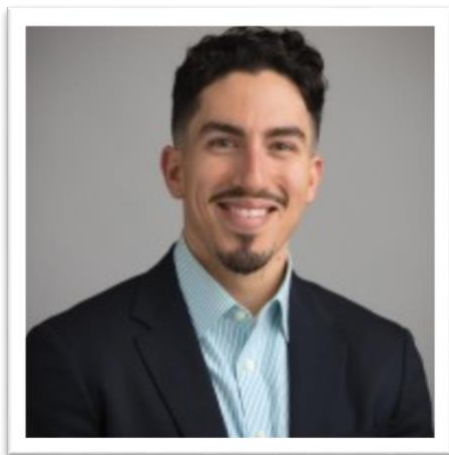




## Liberty Street's Gutierrez On Private Investment Trends In A.I.

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Chuck Jaffe, in this episode of The NAVigator podcast interviews David Gutierrez, Vice President at Liberty Street Advisors and part of the team running the Private Shares Fund. David says that private markets are similar enough to public markets that artificial intelligence is now one of the big sweet spots in both. However, he says the best opportunities involve infrastructure more than AI itself. Gutierrez notes that the Private Shares Fund—an actively managed, continuously offered closed-end interval fund investing in late-stage venture capital and private company opportunities—is focusing heavily on AI infrastructure right now. For instance, he explains how the shift from copper-based to optical-based networking in servers has become an investable trend, and how this trend depends not on AI performance but rather on the demand for more AI technology support. Gutierrez also discusses shifting trends in how long private companies are waiting before going public, and how geopolitics could be impacting private firms.

The podcast can be found on AICA's website by clicking here: <https://aicalliance.org/alliance-content/pod-cast/>

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**CHUCK JAFFE:** We're talking with David Gutierrez, vice president at Liberty Street Advisors, which runs the Private Shares Fund, about changing opportunities in private equity, welcome to The NAVigator. This is The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, an industry organization that represents the entirety of the closed-end fund business from investors and users up to fund managers, sponsors, and creators. If you're looking for excellence beyond indexing, The NAVigator's going to point you in the right direction. And today, we're looking in the direction of private equity with David Gutierrez, vice president at Liberty Street Advisors, the firm that's behind the Private Shares Fund, which is an actively managed, continuously offered closed-end interval fund – yes, that's a mouthful – that does its work in late-stage venture capital and private company opportunities, and you can learn more about the fund by going to [PrivateSharesFund.com](http://PrivateSharesFund.com). And if you want to learn more generally about interval funds, closed-end funds, and business-development companies, check out [AICAlliance.org](http://AICAlliance.org), that's the website for the Active Investment Company Alliance. David Gutierrez, welcome to The NAVigator.

**DAVID GUTIERREZ:** Hey, Chuck. It's great to be here with you today, looking forward to chatting.

**CHUCK JAFFE:** Private equity, venture capital, getting tons of media play, garnering bigger and bigger shares of investment portfolios, so I just want to start with what you think is the next big investment opportunity that we're going to see among private companies. I want to be more specific than "the next opportunity is private companies" because there are some people out there who say, "Well, it's private equity itself," but it's a lot more to it than that, and just like any other investment, there are areas that you clearly would want to be in.

**DAVID GUTIERREZ:** Yeah, I think that's the right way to frame it, and you queued it up right. We play, at the Private Shares Fund, kind of in the later stage of a company's life cycle, so we're generally looking for companies that are within two to five years from, ideally going

public, or getting acquired. And so with that, we're spending our time on themes and investment opportunities that we think align with that timeframe, and an area that we've been spending a lot of time, this will be no surprise to a lot of people following the market, is AI infrastructure. This has been a big driver of returns in both the public and the private markets over the last few years, but what we've seen more recently is kind of a broadening out of that theme from what initially started post-ChatGPT as a focus on NVIDIA and their GPUs and the accelerators themselves, and towards other parts of the compute stack in the data center that are playing an increasingly important role in ensuring maximal performance for a lot of the workloads in AI that are being run today.

**CHUCK JAFFE:** So here you are looking at venture capital companies, they're trying to bring something new in a market that's ever changing, how do you size up AI infrastructure opportunities?

