April 2022 Interval Fund Spring Manager Spotlight- Day 2 Panel #2; "Investment Comparison Between Interval & Tender Offer Funds"

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Kevin Hardy, partner and investment manager at Skadden Arps, moderates the second and final panel of Day 2 of the AICA 2022 Interval Fund Spring Manager Spotlight; "Investment Comparison Between Interval & Tender Offer Funds". Read the transcript below to hear the discussion among Mr. Hardy and panelists Brett Schlemovitz from Stepstone and Alexander Condress from Cliffwater, LLC.

Kevin Hardy

Brett Schlemovitz

Alexander Condrell

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

Kevin Hardy: Hi all, and welcome, I'll get us started. My name is Kevin Hardy, I'm an investment management partner at Skadden, Arps. Chuck's a tough act to follow as a moderator but I'll give it my best here. Our panel today is "Comparison Between Interval and Tender Offer Funds". We're going to expand on that a bit and really just talk about structuring alternative products for retail investors in the registered space. It's certainly a subject near and dear to my heart. My practice focuses on registered closed-end funds, be they traditional listed funds or interval funds or tender offer funds and various hybrids and permutations between those, and those are often the most fun.

I'm joined today by two panelists, Brett Schlemovitz and Alex Condrell, who each come to us as innovators in the space. And so I'll start by asking each of them to introduce themselves, and talk

a little bit about the firms and what they have cooking in this space. Brett, you want to get us started?

Brett Schlemovitz: Sure. Hi everybody, I'm Brett Schlemovitz, I'm a managing director at StepsStone. We are an alternative asset manager that focuses entirely on the private markets, and we typically do it through a manager of managers approach. So we have private equity, venture capital, private credit, real estate, infrastructure, and real assets. So everything we do is typically illiquid, and everything we do is in the private markets. Our firm manages about $125 billion in assets and we're a public cap public company, ticker is STEP.

In terms of myself, I started out my career as an investment banker. I covered financial institutions and did equity and debt capital raising and merger and acquisitions for those companies. In the last nine years of my investment banking career I spent at J.P. Morgan in New York. After I left J.P. Morgan I went to CNL, which is another alternative asset manager entirely focused on distributing alternative products to individual investors. And while I was at CNL, I built and managed the private equity platform, and we offered a fund CNL Strategic Capital that still is one of the only private equity funds that's able to be sold to mass affluent investors, and the fund's done very well. I joined StepStone a couple of months ago, and at StepStone I focus on key relationships for the firm as well as product development. I'll pass it over to Alex.

Alexander Condrell: Thanks Brett. I just realized my Zoom background is also backwards in Cliffwater, so don't hold that against me. My name is Alex Condrell, I'm managing director at Cliffwater. Cliffwater goes back to 2004 as an institutional consultant, the firm was started to help institutions with their alternative investments. So we still have that business, today we advise on roughly $100 billion, helping institutions get access to hedge funds, private equity, private real estate, and private credit. We've also launched a fund business. We've really gotten focused on the private credit business over the last seven years or so. In our funds business we have two interval funds that focus on different parts of private credit, and that totals about nine billion of assets just to sing to that group, and that's a part of the group that I'm involved in myself. Glad to be here.

Kevin Hardy: Thanks Brett, thanks Alex. So to go back to the name of the panel interval funds versus tender offer funds and lay a little bit of the groundwork. Obviously those are the two primary ways that a nonlisted closed-end fund can offer investors liquidity, either by opting into interval status or conducting periodic tender offers. Look, if you're new to the space you might say that's sort of a distinction without a difference, but I think everybody here today probably knows that that seemingly minor distinction around that difference. Very different models for a nonlisted retail product have really grown up around that difference and that really impacts a lot of different aspects of the way you structure these investments.

Look, when I think about a successful fund, I think you need a combination of three things. You need the right fund structure, the right strategy, and the right distribution approach. So I thought maybe we'd start with the first piece of that, fitting the investment strategy and the fund structure. And talk a little bit about the approach to whether a particular investment opportunity works well in a particular fund structure and how do you think about that? Alex, do you want to start us off on that one?

Alexander Condrell: Sure, thanks. Yeah, we think that's definitely one of the key criteria. Can you move from a partnership structure, which is common in the institutional world to get access to private assets, can you move from that into the much more liquid setting? Not fully liquid but more liquid of interval fund, without setting yourself into such a mismatch of assets and liabilities that you set yourself up for a problem down the road. We believe that with the senior private debt especially, but even other forms of private debt, but especially senior lends itself well if you can be very diversified. So the approach, definitely a key part of it.

