April 2022 Interval Fund Spring Manager Spotlight- Day 2 Panel #1; "Credit Investing through an Interval Fund"

Wednesday, April 27, 2022

Chuck Jaffe, host of Moneylife, moderates the opening panel of Day 2 of the AICA 2022 Interval Fund Spring Manager Spotlight; "Credit Investing Through an Interval Fund". Read the transcript below to hear the discussion among Mr. Jaffe and panelists Colin McBurnette from Angel Oak, Robert Watson from Destra Capital, and Justin Pfaff from Nuveen.

Chuck Jaffe

Colin McBurnette

Robert Watson

Justin Pfaff

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https://aicalliance.org/aica-event/2022intervalfundspringmanagerspotlight/

Chuck Jaffe: First thing's first, I want to point out if you got to hear all of what John was talking about, he was talking about how the fact that my current iteration of my weekday podcast *Money Life* is celebrating its 10th anniversary and he will be on at the end of that anniversary week celebration. John, I just want to point out, I want to go, "Get the tape of that," just so that's one of the nicest ways anybody has ever called me old, was the way that you did that.

So we're going to jump in, we're getting a late start but I promise we'll get you out of here on time. We've got a great panel for you, we're talking about "Credit Investing through an Interval Fund". I'm briefly going to introduce my guests, but I'm not going to spend much time on that because you have their bios, so you can get more information. But Justin Pfaff is managing director for product management and development for municipal and preferred securities strategies at Nuveen. Colin McBurnette is senior portfolio manager at Angel Oak, portfolio manager for Angel Oak Strategic Credit Fund, which is an interval fund. And Robert Watson is

head of investments at Destra Capital, which among other thing run the BlueBay Destra International Event-Driven Credit Fund which is a particularly successful interval fund.

If you were watching John Cole Scott's presentation, he was talking about interval funds, and the growth that we've seen, he basically showed that roughly one third of the interval funds now available have a track record of less than three years. And so we're watching as there's all this new growth and demand. So I want to start this discussion a little bit with Justin, because Justin, you are in the product development space and you're talking to folks about what they want. It is clear that interval funds are attracting attention, and they're attracting it for the right reasons, and they're backing some of that up with performance. But what kind of growth would we expect and what kind of products? Is this a case where like mutual funds and ETFs everybody's going to have 'em and they're all going to be covering the same flavors? Or is that not really where we're going with interval funds, it's going to be a small but very useful subset of the investment world?

Justin Pfaff: Yeah, great question, Chuck. All right, good afternoon and thanks for having me. As John highlighted, there's been rather significant growth across interval funds. A lot of the growth though in new products has been through credit products, which as everybody knows, the interval fund space historically has been dominated by real estate funds and funds that truly invest in illiquid assets. We sometimes throw the term illiquid around, but as we know those are truly illiquid assets, it's difficult to sell the building that I'm sitting here in Chicago.

So a question comes up, and we've been spending a lot of time here because we have one of the six interval funds that John highlighted with less than a one-year track record with our Nuveen Enhanced High Yield Muni Bond Fund. So we've been spending a fair amount of time with our partners, specifically home office partners. And their question to us is really, why invest in credit, specifically credit strategies, through an interval fund? So our thoughts are this: we believe that the interval structure and the shareholder liquidity profile of an interval fund allows managers to really deliver investment strategies that have oftentimes been reserved for highly accredited investors or institutions, and be able to offer these strategies to a broader base of investors.

To your point though, Chuck, not all credit strategies are best delivered via interval funds. We believe that to really justify and really leverage the interval fund form, we believe that a strategy should be customized for the product wrapper to really go and derive the most alpha for shareholders. So a great example for this conversation, and I'm certain Colin will discuss this as well, but a credit strategy that primarily invests in less liquid securities that may not necessarily fit the shareholder liquidity profile of an open-end fund or ETFs who need to meet daily redemptions.