**DAVID GUTIERREZ:** When you think about the opportunity set there, like I said, a lot of the focus initially was on what NVIDIA had to offer, and for good reason, that's a core ingredient and the brain behind a lot of the operations that go on in AI. But a lot of the infrastructure that we're relying on today was built a long time ago for applications like a software product or if you were really pushing the limits, analytics or the types of advanced modeling, things that are done at our national labs, right? AI workloads place an entirely new set of demands on our infrastructure, and really every layer of the data center. That started with the chips and is now working closer and closer, even all the way to the power generation itself is being reconceived and redesigned to ensure that the multiple hundreds of billions of dollars that the hyperscale compute players are investing in CapEx every year are in facilities that are truly optimized from the ground up for these AI workloads. So when you think about the opportunities in infrastructure, one area that we've been following for a while and are pretty excited about is the shift from copper-based to optical-based networking in both the servers themselves and in the racks that make up the data center. One of the big things that differentiates an AI workload from one of those things that I mentioned earlier, like running a database or serving you your instance of Salesforce if you're working at a company that uses that, is that they require massive amounts of data to be moved basically in real time among chips and racks and servers in order for models to be trained and provided to consumers in real time. So copper, which has been a really important part of building data

centers for a long time is kind of running up on some physical limits where it's no longer going to be able to handle the speeds required to move data without serious compromises in energy consumption and data loss. And so we're seeing a lot of companies building new, really interesting optical-based solutions using optical fiber to replace a lot of the copper in the data center, and we think that's going to be a really big opportunity over the next three to five years. You've seen a lot of players in the public market, stocks performing very well, and there's a lot of players working alongside those guys in the private market as well to bring these solutions.

**CHUCK JAFFE:** Does that also mean that the companies that were benefitting from copper in AI are now basically at risk? So as you're sizing up opportunities and you're looking for what's next, particularly because you're buying the private companies, you're not going to be interested in anybody who, let's not call it old technology, it was popular a couple of weeks ago or what have you, given the speed that it's changing, but is that part of where your interest lies as well?

**DAVID GUTIERREZ:** We're not spending as much time there, and I think to be clear, there's still definitely going to be a place for copper in a lot of this data center buildout, fortunate for us, a lot of the players who are on the copper side are out of our opportunity set because most of those guys have been public market players for a while now, and so they're not necessarily within the universe of companies that we're paying attention to. But you have seen a lot of those players acquire their way into optics by acquiring smaller private companies that are doing interesting things there, so they're definitely on our radar from the perspective of being in the ecosystem as a competitor for the next year or two, and potentially as an acquirer for some of the businesses that we're looking at. But when we look further out, the next maybe five to 10 years, we really think that optics are going to play a much bigger role in the data center than they do now, and are going to make their way closer and closer to the chip itself, rather than being used for some of the long distance communication tasks that they're used for in the data center today.

**CHUCK JAFFE:** I spoke with a money manager earlier this week that really prompts this next question. Hearing you talk about the advent of the technology and how it's changing and where you want to be positioning yourself, how do you make sure that your AI investments

aren't being AI-ed out of whatever? That they're not the next one to suffer from AI because they're yesterday's development and tomorrow's the next thing?

**DAVID GUTIERREZ:** Good question. With a lot of these technology trends, the way that we've chosen to play them as a team is really at the infrastructure layer. At this stage of the game, to your point, there's so much that's changing so fast, almost on a daily basis it feels like in AI, that we would rather play at the level where all of the people who are trying to make the next big application are relying on the infrastructure that we are investing in as a way to create those apps. And so where you've seen a lot of uncertainty around the future, as it relates to AI, is in the software part of the public markets, there's obviously been a big retracement there from a lot of names that people were very excited about even just a few months ago, you haven't seen that as much for the infrastructure itself because, one, you can't code your way to a new optical fiber, there's still some very real-world constraints on building products like this and AI can be an accelerant to a lot of those businesses. But ultimately it is very much an engineering challenge on the physical side and electrical side, more so than really on the software side, so we've chosen to play that part of the stack for now. Obviously we're watching every layer all the way up to the applications that are being built, and we think that there will some great companies built there, but to your point, it feels like from our perspective at the later stage, things are just moving a little bit too frequently for us to feel like we have the understanding that we would want to place some of those bets higher up closer to the software layer.

**CHUCK JAFFE:** I want to move from the opportunity you find most promising to one of the bigger challenges, because there's been a lot said about how private companies may face more geopolitical risk than public companies because you have a stock that doesn't mark to market every day, conditions change with every new tariff, war, government policy, et cetera. So what are the geopolitical risks that concern you the most right now as a private shares investor, and how do you deal with those geopolitical risks?

