



XA's Flynn On How Crypto, Private Equity Will Impact Retirement-Savings Plans

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Chuck Jaffe, in this episode of The NAVigator podcast interviews Kimberly Flynn, President at XA Investments. Kim and Chuck discuss the recent executive order signed by President Trump that allows a dramatic expansion of alternative assets to be part of 401(k) and other retirement plans. While the headlines have made it seem like crypto bros will blow up their retirement plans with alternatives, Flynn discusses how many firms running life-cycle and target-date funds may decide to make allocations to more alternative asset classes, which could create opportunities for interval funds or closed-end funds. She also discusses when and if Bitcoin and other cryptocurrencies might be available in some form of closed-end offering.

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

CHUCK JAFFE: Kimberly Flynn, president of XA Investments is here, we're talking about crypto currencies and other alternative investments being available in retirement plans, 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, which is 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're looking in the direction of alternative funds being included into retirement plans, the fallout essentially

from President Trump's recent executive order that could open retirement plans to private equity and crypto investments. We're having that discussion with Kimberly Flynn, she's president of XA Investments, a leading investment management firm in the alternative space, which you can learn about at XAInvestments.com. And if you want to learn more generally about closed-end funds, interval funds, and business-development companies, go to AICAlliance.org, the website for the Active Investment Company Alliance. Kim Flynn, welcome back to The NAVigator.

KIMBERLY FLYNN: Thank you, Chuck. Good to be with you again.

CHUCK JAFFE: We don't know entirely how these rules will affect closed-end funds, and we're going to get to that, but first let's talk about just generally opening the door and everybody's focus in the media was on crypto, but the truth is a much bigger, and especially for the closed-end fund industry, a much more exciting idea is that President Trump's order opens the door for private equity to be included in retirement plans. Talk just a little bit about what you see happening. It's gotten a fair amount of negative press in the mainstream media, but it does open an opportunity both for investors who want it and for the fund sponsors.

KIMBERLY FLYNN: Yeah, I think you're right, I think a lot of the initial press was a negative response to Trump, but they missed frankly the upside for American retirees, which is that private equity is a way that previously individual investors, you had to be quite wealthy to access private equity. There's a lot of news stories about US companies staying private longer, right? The capital markets are different than they were a few years ago, so you're seeing fewer IPOs, you've got a lot more unicorns staying private to avoid some of the regulatory hassles, and the consequence of these companies staying private longer is that you don't get to participate. If you're an equity stock buyer and you don't buy private funds, which is typically how private equity is packaged up, then you're missing out on the growth of some of these exciting companies, especially in the space of AI or defense. There's a lot of these companies that do stay private, and so effectively you're missing out on the growth potential and return potential, and so private equity, I think, is terrific that the president and the new SEC chair, Atkins, are going to be focused on making that area more broadly available to anyone that wants access.

CHUCK JAFFE: It was not discussed in the executive order, but if you think about it, mixing private equity and 401(k) plans, mixing interval funds and tender-offer funds, which are the

real vehicles in the closed-end space that would deal with private equity to some extent, is a great mix. Because as a 401(k) investor, I've got this very long-term horizon, I don't need my money, heck, I don't want to access my money anytime soon, so the idea that I'm going to go into some sort of a limited liquidity fund, I'm really not likely to have a liquidity event. So it could be the perfect marriage, but again nobody was really discussing that.

KIMBERLY FLYNN: I think you're right, for patient capital, if you do have a long-term investment horizon, a typical private equity investor is going to invest with a seven to 12-year investment horizon in mind, I think there's a lot of Americans who invest in real estate along similar timetables. But absolutely, the question is how much of your portfolio do you need to have in daily liquid stocks or crypto? Clearly, for a lot of investors they prefer to have more liquidity, but are they using that liquidity? Couldn't they tolerate for a portion of the portfolio to go out further in terms of the investment horizon that might be appropriate for private equity or things like infrastructure, right? So that's really the question, is how much of your portfolio do you need to be daily liquid, because are you going to really ever turn around and sell your entire portfolio on any given day?

CHUCK JAFFE: There has been a lot of criticism that investors would blow themselves up on the crypto side, and there's plenty of people who worry about what could happen on the private equity side.

KIMBERLY FLYNN: Sure.

CHUCK JAFFE: How do you think that will play out? Because the private equity side of things is not going to be just as easy as, "Hey, look at the big 401(k) providers, they'll just create a private equity fund." If they're not doing it now, they're not really jumping in, they're going to want to work with somebody, by the way, that you guys pick managers to work with. So how much growth will we see and will it be the kind of growth that we want, or is this going to be an asset grab?

KIMBERLY FLYNN: There's a lot of firms like Blackstone has been lobbying for many years to make private equity available to loosen up some of the regulation to make it possible. You're right that right now the only type of SEC registered funds that can house less liquid or illiquid assets like private equity is something like an interval fund, a closed-ended fund, so we already see private equity is the second largest category in the interval fund market because it is attractive for financial advisors and for end investors. Now to put it into a 401(k), that