So as I noted, we launched a high-yield muni focused interval fund last year, and really our thesis there was that we were able to deliver all of the benefits of a core high-yield muni strategy. And because it's structured as an interval fund, our portfolio managers are able to go out and focus more on less liquid securities. They're also able to invest more in distressed, defaulted, and municipal securities. So securities where we may need a long time to work through a workup process, or in some cases a structured bankruptcy of some sort. Also interval fund shareholder

liquidity profile may also allow our PMs to be countercyclical buyers, and I'm sure we'll touch more on that later.

But ultimately the interval structure here really allowed us to create a product that provides investors with an access point to a rather unique capability that let us position further out the efficient frontier. So of course, higher return profile. Of course higher yield for most of these credit products. Also, many of these funds have a very low correlation to other more traditional credit funds. So I think that this thesis here isn't just our thesis. I really believe that if you ask most credit interval fund managers why they brought this product, we would likely share the same thesis, and this thesis frankly has resonated with investors. I normally say especially in this low-rate environment. But Chuck, I sort of have to step back a little bit on that, I'm so accustomed to saying that. So I'll say a low-ish rate environment to better reflect current market conditions.

Chuck Jaffe: I want to bring Colin into the discussion, but not quite where I would have expected to bring him in because we had a pre-discussion. We very seldom raise the curtain on stuff that we are doing, but we had a pre-discussion yesterday, and when I went away from it I thought Colin had made a point that I really don't hear made often about interval funds. And I want to have him make it for the whole class here. And by the way, he has no idea what I'm talking about. He's totally not prepped, I did not tell him this was coming.

But one of the things, and Justin you just highlighted it, one of the things that is always said about interval funds, John Cole Scott said it as well, is that you are always kind of looking at the tradeoff of you have less liquidity as the investor, but the manager has the ability to do more illiquid things, and this way we can kind of make that all work out. But Colin made a point that was quite different, which was look, if you're an investor and you're saying, "Oh, but I'm worried about the liquidity," you're missing the basic cost of that liquidity.

And so in a low-ish rate environment – there you go Justin, I was paying attention – in a low-ish rate environment, if we use traditional funds and they have a higher cost structure because of liquidity, there's a problem there. So Colin, I don't want to steal all the thunder, but you made a compelling point for interval funds on, look, if you've got long-term clients, don't always think about the liquidity tradeoff, think about the expense tradeoff, right?

Colin McBurnette: Yeah, that's right, and thank you all for having me. You've both made some great points there. And what we were talking about in the pre-call and what I think is often missed, especially as you see the way that advisors position within retirement accounts. Which for clients can be unable to access principal dollars there for 20 or 30 plus years, is that there is an embedded cost to a daily liquid mutual fund. And that cost comes through things like cash drag, it comes through a reduction in the conviction that a manager can have in a single security. So you get oftentimes a more watered down expression of the manager's favorite ideas because they're having to plan for periods during which they may face outflows.

And then in those times of outflows, if you are a convicted investor within a strategy or within a sector, others around you may not be. And the crossing of bid-ask by managers to free up liquidity for those that may want to leave your strategy creates realized losses within the

portfolio that you share pro rata with other investors in those daily liquid strategies. And so really I think 2020 really highlighted that there is a lot more embedded cost in daily liquidity than maybe just what shows through on a screening process as it relates to management fee and other investment expenses.

Chuck Jaffe: I want to take this a bit further though. Because part of our discussion that brought that up the other day was you talking about the idea that as much as everybody worries about liquidity, you as a fund manager are prepared for it. That although you could have a mild liquidity surprise, but you can't be blindsided beyond certain levels. So explain for folks who are looking at interval funds, why you are less worried about liquidity than the public is when they talk about it.

Colin McBurnette: Sure, and I actually think in the opening remarks, this transition where interval funds had historically just been invested in very illiquid assets. I know Justin and I think about certain parts of the muni market or the structured credit market being less liquid but on a scale versus an office building in Chicago, those are by all measures wildly liquid. But within credit, you have a constant rolling maturity base. You're constantly taking back whether you're investing in amortizing asset classes principal, if you're managing a bond portfolio that has more bulleted cash flow like corporates or munis, you can stage your maturities.