So for us that means be very diversified, generate a lot of runoff in the portfolio internally, and then use a leverage facility in a modest way that allows for a liquidity backstop. So there's generally multiple ways we have to make sure that we can be able to meet redemptions and not get ourselves in a difficult position of trying to sell assets at a time when there may not be a lot of buyers out there.

Kevin Hardy: Brett, any thoughts from your perspective?

Brett Schlemovitz: Yeah, you know, going back to where you started, I think I agree, there has to be the right match of strategy and structure. And we always think first in terms of what's the right investment strategy for the market and what's that strategy that we want to bring? And then from there, what's the best way to package that strategy for the market? For some asset classes, I think it's pretty easy and straightforward. So for example, for real estate, the REIT structure was specifically designed to be able to get private real estate into individual investors hands. I mean, there are other structures for real estate but the REIT is sort of a catchall and is pretty straightforward.

Same thing for private credit, the BDC was specifically created to allow individual investors to access that market. Now as Alex mentioned, you can do private credit in a variety of structures including a closed-end fund, including an interval fund, but there are these structures that have been designed to house the particular strategy. When you get into strategies like private equity, the world becomes a little bit different because there's no structure specifically designed for that asset class in a retail structure. But there are some structures that can be used, and depending upon what's important to you, the manager, what's important to the investor, you sort of pick the right structure to fit your strategy.

And then on top of all of that, and I'm sure we'll get into this later on in the panel, depending upon the distribution channel that you sell into, different distribution channels will like different structures. So I always say this business has gotten a lot more challenging, it's gotten better but it's gotten more challenging over the last seven or so years as more strategies have come to market and more structures come to market. I always say it's a bit like a Rubik's cube and twisting and turning to see if you can put the right structure around the strategy that you want to bring to market. And to Alex's point, making sure that within that structure you can manage the fund appropriately within the limitations of that particular fund structure.

Kevin Hardy: Yeah, maybe we pick up on that one a little bit. Each of you have mentioned that, the challenges of managing the portfolio in a structure like this. As I think everybody

knows, most of these vehicles are going to have monthly inflows through monthly closings, if not daily inflows for some interval funds, and you're going to have periodic outflows as you give investors some liquidity. And so how do those considerations impact the way you construct and manage a portfolio when you're trying to build it in this particular structure, assuring that you're giving your investors the best experience?

Brett Schlemovitz: Sure, happy to take a crack at that, Kevin. So again, I think the way we think about it is we always want to bring institutional quality products to the retail market, and sometimes you can have a great strategy but there just isn't the right structure to fit that strategy. And to Kevin's point, there are two major governors that you have to make sure that the structure allows you to manage for appropriately. The first is probably liquidity, and in these retail offerings most of us are essentially providing some level of liquidity on a quarterly basis usually. That's fairly different than the institutional world where there is no liquidity for whatever it is, seven years, 10 years, maybe more than that. And that's quite frankly the challenging part, because we're essentially taking illiquid asset classes and offering liquidity there.

For our flagship fund, CPRIM, which is a private markets fund that offers investors exposure to private equity, real estate, infrastructure, and private credit, in that fund we offer 20% annual liquidity, and in Alex's main fund I know they offer 20% liquidity as well. So we really need to make sure that on the onset, if we get hit on that 5% quarterly liquidity, which in an interval fund you're required to provide, that we can effectively provide that liquidity. And we want to do this all in a way so that we're not really watering down the strategy to begin with, right? So we don't want to just hold an excessive level of cash which really becomes a drag in the portfolio, so we have all different ways that we can meet those liquidity needs. Although luckily enough we haven't ever come close to needing to provide as much as 5% in any given quarter.

The other big thing we think about, and there's a list of 20 but if I'm just going to focus on the top two is in these funds, and in our fund CPRIM and in Alex's funds, they're evergreen funds that take money in on a monthly basis. And you really have to think about how are you going to get that money into the ground quickly? Because the biggest downfall of some of these funds is that they set up a strategy and then realize they're better suited for drawdown versions like in the institutional market and they really can't get that money into the ground quickly enough and it becomes a drag on the fund.

