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.

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