And we know as a manager typically about 120 days out of what that maximum liquidity demand will be in the upcoming redemption day. So you have four months during which to prepare the portfolio, whether that's through trading or through the retention of principal dollars that are coming back through amortization or payoffs, to be able to meet those redemption demands naturally. As opposed to having to cross bid-ask in what could be a potentially volatile environment to do so. So you're able to structure the fund such that you're always able to meet those redemptions in a way where the underlying investments are providing the cash, not having to sell those investments to generate cash to meeting redemption demand.

Chuck Jaffe: Thank you, Colin. Let's see if we can bring Robert Watson into the picture. I know he seems to be having some communications issues. If he's here, there you are. Good to see you, thanks so much for joining us. You look at this space working with a number of different asset managers. I mean, among them you work for example for Angel Oak, etcetera. For you, what are the exciting developments in the interval space? And help us understand where you see the next opportunities coming for interval funds. Because I know we haven't seen every flavor yet, and I know we're going full Baskin Robins here.

Robert A. Watson: Well, I think Justin's comments at the beginning really are opening up a path that we're beginning to see. Where you're taking what was considered more traditional exposure in credit, and possibly we might even see equity solutions, that come to the interval fund space because it's a better match for the trade horizon not just the absolute liquidity of the instrument. It's a better match for the investment strategy, not just the liquidity of the instrument. And there will be investors that appreciate that and that say, "I'm willing to, in a portion of my portfolio, I'm willing to have some constriction around liquidity and have to only exit in these windows, to give the manager the ability to not just use less liquid instruments but to deploy a strategy or to deploy instruments that have a horizon to them."

And we want to match the duration of the capital invested to the investment horizon, and interval funds allow that. And so I actually think we're going to get to see some really interesting product development that bring in what was previous more exclusively liquid type instruments. It won't just be the illiquids. But of course the interval fund space is well stocked with illiquids today and I expect we'll continue to see new and interesting developments on the less liquid side as well. It is a perfect vehicle for that as well.

Chuck Jaffe: I'm curious, talking about the vehicle and this question is both for you, Robert, and for Justin. When we compare, when you guys are trying to develop new funds, functionally not all of the assets but many of the assets could be in a traditional closed-end fund and could also be in an interval fund. So when you have your choice of both, what is it that makes you say, "This is where we want to go in one direction, and here's where we want to go in the other"? Obviously you've got things where interval funds don't trade at discounts, traditional closed-end funds do, and all those other things. But because you can have the same assets to a good extent, not a full extent in both, how do you when you're looking at it say, "I want to keep this a closed-end fund. I want to make that an interval fund"?

Robert A. Watson: A little bit of it is going to be market reach. Traditional closed-end funds generally are capitalized through traditional broker-dealer systems. Historically, interval funds have gotten a lot of their raise up more amongst independent and RIA type channels. So a little bit of that is a history of where the two different structures source their capital. But those are coming together now and I think that you'll see less distinction there. I think the second part about that is in the traditional listed closed-end fund world, still heavily dominated by persistent and preferably consistent delivery of income.

And in the interval fund space you're beginning to see some strategies that are brought in that are not exclusively income oriented. They may have a total return focus or in some cases they may be completely capital appreciation oriented, and those don't always lend themselves to being packaged on the listed side as well. They probably would be very appropriate as a listed vehicle, but it's difficult to get the syndicate focus to raise up and capitalize a fund that isn't going to have a persistent and consistent income stream. So I think that lends itself a little bit to deciding which side of the closed-end world do we take this strategy to?

Justin Pfaff: Yeah, great point. At Nuveen we offer right around 100 different muni investment products, and if you think about, I'll put out my traveling efficient frontier here, we have everything from SMAs at the lowest risk, lowest return, all the way out to our private funds which go out and are specifically offered for qualified purchasers. Ultimately our goal is to go out and match the investment strategy with the wrapper itself. There is so much you can do in an interval fund that maybe you couldn't do within an SMA, ETF, open-end fund, and then certainly listed closed-end funds as well.

