



Mark Gatto On Private Alts

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Mark Gatto, Co-Founder and Co-CEO of CION Investments, joins Jane King to discuss private alternative investments and how they differ from conventional investments such as stocks and bonds, which are traded on public exchanges. “Private assets function outside of that marketplace and are relatively illiquid,” allowing companies like CION to maximize return for investors as part of a balanced portfolio, Gatto said. CION focuses on private credit and infrastructure and lending to private companies, he added. Gatto goes on to explain how different alternative investment structures have made it possible for more individual investors to access opportunities long only available to large, monied institutions.

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JANE KING: Private market investing used to be just for big institutional traders, but that is changing. With me is Mark Gatto, the co-founder and co-CEO of CION Investing to talk about this. First let’s just clarify, what is private alternative investments? What all does that include?

MARK GATTO: So private alternative investments are effectively investment opportunities that function outside of the public market. So everybody is very familiar with stocks and bonds, and those are assets that trade on an exchange, are easily accessible but come with some pitfalls in terms of volatility and other risks. Where private assets, because they function outside of that marketplace and are relatively illiquid, that’s the real opportunity

here, is how can you get the best relative value from your investments? Typically what we say at CION Investments is that a good mix of public and private assets within a portfolio is the way to build a balanced portfolio.

JANE KING: Which is what we all would love to have. Now are these businesses or what all investments would be in?

MARK GATTO: So they run the gamut. At CION Investments we focus on private credit and infrastructure, everybody's familiar I think with private credit, they're familiar with private equity, infrastructure's a relatively newer asset class in terms of the wealth channel and individual investors, but you also have real estate which has been a staple investment in the alternative space for investors, and basically you're looking at private companies in the context of credit investments lending money to private companies. In the terms of private equity, it's investing in private companies that don't trade, and same thing in terms of the asset classes like real estate and infrastructure, where they're not typically businesses per se, but they're asset classes. So a piece of real estate, a home, a building, infrastructure, toll road or airport terminal, et cetera, et cetera.

JANE KING: Interesting. So this has been a really fast growing area in the past few years, what do you attribute that to?

MARK GATTO: So the private markets, private asset class is an enormous asset class, \$25 trillion+ of capital is invested, it's going to grow two fold over the next five to seven years, but it's been nominated by institutional investors, pension funds, sovereign wealth funds, insurance companies. And now what we're seeing is that the individual investor and his or her financial advisor are very interested in alternatives, and as I indicated before, the reason is that we can perhaps get better returns, we can mitigate volatility, and ultimately that's where you want to be in order to build a diversified portfolio. But as we sit here today, very few individual investors are invested in alternative investments, probably only half of the financial advisors out there use alternative investments. If you look at a general diversified portfolio within the individual investor market, you're probably looking at less than 2-3% that's allocated towards alternatives, but what we're seeing from our partners at the broker-dealers, at the wire houses, the registered investment advisors that we do business with, is that there is a strong desire to be in alternatives. Individual investors, a strong majority of them want to be in alternatives, it's a question of how do they access that? And that's what

you're seeing today through certain vehicles, is that it's accessible for an individual investor, and that's the most important driver I think of what we're seeing today. So as we look forward, we would expect that number to double in terms of the interest in alternatives, advisors that use alternatives, and that 2-3% allocation to grow to a low double digit over time, and that's where the real growth and the real excitement behind our business and alternative investments are.

JANE KING: And the accessible fee structures is really what has been the game changer for this, right?

MARK GATTO: Right.

JANE KING: So how does that work? How do investors and advisors get involved in that and learn about that?

