CION’s Gatto On How Private Markets Have Weathered Tumultuous Markets

Friday, May 16, 2025

Chuck Jaffe, in this episode of The NAVigator podcast interviews Mark Gatto, co-founder and co-chief executive officer at CION Investment Group. Mark says that private investments have been weathering current storms better than public companies because illiquidity translates to stability in times when the market is volatile. Gatto says these markets have highlighted what private investments do well, which should boost their attractiveness moving forward, with heightened demand leading to better pricing as more investors see how well the private sector's valuations have held up while the stock market dropped into bear market territory and then rebounded.

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

Dig deep into business-development companies at the Active Investment Company Alliance 2025 BDC Forum. It’s Wednesday, June 11th in New York City, a full day of big names in BDCs at the podium or on informative panels and networking opportunities with fund sponsors, asset managers, institutional investors, and others who are actively involved in business-development companies. Advisors can get seven CE credits for attending. Go to AICAlliance.org/events for the full schedule and details. Use the code NAVIGATOR20 for a 20% discount on your registration fee.

CHUCK JAFFE: We're talking about how private markets respond to economic uncertainty with Mark Gatto, co-chief executive officer at CION Investment Group, this is The NAVigator. Welcome to 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, a unique industry organization representing the full spectrum of the closed-end fund business 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. And today we are pointed in the direction of private markets with Mark Gatto, he is co-chief executive officer at CION Investment Group, you can learn more about the firm at CIONInvestments.com or at CIONBDC.com. And if you want to learn more about closed-end funds, interval funds, and business-development companies generally, go to AICAlliance.org, the website for the Active Investment Company Alliance. Mark Gatto, welcome back to The NAVigator.

MARK GATTO: Thanks, Chuck. It's a great pleasure to be back.

CHUCK JAFFE: As much as everybody's heard about private markets, I'm not sure that many people understand exactly how and why private markets might respond differently to the headlines that we've been seeing than the public markets. So help us understand how have private markets responded to this unusual news cycle?

MARK GATTO: So the beauty of private markets is that it is less liquid than the public markets, and with that you get to dampen the volatility that you would typically see in a publicly traded stock or from a public bond. And that's one of the great merits of private assets, is that we as investors can think long term, and the public investor or the retail investor that invests in these assets, they don't have to be in a situation where they're looking at the stock price every day or the bond price every day because the assets don't mark to market like typical public securities. So it gives investors the opportunity to access an asset class that doesn't move up and down so quickly and react to noise, if you will. There's a lot of noise out there in the markets today with the advent of social media and the way news is disseminated today that the public markets really whipsaw back and forth, and that could be problematic for an individual investor to really digest what's going on. For a professional investor in the public markets, it's probably a great opportunity, right? I think if you talk to anybody on Wall Street, they'll tell you volatility is a good thing, they make money in an up market and in a down market, but that's not the case for individual investors because they're not on the front lines, they're busy doing what they have to do on a regular basis, and they don't have the ability to either do the research or execute in the same manner a professional does. So by investing in private assets, you get the ability to sit back a little bit and let things play out and allow these assets to weather the storm, and that's, I think, the beautiful thing about private assets, is that when we invest in a security, a private security, an illiquid security, we're thinking long term, we're buying and hold, we're not looking to trade these assets. So when we underwrite them, we're making sure that they can withstand shocks to the market, and you see that in the funds that we manage, you see that in the other private asset structures that are out there where you've seen more stability in the pricing of those assets, and as a result, investors get a better experience in my opinion. Now it's an asset class that isn't exclusive for somebody to invest in, you're not going to invest all your eggs in that basket per se, you're going to have public exposure, but it certainly is a ballast to any portfolio that allows you to analyze what's happening, let things settle in and see what the real effect is long term, and as a result I think you get a better performance, and that's why we're advocates of a well-diversified portfolio that includes alternative investments.