I completely agree with all of Rob's comments, and then I would also add that with the interval fund there's really a true opportunity to be a countercyclical buyer. So you think about right now in the muni market, Q1 was the worst performance quarter since 1981, and we experienced the highest level of muni open-end fund outflows in a quarter ever on a dollar amount. So oftentimes

in the muni market, you think it's a $4 trillion market, about $1 trillion is held in daily liquid vehicles. So basically dollars are kind of moving in the same direction until yields reset, you start to see crossover buyers come in.

So with having an interval fund that offers daily subscriptions and then quarterly redemptions, we can really be a patient base of capital in what can be a rather impatient market. And we can be a true countercyclical buyer so long as we're raising money through the daily subscription window. Which is different than that of a closed-end fund where outside of at-the-market offerings, overnight offerings, and those rather rare capital raise occurrences, they're not raising capital on a daily basis. So how we positioned our interval fund is frankly to be more opportunistic than most of our listed closed-end funds.

Chuck Jaffe: Let's bring this around to Colin, because Colin, I mentioned you, portfolio manager for the Angel Oak Strategic Credit Fund, but you're also involved in other funds. So when you go out to look at certain investments, do you always know where they're going? In other words, I know this is going interval fund, this is going traditional fund. How often do you find something and maybe you can give us an example without going through disclosure problems of something that you've looked at where you sort of say, "Okay, well, here's the decisions that we're making."

Colin McBurnette: Sure. So as far as our strategies go, the strategies that I manage, our flagship fund has very few constraints. Which I think would probably be unique in terms of credit rating, duration sensitivity, etcetera, which is I think unique versus a lot of other fixed income managers. And because it lacks those constraints, or because we have such flexibility in there, we often find something that can go in both strategies. What really changes is I think the concentration at which you can express that idea. Meaning that if you're thinking about an asset that is tailor made for an interval fund strategy, it's likely going to have a higher liquidity premium, which is where the wrapper is kind of perfectly suited to allow you to invest. Perhaps more credit sensitivity. And you have to be very mindful of sizing of that in a daily liquid strategy versus the sizing of that in an interval fund.

And so from our perspective, and if you look for example at approximately the top 10, the concentration of the top 10 holdings that we would have in an interval fund versus the top 10 holdings we would have in an open-ended fund, you would have something like two to three times the concentration in those top 10 that you would in the top 10 holdings in your open-ended strategy. But if you were to look at the concentrations of those positions, interval fund to daily liquid fund, that may look more like 10 to 15 times larger in the interval fund because your conviction is equally as high but the structure allows you to express it in a more concentrated format.

Chuck Jaffe: I'm going to change the subject to a question that came up after we had our prep call. So you guys are again not prepped for this but that's kind of my specialty because I know you can answer it. I was talking yesterday afternoon with a guy who's in the closed-end fund space and was discussing the fact that I was going to be doing this panel discussion, and he said interval funds are at an interesting time. Because yes, you've got all the demand and all the

things that are going on, but given market conditions, well, you're either going to prove the concept or you're going to disprove it.

It's going to be like that sort of classic, hey, we're opening Bitcoin funds right as Bitcoin goes down or whatever. We're getting to a spot where we just had a day ago, the first major US investment bank say, "Recession's coming." So we're now going to be testing this, how well do interval funds hold up in heightened volatility and more coming, moving away from the low-rate environment assuming that we still see rate hikes and the rest. I'm curious, given, and each of you will have your own individual economic and market outlooks, are you more or less confident in the interval structure in these times compared to the traditional structure, given again your outlook and what we're seeing in the market?