So for example, if you're managing a mega cap private equity fund and the deals are, call it $500 million, it's going to be really challenging to raise enough money every month and to line up the deals to get that money into the ground quickly. So that's definitely something that we think about that as we're raising capital, how long will it take us to invest that money such that we don't have a significant drag within the fund? There's a number of other attributes that we think of, but those are probably the biggest two when I at first glance say, "Does this structure fit the strategy that we're trying to bring to market?"

Kevin Hardy: Thanks.

Alexander Condrell: Yeah, I would echo almost all of that. I think important takeaway for the investor community is that the tradeoff, once you are comfortable that the manager has a handle

on the approach, that the approach can generate the liquidity, that there's not a big mismatch and there's not over leverage or there's not overextension of the investments in one way or another, then you realize there's a big opportunity for the investor side because they can get access to this asset class, whatever asset class it is, in a much easier way than using partnerships which have often these minimums, or even BDCs, there's paperwork and the other restrictions that you have. It's much less restrictive.

When I started at Cliffwater I remember thinking that what I liked about the investment approach had more to do with the investments and less to do with the structure. But what I have come to realize is what a lot of investors appreciate, and their advisors often appreciate, is that the simplicity operationally sort of almost dominates everything. And the ability to put these into model portfolios, not have documents, these massive sub docs that tell their clients they could lose everything. And being able to invest and get the money in the ground put to work faster, as Brett mentioned, that's huge. And it's actually not just mentally pleasing, it also makes a big performance difference relative to waiting for capital calls and sitting around, everybody knows the IRR that's reported by the manager is not really what you're getting. And so it solves a lot of problems, which means you can raise money a lot more effectively. And so the structure is a really good one if you can get past that first hurdle of is the approach sensible and effective?

Kevin Hardy: One follow-up question there. I think both of your firms have been successful raising a lot of assets in this space. Do you think about these portfolio construction challenges, how do they scale as a fund grows? So the challenges you face in the first couple hundred million dollars, and then when you're talking about a couple billion dollars, do those change and evolve over the life of the fund?

Brett Schlemovitz: You know, I would answer the question two ways. I actually think it's harder in the beginning stages of the fund to really get these funds off the ground and build a diversified portfolio for investors. We worry a lot more about the first, call at $300 million than the second $300 million. One of the similarities between StepStone and Cliffwater is both of us have a manager of managers approach, so we're able to allocate capital to a number of different managers, we're not only captive to our own channel.

Again, at the onset of these funds one of the things that we want to think about is can this fund scale? Are there enough opportunities that if this fund gets to a billion, two billion, $10 billion dollars, that there's enough deal flow? And again, I think having a manager of managers approach certainly helps that. And the way we look at it, that the bigger we get, quite frankly the easier it is because you sort of have a well-oiled machine, you have a baseline of performance and diversity within the fund. So building on it is much easier than getting it off the ground.

Alexander Condrell: Yeah, I think that's true in many ways. It still requires a lot of attention, the growth requires resources, often have to hire more people, but it's a good problem to have, and a lot of necessity toward ensuring that there's still runway for future growth. Of course nobody's promising you future growth, so you also need to be prepared for no future growth and be able to pause any commitments that you might be expecting to make. But if you can put those into place, the opportunity to have more deal flow, the opportunity to pause and do that effectively, again that's a lot of work that goes into that behind the scenes. But if you can do it

well, then you've really got an offering from the investor and the advisor standpoint that is really appealing for all the reasons we already talked about.

And so I think that I agree, the opportunity grows over time. And in fact, there's often things you can do as a larger fund than would be able to do as a smaller one because you can work with those managers as Brett's talking about. You can work with them as more than just a fee-paying client, you really become kind of a strategic partner to them in the sense that your capital could be allocated in different ways. And as a result, when they see that you're really able to help your business, they're able to do a lot more for your fund in return. And so there's a lot of benefits to being larger as well.

Kevin Hardy: Great. Maybe one last question, meshing the portfolio to the structure area. We talked a little bit earlier, Brett, Alex, you both touched on it as what has been predominant in this space. Private credit has obviously been very big, real estate is at a large presence. Any other strategies you think the market is ready for or that you'd like to see brought to investors through structures like this?