CHUCK JAFFE: Is there some benefit to the way management can react to the headlines in private markets? Because as much as you'd like to have every CEO and chairman be like Warren Buffett and stay focused on the long term, and not really worry about what they're doing that makes their quarterly numbers, we know that there's tremendous pressure on corporate executives to make the quarterly numbers. That's not to say that they don't get the same pressure in private markets, but you'd like to believe cooler heads can prevail, we don't have to set up a number and have it whipsaw to the whims of the general public. So are there benefits that private companies have that public companies don't, that as an investor you can watch them maybe get an advantage here?

MARK GATTO: Absolutely, and I think that's a big reason why you're seeing more private companies today than public companies, publicly listed companies that we saw years and years ago, the ability to think long term and not quote/unquote "manage the number" is a great way to run a business. You have the ability to sort of not react, not have a knee-jerk reaction to something that's happening in the market just because your quarterly number's coming out and you need to do that to keep the stock price up so that your bonus plan kicks in, et cetera, et cetera, you could think more strategically. That's what we see in the companies that we invest in, is that they're making decisions based upon the long term and what we see as a more sustainable path forward. And we see that in our portfolio, we speak to the management teams on a regular basis, especially when there's a situation like we're seeing today, where there's volatility in the marketplace, there's some uncertainty around the economy, we as managers are getting ahead of that. We're talking to the management teams that we invest in and trying to understand what they're doing to mitigate the risks, and we also see that in specific names that we're more involved in, where we maybe have a small equity position or we're on the board and we talk about these things on a regular basis. It's not only in times like this where there's uncertainty, but we do it consistently and constantly throughout the process. We're always thinking about where should we be producing? How should we diversify our suppliers? Those are the things that make good companies. And like we say all the time, when we're looking at an investment we want to invest in a good management team, that's the most important thing, right? Because companies, they go up and down, and there's certain outside forces that affect the performance of a company, and at the end of the day it's the management team that's really going to get you through those issues, so investing in good companies with good management teams is really important, especially in times like this.

CHUCK JAFFE: Do times like this ever convince you that, hey, this management team, we've confused a bull market with brilliance? This guy seemed great and this team seemed great, and now that we're watching them under fire, they don't have it? Does that happen where you go, you just got open stress tested by the market?

MARK GATTO: Of course it happens, right? Hopefully it's a rare occasion and it's a minority of the teams that you invest in, but of course it happens. What we do to protect ourselves or protect our investors from that is we negotiate covenants in documents, triggers if you will, that allow us to have a seat at the table, and ultimately push these management teams, these CEOs to do what we think is in the best interest of our shareholders and our investors. So it does happen, but more often than not you see a situation where the management team, the CEO shines, and they really give you the confidence that the business is going to flourish regardless of the situation, or certainly outperform its peers and others that we're competing with in the space. I think that's more common than not, and we've seen that, we've seen the resiliency of the private markets, of private companies. Unfortunately it's happening too often, right? Where there's a test that comes up and you get to gauge whether or not you did invest in a good business or a good management team. Point in case is Covid, right? We thought the world was going to come to an end and the economy was going to fall off a cliff and every company that we were involved in would have a real difficult time long term, and just the opposite happened. Obviously there was some support out there from the government and the like, but at the end of the day the resiliency of the management teams and the businesses really came through, where they were able to restructure their business, they were able to lower costs and still be profitable, and that's what you're looking for. In good times everybody looks good, everybody looks smart, but it's in tough times is where the stars shine, and fortunately for us throughout our businesses, our funds that we manage, that's been more of the case than not.

CHUCK JAFFE: What the market invests, what the public investor has seen is a market that peeked in February, cratered after Liberation Day, and has subsequently bounced back and recovered everything. As you point out, in private markets you may be taking the ride, but as an investor you're really not, because you're kind of locked in and it's illiquid and all those other sorts of things.

MARK GATTO: There's no exit door, so to speak. You're on the rollercoaster but you can't exist.

