



Alternative Investments Find a New and Expanding Platform In Closed-End Funds

Monday, October 7, 2019



Chuck Jaffe, in the NAVigator podcast, interviewed Kimberly Flynn who is managing director of Alternative Investments for XA Investments. Read the Q & A below as Kimberly discusses alternative investments.

The podcast can be found on AICA's website by clicking here:
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Kimberly Flynn

CHUCK: Kimberly Flynn, managing director of Alternative Investments for XA Investments is here and we're talking about adding something very different to your portfolio. Now on the NAVigator. Welcome to the NAVigator from the Active Investment Company Alliance where we talk all-weather active investing and plotting a course to financial success. The AICA is a unique industry organization because it represents investment firms, creators of closed-end funds, and users and investors. And the NAVigator is going to look at all aspects of investing in closed-end funds and business development companies. And if you're looking for excellence beyond indexing, the NAVigator will point you in the right direction. Joining me today Kimberly Flynn. She is managing director of Alternative Investments at XA investments. And if you want to learn more about the firm it's XA investments.com and it's on twitter @XAinvestments. The Active Investment Company Alliance is online at AICAlliance.org. Kimberly Flynn, good to chat with you.

KIMBERLY: Thank you, Chuck, for having me. I'm looking forward to it.

CHUCK: Alternative investments, you know, when they're most simple it's something beyond stocks, bonds, and cash. But in the investment world, well, we have seen a lot of things changing around alternative investments. And no place has that actually changed I think more recently than with closed-end funds because the SEC has been changing some of the rules and we are seeing a lot of alternatives, and I don't just mean gold and other things, I mean private equity and more coming into closed-end structures. So, help us a little bit to understand what's happening. What's the overview right now and why there is and will soon be more access to alternatives via closed-ends?

KIMBERLY: Well, it's important because the closed-end fund market has expanded significantly recently. The closed-end fund market used to be known for traditional asset classes: things like municipal bonds or preferred securities. Alternatives really run a spectrum from liquid alternatives, things like managed futures on one end to illiquid investments, private equity, venture capital on the other end. And these types of alternative investments are really compelling for all investors - from sophisticated institutions down to regular ordinary investors. And in today's low-interest-rate environment, we're seeing a lot of opportunities in the closed-end fund marketplace because the structure is a great fit for some of these less liquid alternative assets.

CHUCK: As we're talking about alternatives people need to understand why. Like why do you want if you are a relatively average investor, access to private credit or insurance-linked securities or something along those lines?

KIMBERLY: Individual investors have an opportunity now that they did not have before. We're seeing a lot of alternatives come available that were otherwise not accessible. I think you can remember, Chuck, a few years back when there was the advent of liquid alts. And frankly, there was a lot of unhappiness or concerns about performance of liquid alts. And most of those liquid-alts-type funds were available in mutual fund format. The closed-end fund structure is really better for alternatives because less liquid investments don't fit into a mutual fund. They don't fit into an ETF. And the reason this is really important is that we believe that individual investors are over-allocated to the most liquid types of products, the most liquid investments. And when I say most liquid products and investments, things like ETFs which have been very, very popular, increasingly popular. And so we see it in individual investor portfolios and over-allocation to the most liquid investments. And the reason why this is a concern and we think it's an opportunity for

advisors to have conversations with their clients about how much liquidity does an investor really need because there's a cost for this liquidity. You're paying in the way of giving up additional returns for having excess liquidity. And so we talk with advisors and clients about how much liquidity they really need. When you're saving for retirement or you're saving for a long-term investment goal, do you really need 100% of your assets in daily liquid investments? And so that's really the challenge question because if you don't, there are opportunities for additional income and additional return when you look towards alternative asset classes.

CHUCK: Give us examples of what alternative closed-end funds are in the marketplace when we're talking about it but there's such a wide range. Help my audience understand maybe one fund versus the next versus the next.

KIMBERLY: Sure! What we've seen recently is a lot of alternative credit strategies come to market either in the form of listed closed-end funds or non-listed closed-end funds. We've seen a renaissance of interest lately in interval funds and other non-listed closed-end fund structures because we're seeing types of alternatives: things like structured credit; things like insurance-linked securities; real estate; private equity. These are types of assets that cannot be held easily in a mutual fund wrapper. And so, closed-end funds — be it listed or non-listed types of funds — these are great structures to house these types of alternative investments. And so investors now are seeing not just opportunities to invest in asset classes that are new or different, they're seeing really institutional caliber managers enter the marketplace - institutional investors that had historically only served pension or other types of institutional clients. They are now looking at the growth of the individual investor marketplace and say "We want to be part of that." And so, we've seen some really high-caliber firms, you name it: Apollo, Ares, Blackstone — sophisticated institutions which have launched closed-end funds in recent years — many of them are credit, but we're seeing some interesting things outside of credit in real estate and private equity.

CHUCK: And a name or two that my audience can maybe do some research on?

KIMBERLY: Sure! I'll give you an example. We're actually hosting an event next week focused on this opportunity in private equity. You mentioned the SEC is looking to make it easier for retirees and individual investors to access these types of its investments — private equity and venture capital, in particular — because individual investors have not been able to capture the return potential of those types of asset classes. And so, I'll give you two examples; these are both

non-listed closed-end funds; they have low investment minimums which is important. And both of these funds don't have investor accreditation requirements meaning they can be suitable depending on how the advisor thinks about their client base for many different types of clients who are interested in private equity. One fund is called SharesPost 100. This closed-end fund invests in late-stage private opportunities. So think of Uber or Lyft, how do you get access to those types of investments prior to the IPO? SharesPost 100 is really an interesting newer closed-end fund in the marketplace that gives investors that opportunity. A second example is AMG Pantheon. They have a private equity fund which allows investors — accredited investors — with a fairly low minimum, 25,000, to get exposure to private equity investments. And so we think these are really interesting options for financial advisors who are looking to give their clients more options when it comes to private equity.

CHUCK: And you prepared a little bit of information with home pages and the information pages on those funds. If you're in the audience and you want to get more information on them, send an email to the NAVigator at AICAlliance.com and you will get the information that Kimberly Flynn prepared. Kimberly Flynn, this has been great. Thanks so much for joining us.

KIMBERLY: Thank you, Chuck.

CHUCK: Kimberly Flynn is Managing Director of Alternative Investments at XA investments. You can learn more at XAinvestments.com and online at XA Investments. The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I'm your host, Chuck Jaffe, and you can learn more about my show at MoneyLifeshow.com. To learn more about closed-end funds and business development companies go to AICAlliance.org, the website for the Active Investment Company Alliance, on Facebook and LinkedIn @AICAlliance. The NAVigator podcast is available every Friday. Thanks so much for joining us. Please come back and do it again next week.

Recorded on October 4, 2019

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