means there's going to have to be some technology investment in the existing 401(k) platforms to make it much more easy to access. We're seeing firms, to your point about partnerships, this is what Capital Group has done with their partnership with KKR, Capital Group is one of the largest mutual fund sponsors in the world and they don't have those private market capabilities, but KKR is well known in the private equity space and so together they have three interval funds, two are private credit, one is private equity, and ultimately will those interval funds be slotted into a model portfolio or maybe added to a target date fund? Yes, I believe that that's the end goal for those funds. Now those funds are brand new, there is a few funds like Partners Group and AMG Pantheon that have been managing private equity investments in the interval fund space for 10 plus years. So there's a few firms that have a head start actually if you will, and they actually are well known for their private markets capability, so it is a bit of a landgrab in terms of not just the alternative private equity managers, but also the traditional mutual fund managers, everybody wants a piece of the dollars that are going to be flowing into private equity. I mean, Chuck, we've already seen it with the traditional players moving into the crypto space, right? BlackRock has launched a crypto derivative-based ETF, and a lot of other traditional mutual fund ETF sponsors are doing the same, so you do see firms that maybe have not been well known for crypto expertise similarly with private equity, so we'll see how that shakes out in terms of who's successful in educating and winning the hearts and minds of retirees.

CHUCK JAFFE: Out of curiosity, because crypto sort of stole the headlines here, do you believe ultimately there will be more action in private equity, at least at the beginning, because crypto is still going to be pass all the fiduciary tests, et cetera?

KIMBERLY FLYNN: Yeah, that's right. So the SEC has permitted ETFs that are derivative-based, so you can't own Bitcoin or other crypto currencies directly in ETFs, eventually that may be the case, but at the present state none of the SEC-registered products allow for direct investment, so I think we have some time on the clock there in terms of product innovation but also in terms of regulatory hurdles to overcome. I think there's a lot of support for crypto currency from the SEC chairman, Chairman Atkins also was an interval fund board director, chairman of the Cliffwater board. So you have the right leadership in Washington D.C., I think, but the industry itself and the technology buildout that's going to be required is going to take some time. So even the executive order was signed, I do think we'll see movement on the

private equity and maybe even private credit, because those products have already been built, they already have a track record, they're already available. So if you're thinking about putting something new into a target date fund, it's much easier for these platforms to take an existing product that's already been time tested and plug it in, so I do think private equity is ahead of crypto.

CHUCK JAFFE: That also means that for all of the noise about, "This'll be bad for investors, people will blow themselves up," what you're really saying is, "Hey, if we make this asset class available, it'll just become a part of your target date fund," and if it becomes a part of your target date fund, you may understand the glide path, you may have taken a look at what it's supposed to do and decide do you want to be on your age or maybe a little more aggressive or a little less aggressive, et cetera, but it means that the vast majority of people who are going to be affected by this probably won't really know much that they're being affected by this.

KIMBERLY FLYNN: Yeah, I think there's a lot of people trying to limit access for fear that people will take on illiquid investments or risky investments, and my belief is that people should have choice, people should have the ability to consider a number of different options, and so in that sense, I think it is a healthy opportunity for adding that choice. So many people are allocated to US public equities, think about the NVIDIA and the other market leaders, those technology stocks are actually quite volatile and no one's arguing that Americans shouldn't have access to NVIDIA or other technology stocks, so I think it's sort of nonsensical that they shouldn't have access to crypto or they shouldn't have access to private equity. The risks should be disclosed and it's helpful to have a financial advisor, but ultimately people need to make their own decisions. Because if you think about it, some of the most complicated financial decisions we make is when we buy a home or take on a mortgage, and I think most Americans understand the complexities of doing that, and I don't think evaluating private equity or crypto is altogether that different. That's why I think this executive order should be viewed constructively by the industry, and obviously a lot of existing asset managers are pretty excited that this could open up a much broader market.

CHUCK JAFFE: Last question, tangential topic. Since we're talking about things that would open up markets, will we get to a spot where, whether it's through options or through direct ownership, et cetera, we wind up seeing the SEC allow crypto in closed-end funds?

KIMBERLY FLYNN: As you know, the listed closed-end fund market is typically an income buyer, people are focused on yield, and there's actually a lot of really interesting crypto investments that are yield-focused, so it would be the right kind of wrapper for a crypto income-focused strategy. Right now the listed closed-end fund market, Chuck, as you know, is effectively closed, we haven't really seen many new IPOs, but I do think something as exciting as crypto would bring a lot of potential new buyers, so that's exciting I think for what is sort of a sleepy closed-end fund IPO marketplace. I think we'll probably see innovation on the interval fund side of the closed-end fund market first, just because that's where a lot of great product innovators are focused, so I'd love to see it in the listed closed-end fund space but we'll likely see it, there's a lot of conversations around, how do we make that possible, but until the SEC approves the direct investment into various crypto currencies, we'll have to wait.

CHUCK JAFFE: Kim, really interesting stuff, I appreciate you taking out the time to join me. We'll talk to you again on The NAVigator down the line.

KIMBERLY FLYNN: Thank you, Chuck.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe, and yep, that's me, why don't you check out my hour-long weekday show by going to [MoneyLifeShow.com](https://www.MoneyLifeShow.com) or by searching for it wherever you find your favorite podcasts. To learn more about closed-end funds, interval funds, and business-development companies go to [AICAlliance.org](https://www.AICAlliance.org), that's the website for the Active Investment Company Alliance. Thanks to my guest Kimberly Flynn, she's president of XA Investments, you can learn all about what they do, particularly when it comes to closed-end funds, at [XAInvestments.com](https://www.XAInvestments.com). The NAVigator podcast has something new for you every Friday, make sure you never miss an episode by subscribing or following along on your favorite podcast app. And if you liked this podcast, leave 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, until then, happy investing, everybody.

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