

# Growth Capital Investor

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## SharesPost's Pre-IPO Fund Notches Early Gains, Builds Asset Base

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As the institutional crowdsourced capital market becomes a more important source of finance for emerging growth companies, the role of late-stage private “pre-IPO” investors will become increasingly critical for providing the capital necessary to clean up cap structures, consolidate shareholdings, secure intellectual property, and otherwise ready a company for its entry into the public markets. Now SharesPost, the pre-IPO private stock trading pioneer, has launched its own fast growing pre-IPO fund, the **SharesPost 100 Fund (PRIVX)**, joining a handful of publicly traded pre-IPO investment funds active in the market, including **Firsthand Technology Value Fund (SVVC)**, **BDCA Venture (BDCV)**, and **GSV Capital (GSVC)**.

After quietly launching in late March, the SharesPost 100 Fund has been building its assets under management, now at roughly \$11 million, and making its first investments in venture-backed companies that are planning to go public within three years. Early investments include stakes in **Jawbone**, **DocuSign**, **Good**, **Jumio**, **Kabam** and six other companies. The fund has delivered a 13% return in its first five months.

The fund's mandate restricts it to investing mostly in companies included in the advisor's “SharesPost 100” list of top pre-IPO companies. The list includes many of the better-known pre-IPO companies such as **AirBnB**, **Box**, **Pinterest**, **Spotify** and **Uber**, but the criteria for inclusion has nothing to do with popularity and everything to do with high growth and strong revenues.

*Growth Capital Investor* sat down with the man behind the SharesPost 100 list and the fund's portfolio manager Sven Weber, Managing Director and President of SP Investment Management, to ask him about the fund. Weber joined SharesPost from **Silicon Valley Bank**, where he managed the bank's \$1.5 billion venture portfolio and developed the bank's late-stage venture investment strategy.

**GCI: How is the SharesPost 100 Fund structured? Is it a traditional private equity limited partnership?**

**Weber:** No. It is technically a closed end interval fund. It's a hybrid between an open end fund and a closed end fund

specifically designed for illiquid assets. It is more typically used in oil and gas leasing, and real estate. We are the first to my knowledge to use the structure for a late-stage private equity strategy.

The biggest difference between our fund and most of the other pre-IPO funds is that they are typically structured as business development companies (BDCs) which are listed on an exchange and subject to daily trading volatility. BDCs also typically have a fee structure of 2% of assets and an additional percentage of gains similar to a venture fund's carried interest that is paid to the manager. BDCs also raise their capital all at once in an IPO process, which they then must deploy quickly in order to achieve their targeted returns.

An interval fund computes and publishes an NAV [net asset value] daily, and offers liquidity to shareholders on a quarterly basis. Investors buy into the fund at the NAV, like with a mutual fund, and can redeem on a quarterly basis at NAV, up to an aggregate quarterly redemption of 5% of the fund NAV. Because it doesn't have an exchange listing there's no trading risk exposure that can create the discounts to NAV often seen in listed closed-end funds. So we are able to take in new capital on an ongoing basis, and deploy it in an orderly manner without pressure to get immediate returns. In addition, we only charge a 1.9% management fee on NAV, with no “carry” or incentive fees.

**GCI: What is your goal ultimately for the size of the fund?**

**Weber:** We expect at current inflow rates to reach \$100 million by the end of the year. The plan is to build the fund to \$500 million within three years, and then soft-close it and see that the portfolio construction is built out properly. That is very important to me, that the portfolio is constructed properly and not simply built with whatever is available in the market when the money comes in.

**GCI: Will the fund be actively managed from the standpoint of exploiting secondary market price volatility to trim or add to positions ahead of IPO events?**

**Weber:** In general we will use a buy and hold strategy where we will wait until the companies go public or are

acquired, but I have a diversification mandate as well that limits the fund's holdings to no more than 25% in any one sector, so if a company is growing in value very quickly I may have to take some chips off the table to maintain the diversity of the fund. Likewise, if a company isn't performing as expected I can start selling down the position. But typically it's a buy and hold strategy.

**GCI: Will the fund only invest in companies on the SharesPost 100 list?**

**Weber:** The fund is mandated to deploy 80% of its capital into companies on the list. It's not an index and there's no guarantee that there will be exposure to all 100 names on the list, but 80% of the fund's capital will be invested in companies on the list.

**GCI: How is the SharesPost 100 list constructed?**

**Weber:** I took a database of over 100,000 venture capital transactions over the past 10 years, and identified the not just the venture firms but the venture partners behind the most successful deals, because venture firms are just firms, you know, and in every firm there are one or two individuals that drive the performance of the whole firm. Then I looked at where these individuals are investing, what are their co investments, etc.