CHUCK JAFFE: Right, so does that basically mean that it's been a flat experience? Or are we at a spot where the private markets, you can kind of look and go, "Yeah, actually we're ahead of the game at this point"? Or can't you tell, because again, no exit, so you can't?

MARK GATTO: Listen, I would argue you're ahead of the game, right? Because you're proving out the thesis, you're showing the market that these types of assets are resilient and they do provide a level of protection, they do mitigate volatility in a portfolio, so it makes the case that you should have more of it subject to your particular risk profile, your liquidity needs, et cetera, et cetera. So I would make the case it makes the case stronger for privates and it makes it more attractive, which creates value, and that's what we're trying to do, is drive value. So if these investments, these underlying investments in private companies become more desirable because they do stand up in these situations, well, that's going to increase the price of them and the attractiveness of them, so it inures to the benefit of our ultimate investor, so I would argue it improves it. Now, by how much I guess remains to be seen, but you haven't seen a major pop in the price of the assets per se, there has been some improvement, but at the end of the day you look at the landscape and you say, "Okay, well, this is interesting." We had a situation where tariffs were in play and the public markets reacted in a certain way, and private markets kind of sort of stayed the course and watched it very closely, that's what we did and we were talking to our management teams, making adjustments in the background, but ultimately we're in a situation now where things are becoming more settled, more stable. I just goes to show you that private assets are a good place to be in periods of uncertainty and volatility.

CHUCK JAFFE: Mark, really interesting. I know we're going to continue to watch it. You guys have a lot of different business lines at CION, so we'll talk with you again, maybe about private, maybe about other stuff, but meanwhile, thanks as always for joining me on The NAVigator.

MARK GATTO: Thanks Chuck, always a pleasure.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe, and I am Chuck Jaffe, and I'd love it if you'd check out my hour long weekday podcast by going to MoneyLifeShow.com or by searching for it on your favorite podcast app. To learn more about interval funds, closed-end funds, and business-development companies go to AICAlliance.org, that's the website for the Active Investment Company Alliance. Thanks to my guest Mark Gatto, co-founder and co-chief executive officer at CION Investment Group, learn more about the firm at CIONInvestments.com. The NAVigator podcast is new every Friday, make sure you don't miss an episode by following along and subscribing on your favorite podcast app. And if you liked this podcast, leave us a review and tell your friends about us, because that stuff really does help. We'll be back next week with more closed-end fund fun, and until then, happy investing, everybody.

Recorded on May 16th, 2025

To request a particular topic for The NAVigator podcast please send an email to: TheNAVigator@AICalliance.org

Click the link below to go to the home page of Active Investment Company Alliance to learn more: https://AICalliance.org/

Disclosure: *Views and opinions expressed are for informational and educational purposes only as of the date of production/writing/speaking and may change without notice at any time based on a multitude of factors. Speaker's/presenter's/author's opinions are their own and may not necessarily represent the opinions of AICA, its Board, or its staff. Materials may contain "forward-looking" information that is not purely historical in nature, such as projections, forecasts, market return estimates, proposed or expected portfolio composition, and other items. Listed closed-end funds and business development companies trade on exchanges at prices that may be above or below their NAVs. There is no guarantee that an investor will be able to sell shares at a price greater than or equal to the purchase price or that a closed-end fund's discount will narrow. Non-listed closed-end funds and business development companies do not offer investors daily liquidity but rather offer liquidity on a monthly, quarterly or semi-annual basis, often on a small percentage of shares. Closed-end funds often use leverage, which can increase the fund's volatility (i.e., risk). Actual distribution amounts may vary with fund performance and other conditions. Past performance is no guarantee of future results. This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy, sell or hold a security or an investment strategy, and is not provided in a fiduciary capacity. Shares of closed-end funds are subject to investment risks, including the possible loss of principal invested. Closed-end funds frequently trade at a discount to their net asset value (NAV).*