Brett Schlemovitz: Yeah, it's an interesting question. Like you said, Kevin, if you look back 40 years there have been hundreds of real estate funds that have been starting in probably 2010 or so was when the BDCs and then a couple years later the closed-end interval funds brought private credit to individuals. And then private equity popped up a couple years ago and you're seeing more and more private equity funds. We're always thinking about ideas, and one of the nice things about StepStone covering all the different major private asset classes, we're always thinking what is next and what can we bring to the market?

We actually have our next fund on file right now, it's registered, and it will be a venture capital fund in a closed-end tender fund structure. So at least in my view, that will be one of the first and only venture capital funds, institutional-quality venture capital funds where you'll be able to invest side by side with institutional investors in some of the highest quality VC managers out there, but in a more user-friendly, digestible format. We haven't settled on our minimums but they'll be somewhere around $25000 to 50,000. We'll offer liquidity, it won't be 20% in this fund but it'll be 10%. So we think that'll be really neat to bring venture capital to individuals.

And then we're always thinking about some of the other asset classes that we manage at StepStone, and going back to the first question, can they be packaged the right way to bring to retail investors? So one of the areas we're thinking through is infrastructure, another one is ESG type investments, so we still think that there's a lot of room in this market. And so far really only call it three of the major asset classes have been brought to market, but there's still some great strategies that people just haven't. We're still in the early innings here and we just haven't gotten there yet.

Alexander Condrell: Yeah, I would agree with that. We've tried to think of whether we could put real estate assets and/or private equity assets into this structure and that's on the drawing board in both cases, but we still feel like there's a lot to do. In other parts of private credit, we started a second fund just about a year ago, it's still kind of in the ramp-up phase but it's going to focus on things outside the senior middle market like royalty lending and leasing transactions,

medical liens, litigation and so on. A little more credit risk in some cases, but higher return target and we think also is an area that very under invested by most individuals if not most institutions. So we think there's a lot to do there.

If you can do what we've tried to do with our first fund as well, is to bring what the big institutions get-- this is the whole challenge, how do you give an offering that has what the big institutions get? Which is safety in numbers, they can invest in as many call-down funds as they want, as many managers, how do you get that into this structure with costs that's also reasonable? The big guys get the best cost usually, and how do you do it in a structure that works well for individuals instead of the call-down fund which works well for institutions? And so when it comes to other asset classes, if we can find a way to triangulate those benefits into something that we think works then we'll do it. As of right now, like I said, on the drawing board except for the two funds that [inaudible].

Kevin Hardy: Great, thanks. A quick follow-up question with my lawyer's hat on as I hear you guys talk about things like venture cap and non-traditional lending. One of the things that immediately jumps to my mind is the valuation challenges around all of that and putting it into a continuously offered registered vehicle. Any thoughts there?

Brett Schlemovitz: Yeah, so for our venture capital fund that's coming out, we'll pretty much look at it the same way that we look at our private equity fund. Similar to the folks at Cliffwater, we get an amazing amount of data on all of the portfolio companies that are in our portfolio from the managers, we're in constant contact with them. So typically what we'll do is we'll get the marks from the managers every quarter, and then we're able to roll them forward for capital calls, distributions, and any other major tangible event impacting the company.

Listen, these are private companies and they shouldn't be valued on a daily basis, it's just too much for these companies. But we feel pretty comfortable that on a monthly basis in working with the manager and having the robust amount of data that we do, and rolling forward manager valuations, that we can provide a fair and balanced valuation within the fund.

Alexander Condrell: Yeah, I would agree. But that's part of the challenge for any new fund too, is certainly whether it's feasible or not. But in our second fund where there's less of a history of transactions and less of a comfort that we have with making estimates, in our senior debt fund that's heavily diversified, we do make daily estimates if markets are moving around a lot. If they're not moving around, which is typical, then we're generally just accruing income minus expenses, pretty straightforward.

But in the newer fund that does royalty lending and so on, that one we're just going to let it be a little more lumpy, and it's going to move a little bit more on the quarterly basis as we get those manager marks, and that's just the decision that we've made rather than try to make estimates. We think it's manageable if you can still be diversified and not have just such a concentration that you're going to really jump around, but nonetheless it's a factor that we have to deal with and others will have to deal with too potentially.

Kevin Hardy: Thank you both. Why don't we turn it to the other leg of the stool from our original framework and that's from the distribution side. The great product idea only works if you can sell it to investors. And so obviously here we're talking mostly about retail offerings. And so how do clients generally access your offerings? What are the distribution channels you use and how does fund structure dictate distribution? Or I suppose vice versa, how does distribution constrain the possible fund structures?