Colin McBurnette: Sure, I'll go ahead and start there. I think that in times of stress the interval fund concept or structure I think already proved itself in 2020 if you look at the recovery that funds experienced during that time. I feel like, and this is going to be specific to credit, but you could extend it I'm sure to real estate and other things, there's really two ways that you take permanent [inaudible], one is through credit losses and the other one is through selling at a loss. Now that can happen either through leverage or through redemptions. The interval fund structure one only allows for what I would consider to be a very prudent amount of leverage, and I don't think most are anywhere near their maximum amount. And the selling of assets is relatively known in advance, so you shouldn't be caught off guard there.

So it's really if you can get the credit right as a manager, then you should be able to recover through periods of drawdown. It's not a story of reduced volatility within the credit interval fund space in my opinion, but rather I think this upcoming time where you have economic uncertainty and potential of volatility, will highlight credit managers who really are able to do an excellent job on the credit itself. Because their returns won't be skewed based on flow dynamics that may help one and harm the other, but rather truly I think on the credit work that they're able to do and the results they're able to have as a result of that. So I would argue that the structure was proven and now you're going to really see it allow managers that are best in breed to shine in this upcoming window of uncertainty.

Chuck Jaffe: Robert?

Robert A. Watson: I would dovetail off what Colin said there, and actually I'm going to reach back to Justin again as well because he commented about this potential to bring new capital into an interval fund that at least in the current environment will be untouchable in listed closed-end funds because of the fear factor. The ability to hand your manager, the ability to give Colin fresh capital today with the opportunity set and the repricing that has occurred since the start of the year, frankly the repricing that occurred last night in many opportunities, it's a powerful tool.

It's a powerful tool to say, Colin, here's fresh capital. And he is seeing things now that are much more attractive, and he doesn't have to make alterations to the rest of the portfolio to go and participate in that and bring that in. That's tremendously valuable and I think can be a big benefit to the interval fund structure and something that I think we may see as a real accretive element to why people want to put strategies into interval funds as we work through 2022. It doesn't take

away the pain we all feel as investors this year, but it sets up the portfolios for opportunity to bring things in at much more attractive prices.

Chuck Jaffe: But of course the public has to be willing to sit through it. Meaning everybody gets on the rollercoaster, some percentage of them get off of it feeling queasy. That's the issue, is are we going to see more volatility that either makes it that there's a little more nausea among people that can't ride it out. Or is it maybe going to be the other way because they'll get exactly the benefits you see happen? Justin, you want to?

Justin Pfaff: Yeah, I'll dovetail off of what Colin and Rob noted. And you think about during volatile times active management is more valuable. I believe these closed-end fund structures allow our portfolio managers to truly express the benefits of active management. And on top of that, with having quarterly liquidity, there's a great opportunity for investors to go and really sort of reposition during those quarterly periods of time.

So for example, I really can't find a single one of our muni open-end funds that has positive flows this year, but our interval fund does. So think about having capital or having liquidity when almost everyone else in the market is seeking liquidity. Again, it comes back to the countercyclical buying aspect, which is sort of a smaller alpha component for these products. But I ultimately believe that during a more volatile, a more fragmented period of time, a time where there's significant dispersion in the market, that's really where interval funds will shine, and that's where active management will.

Chuck Jaffe: I want to remind our audience we do have a Q&A function. Please feel free to submit questions, we'd love to get yours and make sure that we're asking them while we've got everybody here. So just if you're in the audience for us, go with the live in the chat. I'm sorry, Colin, go ahead.

Colin McBurnette: No, no, I'm sorry. I may have had a quick disruption there of my internet. If we've moved on, I did have one thing to add. But if we have something else to go--

Chuck Jaffe: No, no, no, go for it.

Colin McBurnette: Sure. I was going to say I think back to the original, in the opening remarks around the type of structures that go into interval funds, I do think some of what you're highlighting about is this the right place for investors to be, it's important, every structure shouldn't go in an interval fund. Nor are they places where investors can speculate on I think Apple's briefly undervalued. This is a place where I think is tailor made for wealth managers who want to do a lot of work to develop conviction around a certain sector that they think provides an attractive enhancement within their portfolio for clients.

