Griffin’s Forman: Interval Fund Structure Has Benefits In Turbulent Markets

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Chuck Jaffe, in The NAVigator podcast, interviewed Zach Forman, head of fund relations at Griffin Capital Securities – which runs the Griffin Institutional Access Real Estate Fund. Read the Q & A below as Zach explains why the illiquidity of interval funds can be a real benefit to investors during turbulent times, not only by providing access to private markets that many investors couldn’t access otherwise, but by giving managers the ability to run a fund without fearing withdrawals while forcing investors into longer-term thinking.

Zach Forman

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

CHUCK JAFFE: Zach Forman, head of fund relations at Griffin Capital Securities, which runs the Griffin Institutional Access Real Estate Fund is here, and we're talking interval funds; 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, which is a unique industry organization in that it represents all facets of the closed-end fund industry, from users and investors to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator will point you in the right direction. Joining me today on The

NAVigator, Zach Forman, head of fund relations at Griffin Capital Securities. If you want to learn more about the firm, GriffinCapital.com. But let me re-state that, if you want to learn a lot more about investing in interval funds, which we're going to talk about here but which there's a lot of support materials for and a lot of educational materials, again it's GriffinCapital.com. Griffin Capital is behind the Griffin Institutional Access Real Estate Fund, that is GRIFX. Also the Griffin Institutional Access Credit Fund, that is CRIDX. You can learn more about those at their website. You can learn more about investing in closed-end funds, interval funds, and business-development companies at AICAlliance.org, the website of the Active Investment Company Alliance. Zach Forman, thanks for joining me.

ZACH FORMAN: Chuck, good morning. Thank you so much for having me on the show this morning, really appreciate the opportunity to share insights on interval funds.

CHUCK JAFFE: And let's start with interval funds now. Because we've talked a little bit in The NAVigator about interval funds, but interval funds have now gotten to a very interesting spot. Because under most circumstances, investors worry about anything that's considered illiquid. And I'll let you explain how interval funds work and why they're a little bit illiquid. But right now with the market being completely volatile, some people are saying that illiquid kind of works in your favor because, guess what? It calms you down. So let's talk about interval funds and why maybe they're more attractive, and why illiquidity could actually be a positive in these times.

ZACH FORMAN: Chuck, it's a great place to start, and we at Griffin Capital think about the interval fund structure really as just a box. And quite candidly, when we started our funds six years ago, we were structure agnostic and chassis agnostic, and really looked for a way to provide institutional access to the retail investor. And it's a value proposition, if you think about it for a moment, that historically speaking has been pretty unavailable to your typical mom-and-pop retail type investor. And the idea for us was really to break down the barriers to entry into these private institutional real estate and credit securities, that if you look back have really only been available to your mass affluent pension fund, endowment style investor, who have hundreds of millions of dollars, if not billions of dollars to invest. Which by virtue of those dollar amounts, allow them access to things that again, your typical retail investor simply can't write a check large enough for. So the Griffin Institutional Access suite of products is really predicated on the idea that for mutual fund type minimums that are available through the interval fund structure, we can bring access to best-in-class asset managers for $1,000 and a qualified account or $2,500 and a non-qualified account. And that really was the idea and the genesis for us to bring these two products into the marketplace. One of the benefits of the interval fund structure is the latitude that a portfolio manager has to not only manage capital with a more stable pool and a more stable capital base, which allows them to not have to necessarily be forced sellers of securities at the wrong time. But more importantly, add additional amounts of private securities to a portfolio. And when you think about making the case for alternative investments in general, why do investors and advisors include alternatives in portfolios? It's to minimize portfolio drawdowns. It's to drive current and consistent income. And really provide the end-user or the client, if you will, with a smoother ride along the way, compared to say, a traditional 60/40 stock and bond portfolio. So the interval fund structure again gives us the ability to dial up or down with greater flexibility over an ETF or an open-end fund to private and public securities. And as we know, if you look at real estate by way of example, the private market typically lags the public market by a couple of quarters. So you have this unique toggle switch that you can dial up or down based on where relative risk is in the marketplace, and underweight or overweight to those two respective markets at various places in time. To us, that's one of the biggest benefits of the investment structure.