Brett Schlemovitz: So we distribute into four main channels; the RIA channel, the IBD - the independent broker-dealer channel, the wires, and what I'll call global private banks and small institutions. And we have sales team domestically and sales folks all around the globe, so we really have this multi-pronged distribution approach. And we've got groups in South America that are interested in the fund, groups in Australia, and then the domestic groups that I mentioned.

It's interesting, different distribution channels like different fund structures, and then even within different channels, certain firms favor certain structures or don't like certain structures. So just for example I'll take one, more and more funds are coming out in these evergreen structures, which I actually think makes more sense for the manager and for investors as well, as long as you can manage the underlying strategy the right way. And this is in contrast to more traditional finite-life fund structures where investors are told that there'll be very limited liquidity and then seven years out the fund will have some big wind-down event where investors will get all their money back.

So I think the evergreen funds are better for everybody but there are certain systems where they just haven't gotten there yet to really figure out how they're going to put these evergreen funds on their platform and how that's all going to work. So I think a lot has changed over the last seven years, I think a lot will continue to change over the next seven years. But going back to what you mentioned, Kevin, when you're setting up a product and working through this Rubik's cube, you have to think, what's the right strategy? And then from there, what's the right structure? And then you sort of have to know who you're going to be selling this through and to, and are they comfortable with that structure? So there's just a lot of things that you have think through here in getting one of these products off to market and making it a successful product.

Alexander Condrell: Yeah, I would agree. We don't have sales people all over the world, nor do we have as many sales channels, we're primarily RIA-offered. We have a few small institutions and a few others, but mostly RIAs. And I would say over the last five years, the sophistication, even in the RIA space, has really grown in terms of their knowledge about what is going to work and what's not going to work. And I would say, echoing Brett's point, if the strategy's not going to hold up in this more liquid setting, the advisors are going to sniff it out and you're going to as a manager be frustrated if you're forcing that into an interval fund structure when it would be better placed somewhere else. And so I think it's important for any manager considering it to think through that.

However, on the flip side, which we have found a lot of opportunity with, if you do have something that can be managed well inside the structure, it's fantastic because of those operational things. Like I said, I've been shocked myself at the degree to which the operational

simplicity has almost trumped everything. Of course you have to have had the investment approach that works, but the advisors, they love the idea of getting more alternatives, everyone's under invested, and if they can do it without having put paper in front of their client, and if they can put it in a model portfolio and apply it across taxable, non-taxable, it really solves a lot of headaches for them. So I would suggest to anybody who's thinking about it, you've got to put the horse first, but if you can structure the approach right and it works in an interval fund then it's a big opportunity.

Kevin Hardy: Trying to get the door open at an RIA or a broker-dealer channel, have you found that having a pre-existing relationship on the institutional side, and that could be your own or I'm also interested, you guys each managing manager of manager funds, does it help if one of your underlying managers has a strong institutional relationship already with someone? Does that help open the door for these retail products?

Brett Schlemovitz: I think it does. For us there have been some of these RIAs where they run the gamut in terms of their clients from someone worth a million dollars to someone worth $100 million. And in the past they've been accessing some of our funds through different feeders and whatnot, where the minimums are substantially higher than the more retail funds where we have lower minimums and whatnot. So there definitely have been situations where we've had a relationship with an RIA, and they've been able to offer StepStone products to more clients because we've structured it in a certain way that first and foremost these products are now available to be sold to accredited investors and not just QP and up investors. So that eliminates one of the biggest hurdles, then there's more liquidity. They're just more investor-friendly and whatnot. So that's certainly one side of it.

The other thing is I think we've been seeing more and more large investors and institutions use these evergreen funds as completion strategies. So there's a lot of groups, specifically in private equity, but I would think it happens in private credit as well, where they sign up for these commitment-style funds, and you could make a commitment but it could take four years to get your capital actually into the ground. So what some of those folks will do is while they're waiting for part of their capital to get invested, they will actually invest in one of these evergreen funds to get a more fulsome allocation and then use those redemption windows to redeem when they get their capital calls for the other fund that they're waiting to get into.