Whether that's as a high income driver or as a total return driver, or a place where you would typically find a hedge fund or alternative sort of investment, I think interval funds fit nicely in those slots. Where it is the investor themselves needs to take a long-term view on we want to be positioned here because we like the fundamental thematics, we like the manager and we like the return stream, we find it additive within the portfolio. It is not a perfect wrapper for every type of

investment strategy. Again, it's not to allow short dated speculation, but rather long-term conviction on a manager and on a sector.

Chuck Jaffe: And what all of that boils down to is, to make this work you need to have the right person investing. You need to have the advisor who's explained it properly to the client, if that's who's doing it, etcetera. This is a classic buyer beware, understand what you're getting sort of a thing to make sure that you're going to be able to have that match and get the benefits.

Colin McBurnette: That's right.

Chuck Jaffe: We've got a question from Igor, we'll throw this out, we'll see who wants to answer it. Interval funds were born in the 1990s mostly for credit related asset classes. They did not gain much traction. They were reborn in the 2010s and have succeeded. Why is this time different?

Robert A. Watson: Well, as someone who was not just a passing participant in the 1.0 version of interval funds, all the years I spent at Van Kampen many years ago, they were pretty big with the senior loan products at that time. I don't know that I would say that Eaton Vance and Van Kampen and several others that are in that space didn't have success with it, I think it was just interesting that the rest of the industry didn't look to try to put strategies into it. But for those that were focused on the senior loan category 20 years ago, it was highly successful, and was a great tool for a lot of advisors for a lot of years.

Chuck Jaffe: So why didn't it gain traction? Why did it basically have to go away and be reborn in interval fund, would this be 2.0 or 1.1? I think it's 2.0.

Robert A. Watson: 2.0 I think, right. I go back to my comments a little earlier about seasonality. When does the syndicate window open to raise assets, when does it not? When does the wealth management market space like a particular packaging structure, when does it not? I question a lot, has there been as much capitulation away from active to passive management? Or has there just been as much adoption of a very efficient tool in the form of ETF with trading? And since most ETFs have come as passive, I wonder if some of it isn't that we're backing into passive positioning. I think about it as an advisor or a wealth manager, I like the efficiency of using ETFs. I think what we're finding now as we see a lot of people bring active ETFs to the market is that wealth managers and advisors will hear that story as well. So was it coincidence that the current excitement about ETFs helped pull more passive indexing and investment into portfolios? It might have been.

And the converse of that happens with things like closed-end funds, whether they're listed or whether they're interval strategy. There's seasonality to this, and I think for a lot of the early 2000s there was an awful lot of fascination with greater liquidity, and the opportunity to build portfolios and learn how to use things like ETFs. And now perhaps we're getting to a point where people are saying, in addition to that core portfolio that might be built with a lot of ETFs or SMAs and things like that, I still need some things that different roles in a portfolio. And gosh, that interval fund strategy seems to be able to accommodate that as evidenced just by the investment styles the three of us represent here.

Colin McBurnette: I think that's spot on, and I would add too that you've seen the hedge fund community become further and further out of reach for the average retail investor. It used to be that most were accredited, you've moved to where most are qualified QP only, and then really only willing to accept a new investor if the check is, let's say starting at eight figures. And that has really pulled hedge funds out to anybody except your kind of wealthiest of investors.

And so I think throughout the period that Robert was highlighting, where you did have this move towards higher liquidity within most portfolios, you still had the hedge fund option. And I think the move upstream by hedge funds and private equities really been accelerated over the past five to seven years, and that's left a gap in a lot of peoples' portfolios for the ability to find something that's higher income, higher total return, and where they're able to capture a liquidity premium, that interval funds are stepping in now to fill that void.

Chuck Jaffe: Yeah, you can't do an interval fund on a commercial. "Robin Hood, let's trade by the second." "Interval funds, buy this thing, you won't be able to trade it for months." It's just not going to make the right commercials. But I am curious, Justin, when we started and you were talking about how we've been in low rates now become low-ish rates, how much did the interest rate environment, lower for longer, also contribute to maybe some of the struggles getting traction at that point? Especially when you combined it with the liquidity culture of the aughts and the coming up into the 2010 frame?