CHUCK JAFFE: I could see the interval fund structure being very helpful in a volatile market because of course you're locked in until the fund offers to buy back some of its shares. So if the market is going a little crazy, well, you have to ride through it. But I could also see that being nerve-wracking. Especially in something like real estate where a lot of folks are worried about some of the big real estate names, and what's going to happen to retailers, and shopping malls, and office spaces. People are coming back from pandemic, some folks might say, "Well wait, if those things go in the tank, I could be locked into this fund." That's where they're paying for professional management, is to avoid that kind of shock, right?

ZACH FORMAN: Chuck, that's a really great point, and I'm glad you brought it up. It's important to understand, at least with our portfolios, and specifically relative to our real estate fund, that we do not directly invest assets into real estate itself. We are investing in shares or private shares of these institutional real estate managers, LPs, or private institutional real estate vehicles. The reason that that's so important is much of what you indicated a moment ago. We are not susceptible directly to a specific asset that loses a major tenant and is now trying to fill space in a downward spiraling market. If we wish to reposition the portfolio, it's much easier to do that with an interval fund because we simply sell our shares on a daily basis in our liquid securities or on a quarterly basis in our level two or private securities, if you will. And it gives us much greater flexibility to reposition the portfolio. And I think just on a macro level, today is the perfect place in time to take a look at the landscape, and there's a huge dispersion when you look at top asset managers that invested in core markets with low levels of leverage that have overweighted the right sectors of the market, like multi-family and industrial. Underweighted sectors of the market like retail. And other sectors that have been much more impacted by things like COVID-19 and some of the recent tragedy that we've read about in the news over the past couple of weeks. It's the flexibility that, by not owning direct real estate, it gives us greater latitude to be more nimble and move in and out. I would also mention that we're not confined to just investing in private and public equity. We have the ability to also leg into the private and public debt space as well. Which to us is one of the great opportunities that has presented itself, is with credit markets for real estate borrowers tightening some over the past 30 to 60 days, you make your very, very best loans when credit markets get constrained. And as a lender, you can generate far more strict covenants and PIK-type financing, and really generate meaningful OID at a period where capital markets become constrained. We see that happening right now, and there's a great opportunity that we've got our eyes on looking at the private and public debt sector of the market today.

CHUCK JAFFE: Anybody who runs a securities firm wants their fund, their issues to be out to as many people as possible. Is a fund, like either of your funds, because people would have things in each space, really more meant to be, "This is your real estate allocation," or "This is your credit allocation"? Or because of the structure, because of liquidity and other concerns, is it, "This is an adjunct"? In other words, maybe you've got some REITs, maybe you've got some other real estate holdings or real estate funds. Add the interval structure in because it's going to get you into places that you don't go, so it's more an adjunct than a replacement?

ZACH FORMAN: I think that's spot on Chuck. Relative to our real estate fund today, we're invested in 3000+ individual properties if you look across to our entire portfolio holdings. It's very diversified, very broad access point to a highly diversified basket of private and public real estate securities, both debt and equity. One common thematic that we observe with our advisor base is if you look at interest rates today and the need particularly for retirees to generate enough income to live on going forwards, it's really tough with traditional fixed-income to hit those income bogeys today. One of the benefits that an interval fund, and specifically our real estate and credit fund provide, is very strong income characteristics, and I'll just wrap some real numbers around that statement. Today our real estate fund is paying a 5.22% income distribution, a large percentage of which is tax advantaged because it's real estate and you can factor in again, the amortization and the depreciation. And as you register an investment company, those benefits enor to the end-user, which is the investor. So for income and estate planning purposes, obviously if you hold this thing until you die, you get a full step up in cost-basis, you pay no taxes. There's those types of benefits down the road. But also of equal if not more so importance, they solve the need for income today. And paying a quarterly distribution, that's pretty meaningful on a relative basis compared to some other options out there in traditional sorts of fixed-income products. That is where the vast majority of our advisors have plugged these two portfolios in, is as some sort of income planning tool and/or total return type tool.

CHUCK JAFFE: Zach, really interesting stuff. Thanks so much for joining us on The NAVigator.

ZACH FORMAN: Chuck, thanks so much for having me on, and look forward to catching up with you again real soon.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I am Chuck Jaffe and you can learn more about my work and 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. They're on Facebook and LinkedIn @AICAlliance. Thanks to my guest, Zach Forman, head of fund relations at Griffin Capital Securities. Get more information on the Griffin Institutional Access Real Estate and Credit funds, and on interval funds in general at GriffinCapital.com. The NAVigator podcast is available every Friday, please subscribe where you find your favorite podcasts. We hope you'll join us again next week. Until then, stay safe everybody.

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