Like I said, we've seen both sides of it where these evergreen funds with lower minimums and lower suitability both open up the universe to more retail-type investors, but at the same time more and more institutions are using these funds because I think they realize the power of these evergreen funds. And I also think people are realizing that returns in drawdown funds aren't always what they seem. Meaning if you're sitting with half your money in cash for four years waiting for it to be called, you really have to look at that as a blended cash and the investment fund return versus one of these evergreen funds like Alex or my firm offer. You actually get that money into the ground day one and you're fully invested for the length of your time in that fund. So it's just a different dynamic that I think is becoming more appealing to different groups.

Alexander Condrell: Yeah, we've seen some institutions that have used our interval fund structure for the same reason. And that IRR difference, yeah, it's funny, we did a whitepaper. It's

easy, everybody knows in their gut that the IRR is not really what they're getting, but we calculate it, it's about a 25-50% difference in the manager reported IRR and what the investor actually gets on their commitment depending on what you do with the money, how fast it's called and so on. But it's a big difference to put it mildly. So having a fund you can get the fully funded investment opportunity, it's huge. And even though it may sound on its face like it's a lower return than what someone else's pitchbook shows as an IRR.

But I was just going to add too, there's a big opportunity I think for institutions who believe that they're small or mid-sized institutions who think they're getting a better deal. Not just on a performance metric, but also on fee. Institutions have been told or believe in almost every case that they're always better off by "going direct". I think that if the interval fund is set up right or whatever structure is set up right, and if you're a big enough buyer you can demonstrate to them that they're better off actually not doing that. And that's another distribution opportunity, at least that's what we have found, and I think that'll probably be true for others too, that that's really kind of untapped. It's a big potential there, even in this interval fund structure.

Kevin Hardy: You each touched on the fully funded nature of these products, and obviously that makes them a lot easier for retail investors to understand and access. Any other features that you think, or elements that make a product particularly user friendly for retail investors? Or perhaps more importantly, for the RIA or the FA who might be selecting amongst products for their retail clients?

Brett Schlemovitz: Yeah, I think there's a number of things. I think in both our funds and in the Cliffwater funds we've really taken fees down to a pretty low level to enable individual investors to access these high-quality institutional strategies at the same fees are often better fees than what some of the larger institutions would pay to Alex's point before. So I think that's something that's helpful. I think structuring these funds without capital calls is extremely helpful. The capital calls are just difficult for investors to manage, difficult for advisors to manage, so I think that's a major development in these evergreen funds. 1099s for tax are great, so a lot of these funds don't have K1s, so you just get a 1099, it's a very simple tax form and nobody has to extend their filings waiting for tax information to come in. Quarterly liquidity I think for the individual investor is really helpful. Oftentimes people don't mind being in a fund for seven years, but they want to know that if they need to get out for whatever reason there is the ability to exit the fund, or if they have some life event they can exit.

So I think when people ask me to compare some of these retail funds to the institutional funds, I'll often say I think some of these retail funds are set up better and have some better bells and whistles to them than the institutional funds, and that liquidity is a big part of it. And then I think lastly on my list would just be the fact that a lot of these funds are blocked for UBTI, so these funds can go into taxable and IRA accounts as well without creating any UBTI for the investor. So I know at least on our end we tried to do as much as we can to make these products as easy to use, because we certainly recognize that advisors have a day job and the last thing that they want to do is get stuck processing these alt funds and whatnot, so we've tried to make it as easy as possible.

Alexander Condrell: Yeah, all that, 100% true. It's funny because the objection that we hear is, "But I have a 5% gate on liquidity at the fund level." And that's true, that's the tradeoff, 5% gate. Which is almost never going to be an issue, except when Covid happens or when the next whatever comes along. But the likelihood is that the liquidity is available much faster than your three-year, five-year, seven-year fund. And so the tradeoff that you get, in exchange for dealing with that 5% potential gate, meaning you're always going to get something but you might get prorated if you happen to redeem in a quarter that happens to be a panic quarter, but in exchange for that you get all the things that Brett mentioned. There's a whole laundry list.

In almost every way it's better than a call-down fund or even a BDC in the debt case. The only investor I should say for whom it's not necessarily better is CalPERS, the state of Wisconsin, these mega investors who are probably better off getting a separate account or using a call-down fund. But other than those guys, interval fund in my view is pretty much better in every respect except for that tradeoff, the 5% gate. But once you get comfortable with that, then there's not much reason not to use it. Again, assuming the investment approach works in this context.