For the companies, I want to see companies with a minimum \$50 million to \$100 million in revenues, 30% to 100% revenue growth per year, because I want to be able to deploy the capital into a high-growth period for the company two to three years prior to its IPO. Which is more difficult that it sounds, because if you look at the market today, an investment in a venture-backed IPO isn't always an investment into the growth phase of a company, it is a liquidity event for the existing shareholders. And the existing shareholders, for good reason, want to maximize their returns by pushing out the IPO longer and longer in order to get the most out of it. So the challenge is to identify the growth potential of a company two to three years out and not wait until a few weeks or months before the IPO to invest.

**GCI: Are you sourcing your investments strictly from the secondary market or are you going directly to the companies and venture funds as well?**

**Weber:** We have three sources: the Nasdaq Private Market, which is a joint venture with SharesPost and Nasdaq to trade private company shares; the companies directly, especially where we already hold positions we would like to add to, and in some cases where we would like to acquire new positions, as the SharesPost 100 list has already acquired a certain cache' among companies; and then the venture firms also, where we can get preferred stock, which we like to own. We are agnostic on primary or secondary sales. We can participate in primary rounds once we reach a certain size. One thing we will not do is take board seats.

**GCI: And even with your primary investments, you will stick to companies with a two to three year liquidity horizon?**

**Weber:** Yes. We have run the SharesPost 100 list for 7 quarters now, and the historical experience is that we see about 10 liquidity events, IPOs or acquisitions, per quarter for companies on the list. Which brings us to a theoretical turnover of the full list of 10 quarters, or two and a half years. Now, some companies on the list will IPO much sooner, and others will stay much longer. Some companies on the list right now are

clearly teeing up for an IPO – don't expect me to invest in those companies, like an Uber or **Palantir**, that are so near to IPO or extremely high-profile or hyped, these companies are on the list but I would hesitate to transact at their current valuations. Expect me to invest in companies at lower valuations that still have some runway left for growth.

**GCI: The late-stage venture strategy has been criticized as being too late to the party to create attractive ongoing returns outside of the peaks in the IPO market cycle. Is there enough growth available in late-stage venture investing to capture returns on a consistent risk-adjusted basis?**

**Weber:** While the results are not precisely comparable, as they were different investments made at different times, I had exposure to this strategy, and developed that strategy at Silicon Valley Bank for their venture portfolio, and I know what kind of returns it can generate. If you follow certain rules you can increase the probability of the kind of outcome you can achieve.

### SHARESPOST 100 FUND TOP 10 INVESTMENTS (As of 8/30/14)

KABAM

INRIX

JUMIO

DATALOGIX

HIGHTAIL

ONE KINGS LANE

APTIO

JAWBONE

GOOD

FLURRY

## Growth Capital Investor

That's actually one of the things I am always looking at – what is the probability of the outcome you are seeking? If you look at recent years, and even back several years, you see typically about ten exits a year of these kinds of high-growth venture-backed companies valued at \$1 billion or more. So, if you invest at valuations of \$1 billion or more, your probability of outcome is ten exits that are in that minimum order of

magnitude. The vast majority of companies that meet our revenue and value growth criteria exit between \$400 million and \$1 billion in value. So if you know that, this is your most likely exit probability space, you have to try to come in at valuations that reflect that. And that if you have that, that you will return the right multiples back to your investors. That's how I look at it. **X**

### THE SHARESPOST 100 FUND PERFORMANCE (AS OF 8/31/14)

Cumulative Total Returns	Inception Through 6/30/14	Inception Through 8/31/14
Returns With Full Sales Charge (POP)	6.93%	7.35%
Returns Without Sales Charge (NAV)	13.45%	13.90%
Dow Jones US Technology Index	6.29%	12.01%
S&P 500 Index	5.64%	8.35%

Fund Inception Date 3/25/14

Performance data quoted represents past performance and is no guarantee of future results. POP performance assumes an application of maximum sales load of 5.75% on all sales. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than original cost. Current performance may be lower or higher than the performance data quoted. For performance as of the most recent month-end, please call +1.855.551.5510. Some of the Fund's fees were waived or expenses reimbursed; otherwise, returns would have been lower. The Fund's total annual expenses are 3.47%. The Adviser has contractually agreed to waive fees and/or reimburse expenses such that the total expenses of the Fund do not exceed 2.50% through July 15, 2015.

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Investments in the Fund involve 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 that do not require a liquid investment. An investor should expect to sell shares only pursuant to the Fund's quarterly repurchase policy. The Fund does not expect to a secondary market for its shares to develop.

The Fund intends to primarily invest in securities of private, late-stage, venture-backed growth companies. There are significant potential risks to investing in securities of private, late-stage, venture-backed growth companies. Because most of the securities in which the Fund invests are not publicly traded, the Fund's investments will be valued by the Investment Adviser pursuant to fair valuation procedures and methodologies adopted by the Board of Trustees, based on the parameters set forth by the Prospectus. As a consequence, the value of the securities, and therefore the Fund's NAV, may vary. 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. If the Fund does not have at least 500 Members for an entire taxable year, you could receive adverse tax treatment. 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. This is not a complete enumeration of the Fund's risks. Please read the Fund prospectus for other risk factors related to the Fund, its investment strategy and your investment in the Fund, and other additional details.

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