Justin Pfaff: Yeah, great question. I think partially the decline of the interval fund market at the end of the early 2000s was frankly mutual funds figured out how to offer senior loans, those are difficult to hold. The manager that Rob spoke about actually moved over to Nuveen, and we had a senior loan interval fund, we had actually many board members who are a member of our current fund's board who were members of that fund's board as well. So they weren't necessarily doing anything unique, whereas now I think most of these interval funds, they're actually offering very unique investment strategies.

But to your point, Chuck, regarding the innovation in the space, I think a lot of this has really been forced innovation. Because of a low interest rate environment and investor liability is not necessarily matching up with their yield potential. So investment managers have gone out and have launched these rather novel products and novel strategies to go and potentially shrink that income gap that we know many investors are facing.

Chuck Jaffe: Ron in our audience notes that when the SEC invented interval funds there were already tender funds that were doing the same things, and the platforms only recently found the assured liquidity of 5% more attractive to buyers than discretionary offers that were usually 35%. Hence interval funds as a structure gained the marketing push. Robert, is that that difference that we were talking about between, well, 1.0 and 2.0 I guess is what we settled on?

Robert A. Watson: Well, I don't know that tender offer funds have ever been broadly seen by retail investors. Tender offer funds are mutual funds legally, but culturally they're a lot closer to private equity. And I think from a market segment they're presented there more in private equity. Well, even back 20 years ago interval funds could be bought and sold over the wire, so it's not

that operations were always easier, I think Colin's point is more on the nose. It's that there are a lot of interesting investment strategies and sometimes interesting investment assets that sit better in a vehicle that can gate.

If we were having this conversation 10 years ago we would be talking about how technology is going to democratize hedge funds right down to everybody. And as Colin pointed, it actually is reversed. And the capacity and the ability to utilize your capacity for a premium pushes hedge fund managers to not make themselves available everywhere. And so some strategies now sit better in an interval fund, brings hedge-like exposure, not exactly hedge funds but a hedge-like exposure to portfolios, and it is more elegant. And I think to the commenter's point, the certainty of whatever interval you pick and whatever amount you pick, it allows people to decide, is that comfortable for me? And that means a lot to people that are making the commitment upfront to come in and join the fun.

Chuck Jaffe: Let's go back to the Q&A. And again for anybody who wants to get in in the limited time we now have left, please put your questions up on the Q&A function. But Fabiana asks, what are the panelist's thoughts on private equity and venture capital opportunities and the challenges rolling out interval funds? So I recognize that we may be a little bit more focused on the credit side here, but your thoughts on private equity and venture capital opportunities and the challenges?

Robert A. Watson: Well, the fund that we partner with BlueBay on is an event-driven credit fund, but when you get to the point where a company's going through some kind of an event, maybe stressed or even distressed, you can end up being an equity owner, and a private equity owner at that. So I think the opportunity set is around investor education, around your strategy, whatever that strategy is, for them to understand the logic of why you believe the interval fund wrapper works. In our case it's so that you have time to go through a workout or a restructuring or a recapitalization or whatever's necessary to unlock the value that the managers saw when they entered the position.

And that lends itself perfectly to an interval fund because you don't worry that your fellow investors to the left and the right of you are going to push your portfolio manager out of the trade with redemptions. And that's really a control dynamic that's really important to the strategy. And so I think that applies in the private equity and venture capital space as well. This is capital that has to commit, and you don't want to be a mutual investor and have your mutual partners left and right of you force an investment decision to meet their current liquidity that wouldn't have otherwise wanted to. Because the terms won't be attractive in a private equity space if you're forcing a liquidity event that its time hasn't come yet.

Chuck Jaffe: Colin or Justin, you want to step in on this?