Kevin Hardy: As you mentioned, until the next Covid. And that leads me to one last thing I wanted to ask and then we'll leave some time for Q&A if there is any. Obviously we're coming out of Covid times, but a lot of current events going on in the market, interest rate increases, pretty wild geopolitical events. How have you seen those current market conditions impact these types of funds?

Brett Schlemovitz: Sure, happy to jump in. So I'd say with our fund, so far the private markets have been more insulated from volatility than what's happened in the public markets. So as I mentioned, our flagship fund CPRIM, which is a collection of different private market strategies. I think depending upon the day, the S&P is down I don't know somewhere between 11 and call it 13% this year, our fund is up a couple of percent this year. So listen, one of the main reasons we're all bringing these alternative strategies to market is to hopefully be less volatile and less correlated to the public markets. And I think so far at least in our private market strategies, we've seen that be the case. And I'd say overall the private markets just tend to be less driven by emotion and momentum, so pricing typically doesn't move around as much as you see in the public markets.

You know, listen, some people would say that the private markets can be on a lag to the public markets. And I think that is possible and it is possible that you see some more volatility in the private markets going forward, but I think it really depends upon the particular asset class. So while you could have some movement over time, I think it'll be likely that it'll be less than the public markets. And perhaps even no movement if the strategy is truly not correlated or can even benefit from some of these macro events like rising rates. So I think it's really strategy-dependent, but as a whole I think that the private markets just tend to be, I'll use the world calmer, than the public markets.

Alexander Condrell: Yeah, and I would just add this is another test for us, us meaning the participants in private market space. It's a good test. I think it's going to work out fine. Obviously we have to wait and see, but it's my view that, well, certainly we can observe that thus far it's worked out. As Brett mentioned, we're also up a little bit for the year as the public

markets have been pretty negative in both stock and bonds. So that's good, it's worked out, done what investors are hoping it will do. And I believe that even if we have a recession that some people are calling for, and even if the Fed keeps tightening or the war gets worse, there's a lot of things that could happen.

But when you're really looking for fundamental gains as opposed to market sentiment driven gains or other things that happen, I think there's a real opportunity to capture that. And if you can do it, then investors are really going to be even more drawn I think to private markets. Like I said, it's a test but I think it's a good opportunity to further the view that it's well worth the diversification away from public markets and a good opportunity for all of us in this industry to keep doing what we're doing.

Kevin Hardy: Thanks. So we've got five minutes left, I thought I'd check and see if there's any questions, the Q&A function is open. I don't see any but pause for a minute. If not, maybe Brett, Alex, each of you take a few minutes to cover one last thing. Maybe something, either a particular challenge you've observed in this space recently or what you anticipate as the next developments in this space.

Brett Schlemovitz: Yeah. So we really think now is a good time to be thinking about increasing allocations to alternative investments. If you look at the stock and the bond market, the stock market is really run for the last 10 plus years, maybe 12 years, in one of the longest bull markets ever. The bond markets, I think rates have continued to come down since 1981, and for the first time they're going to be going up in a meaningful way, and we're really seeing that in the last month or so.

So we think now is a great time to be taking some gains out of the bond market, out of the stock market, and putting them into these alternative strategies. Where in our particular fund we're really aiming to be able to generate, call it an 11-14% average annual return regardless of what happens in the stock market or the bond market. So we just see some of these alternative strategies being able to produce less correlated returns with lower volatility. And to us in this part of the market cycle, that's not a bad place to be. So we're really pleased that we can bring multiple verticals within the private markets to individual investors.

Alexander Condrell: Yeah, our view is that private credit specifically, it's still an area many investors are under invested in, and we think of it as the all-weather asset class. We like to refer to it as a place that you can strategically hold long term, it doesn't have to be based on just a tactical move. Although as Brett said, I think there's an opportunity to do it, but even longer term it's not something I don't think investors need to think, I missed the boat, it's already over or something like that. This is really a long-term opportunity to generate returns that should beat cash and bonds in almost any environment, and for us that seems like a pretty compelling thing to do. So we're still very positive on the space and we think investors should be too.

Kevin Hardy: Great. Brett, Alex, thank you both. I know I learned quite a bit over this process and hopefully others did too.

Alexander Condrell: Thanks Kevin.

Brett Schlemovitz: Thank you.

John Cole Scott: Yes guys, thank you so much for the perspective and the lively conversation. Got a couple private messages that this was their favorite panel.

.Recorded on April 27, 2022.

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