**DAVID GUTIERREZ:** We're very fortunate that a lot of the companies we're investing in, as they're growing here in the United States, much of their business in the first handful of years and first maybe even decade is really centered in the United States, and so a lot of the customers are here and a lot of the business is not necessarily transacting across borders. So we've been pretty insulated from a lot of the, especially on the tariff side, a lot of impact there

just by the nature of the companies that we're investing in. When we think about, for example, one of these AI infrastructure companies is kind of a perfect example for this, TSMC is a major fab, the largest in the world, and they produce the lion's share of the advanced semiconductors for all of the AI infrastructure that's being built across the world, so clearly a pretty big geopolitical chokepoint there for that industry. We've started to see an increasing amount of, as much as is possible, is really in-shoring and vertical integration of a lot of capabilities where normally we may have relied on a trading partner in Asia or Europe. Now companies really looking for opportunities to bring as much of that as is possible back home to the United States, whether that's through partners in a domestic supply chain or allied supply chain, or taking it all in-house and trying to vertically integrate from top to bottom. That's been a trend that we think is going to persist, and it's not been something that maybe the venture community and the growth community has been really used to underwriting from an investment perspective for a long time, but we think that there's been a pretty big shift from both the companies, and the investors as well, understanding the importance of resilience and control over your supply chain, even if that means in the short term trading some higher costs for what over the long term we think are some really important benefits.

**CHUCK JAFFE:** I want to move to another private equity story, maybe that's getting less play, which is with so much money having gone towards private equity, so much more than was there in the past, it's easy for companies to stay private longer, to raise more capital, to remain a late-stage venture company paying off investors without taking the show on the road with an IPO. But there have also been big expansion activity among tender offers and cashout deals, so how does that impact what you do, and what does it mean for investors like you and for private shares valuations?

**DAVID GUTIERREZ:** It's a good question, and the private-for-longer phenomenon is something that our team identified when we started the fund, and it was a major reason why we thought a product like an interval fund for this asset class could be so interesting, is because we saw companies even then really starting to lengthen their lifespan. We talk sometimes about the companies like Amazon or Apple going public when they were four or five years old back in the late nineties or 2000s, and now you see companies routinely staying private 15-20 years in some instances, and that becoming much more of an acceptable length

of what you can stay in the private market. It's definitely been enabled, to your point, by a lot of the capital flowing into the private markets, and having had an interesting perspective and vantage point of watching the secondaries market from where we saw it in 2014, coming all the way to now, where it's become a huge part of the private markets way more than ever I think anyone expected it to be. That's really taken a lot of pressure off of these companies, to your point, to need to go public. Right now there is an ability for some of the leading companies to offer regular liquidity to their employees and investors on an annual basis or twice a year, or even more frequent than that. And when you think about the driving force pushing companies to go public, it is to help their investors and their employees generate some liquidity from their holdings, and so with that pressure removed we expect the private-for-longer phenomenon to definitely continue. To your question about valuation and transparency, as more money has flown into the secondary markets, and also more sophisticated, larger buyers who are transacting at larger size and at greater volumes, it's really brought a lot more clarity to pricing. I think traditionally, assets were marked on the private side at the last round of financing that they raised regardless of whether that round was one month ago or one year or multiple years ago, and now we have an opportunity to triangulate from various sources, what a company might be worth based on where we see it trading in between some of those financing rounds. With some of the leading names on the private side today, you've seen companies raise a new round of financing, and then premiums to that round are occurring in the secondary market shortly after because people have so much conviction and belief in some of these names. We think it's going to continue to bring transparency, and we think that's an important thing for the investors who want to come into private markets because they can be more assured that they're buying in at valuations that reflect reality and not just what was reality one or two years ago.

**CHUCK JAFFE:** David, really interesting. I've always got more questions on private equity and venture capital, I just don't have any more time, but hopefully we'll get a chance to reconnect down the line. Thanks so much for coming on The NAVigator.

**DAVID GUTIERREZ:** Absolutely, Chuck. It was great to spend some time with you, thanks.

**CHUCK JAFFE:** The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe, and yes, I'm Chuck Jaffe, you can check out my show on your favorite podcast app or by going to [MoneyLifeShow.com](http://MoneyLifeShow.com). Now to learn more about interval

funds, closed-end funds, and business-development companies, go to [AICalliance.org](https://AICalliance.org), that's the website for the Active Investment Company Alliance. Thanks to my guest, David Gutierrez, he's a vice president at Liberty Street Advisors, which runs the Private Shares Fund, an actively managed continuously offered closed-end interval fund that invests in late-stage venture and private company opportunities. You can learn more by going to [PrivateSharesFund.com](https://PrivateSharesFund.com). The NAVigator podcast has something new for you every Friday, so make plans to join us again next week, follow along on your favorite podcast app so that you don't miss any of our closed-end fund fun, and until next week, happy investing, everybody.

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