Colin McBurnette: They can be included within interval funds. To dovetail on what Robert was just saying, the duration of those investments are not the same as the duration of the capital in the interval fund. Venture capital, to the extent that you were getting in it, you couldn't be. But if you got 100% invested there, you're not expecting to generate back 20% of your principal dollars to meet the likelihood or the minimum allowable redemption amount that you could have

to meet over the course of the year. While you would hope that all of your investors are convicted and understand that, you never know when 5% is a small amount one quarter but it could be a large amount over the course of four quarters.

If you're buying something that has a multi-year horizon and really no cash flow in the interim, private equity's got a little bit more of an ability to generate capital, especially depending on the stage at which you're in on the PE side. So perhaps it's more appropriate. My thought is it's a place to do it, it's not the ideal wrapper for it. Does it allow for more democratization of the investments in that? I'm sure it does in more watered down fashion. I can't imagine the returns there compete with the returns of going directly into a VC or PE fund that would be a true private offering, but again, that may not be available.

Justin Pfaff: Yeah, I agree across the board. I do think for those strategies, for the right client you're likely going to gravitate more towards a pure play strategy which will likely be structured as a limited partnership of some sort or some other vehicle. Which unfortunately those are mostly gated for qualified purchasers.

Chuck Jaffe: Well, we're just about out of time here, so I'm going to do an old interviewer's trick. Not to try to fill the time but to try to make sure that we fill it well. Which is, gentlemen, we sort of did the little prep call and everything else, is there something you were hoping we would say today that we've somehow missed? For any of you, is there a point that you were really hoping to make about interval funds which you particularly want the audience to get that I didn't somehow lead you to and it would be a shame to let us get out the door without making? And it's okay by the way if the answer is no, because that just means I'm a heck of an interviewer. But I would hate to leave it there if there's something you were hoping to say.

Justin Pfaff: I would say in the credit space for interval funds we're very much in the nascent stages. We've had conversations with almost every home office you could think of, their goals are to really democratize their alternative offerings, and they want to do that for a broader set of investors. And they're seeking to do that through somewhat known investment strategies from managers that likely offer a somewhat similar strategy inside an open-end fund, a closed-end fund perhaps an LP, so that those firms can then offer the full spectrum of access points for their investors. So while we're certainly creating product here, this isn't necessarily just a supply push, really it's more of a demand pull.

Chuck Jaffe: Colin or Robert, last word?

Robert A. Watson: I would add that just as you ladder a bond portfolio, you can ladder a product packaging portfolio. You can have a lot of individual securities or ETFs or open-end funds, but you can reach out beyond that. And an interval fund provides that opportunity to ladder that out and invite either a strategy or an asset class that you really can't have closed end.

Chuck Jaffe: Colin?

Colin McBurnette: At the risk of repeating what both Justin and Robert just highlighted, I do think that we're early on in this and I think that we will see a tremendous amount of growth

within the alternatives portion, or perhaps as an equity replacement within advisor portfolios over the coming years with interval funds playing a major role in that.

Chuck Jaffe: Well, Justin Pfaff, Robert Watson, Colin McBurnette, it has been great having you on this panel, thank you so much for all that you did. For the audience, thank you so much for paying so much attention and getting involved. I just want to put in one more plug for *The NAVigator* podcast, which of course is part of my show *Money Life* and I also want to tell you, if you ever have an interest in appearing on it, well, you might want to talk with John Cole Scott, he knows how to push the buttons and make some of that stuff happen. And we would love to be talking with many of you down the line. Now, I will let John Cole Scott push the buttons. John, thanks so much for having me.

John Cole Scott: Great, good job. Thank you all for the timely comments, perspective, and breadth, really appreciate it. You're welcome to drop off the stage and I'll just let people know we're going to have about a 10 minute break before the next session. Feel free to chat with people at a different table or get refreshed for the next session. And again, that will start promptly at 2:30 PM.

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Recorded on April 27, 2022.

Click the link below to go to the home page of Active Investment Company Alliance to learn more:

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