MARK GATTO: So historically alternative investments were not accessible because they were in wrappers that were private, there was very little transparency, very little to zero liquidity, and very high minimums, so an average investor could not access those types of investments. Institutions were taking advantage of all the positive benefits of alternatives because they were able to invest a lot of capital, they were able to withstand the illiquidity feature, they had professional persons on their staff that could underwrite these programs. So the challenge was is how do you give access to an individual that can only invest \$10,000? How can you give access to an individual that doesn't have the investment expertise that a large institution does? And what we were able to do through certain wrappers that are available to us as managers is really give that individual access through an interval fund structure, through a business-development company, a closed-end fund provides that opportunity, and that's what we do today and that's why we're seeing this growth, is that investors can get in for as little as \$2,500. There's transparency in these products, the products that we sponsor are mostly registered and regulated funds, so that gives a level of comfort to the financial advisor that there's some oversight on these products and there's liquidity. The liquidity is limited to, in our case, in an interval fund, 5% per quarter, 20% per year, and at the same time it provides that liquidity premium with the private assets.

JANE KING: What are the pain points for advisors?

MARK GATTO: I think historically the pain point's been the access that we talked about, and how can they actually invest in these types of products? In the interval fund, the BDC, closed-

end funds, perpetual closed-end funds, they now have eliminated to me what was the biggest hurdle, right? But as you look at the space, I think some of the challenges rely on education, that advisors need to be educated on what these products are, how do they behave, are they appropriate for their clients? And that's something that we spend a lot of time on at our firm, is really educating not only our people so that they can articulate the opportunity to financial advisors, but helping those financial advisors understand the products so they in turn can talk to their clients and get them comfortable with what we're doing. I think another challenge is the fact that there is a lot of interest in this industry, there are a lot of managers coming to market with new products, and at some level there's this inflow of so much information.

JANE KING: Kind of overwhelming.

MARK GATTO: Right. For a financial advisor, how do they navigate these waters, so to speak, when they're being approached by various managers with various strategies and just different stories, if you will, so trying to narrow that field is a challenge for financial advisors. And again, we like to think that we are at the forefront of helping them do that by being an alternative investment solutions provider, where we can sit down with an advisor, understand what their problems are, what they're looking for their portfolio, and offer them a reasonable solution to that. That's what we're doing at our firm, and I think a lot of the investment managers in this space are trying to do that, to become partners with the financial advisor so that they can have a long-term relationship.

JANE KING: And help education them.

MARK GATTO: Yes.

JANE KING: Which it sounds like it's one of the obstacles. This has been a very volatile year.

MARK GATTO: Yes.

JANE KING: To say the least. A lot of uncertainty.

MARK GATTO: Uncertainty, yes.

JANE KING: What have you found is resonating with investors in terms of what you do, and is there some kind of comparison to what we've seen in the public stock market versus what you offer?

MARK GATTO: Well, I would say that these times are exactly why we advocate for private investments, private assets, because private assets have the ability to dampen the volatility,

they're not as sensitive to the news cycle, and that's what we're seeing today. We're seeing a lot of overreaction to information, and that's not something that historically was always there, but with the advent of social media and real-time information, you see a lot of overreaction to market trends that are happening out there. With private investments, because the assets are relatively illiquid, and we are managers that hold assets for the long term, we're not traders, private assets within a portfolio could be a real stalwart, in that it will help balance some of that volatility, mitigate some of that volatility. And then if you're with the right manager and the right strategy, these types of markets breed opportunity for us, and we're able to go in there and take advantage of some of the technicals that are happening, the volatility that we see, and building the right types of alternative investment strategies that can take advantage of these types of markets is really where we shine, and that's why we believe that investors really need to consider having an appropriate amount of alternatives in their portfolio.

JANE KING: Now can they go to your website and learn more?

MARK GATTO: Absolutely.

JANE KING: If they just want to see how this works?

MARK GATTO: You can go to CIONInvestments.com, learn about alternatives in general, there's a lot of education about the markets and the types of opportunities that are available, and then obviously the funds that we manage and offer to our clients.

JANE KING: Fascinating. Mark, thank you so much.

MARK GATTO: Thank you, Jane. Pleasure.

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