AICA 2022 Interval Fund Spring Manager Spotlight – Day #1 - Panel #1: Private Investment Opportunities in an Interval Fund

Kim Flynn: Welcome everybody, today we're going to talk about private investment opportunities in the interval fund space. And I'm really pleased to be joined by Shiloh Bates and Michael Bell, they have an expertise in this area, we'll stand to benefit from that expertise. Let me introduce my firm, and then I'll pass it to Michael to introduce Primark and Shiloh can introduce Flat Rock and talk a little bit more about what they do.

My firm is XA Investments. We have a focus on interval funds, closed-end funds, and London-listed funds. We have our own proprietary platform for alternative investments, and we also have a consulting practice where we advise asset managers. We spend a lot of time focusing on these private investment opportunities. So delighted to be with you, and Michael, I'll turn it over to you.

Michael Bell: Thanks Kim, appreciate it. I'm glad to be here as well for this educational session on interval funds. As John mentioned earlier, we've seen a fairly significant growth and a lot of appetite from in particular the RIA community with respect to learning about interval funds, and incorporating closed-end funds, interval funds, tender funds into their practices. Our fund, it's a private equity fund, middle market private equity fund, Primark Capital. It goes through all of the benefits and features that John had mentioned previously; we run off a ticker symbol, 1099s, being able to capture private equity investments, 80% of our funds are pure play private equity investments, and deliver those to nonaccredited investors. So happy to be here and look forward to the discussion.

Shiloh Bates: Hi, I'm Shiloh Bates, I'm the CIO of Flat Rock Global. We manage two different interval funds. One is focused on middle market credit, so that's the Flat Rock Core Income Fund, ticker CORFX, and then we also manage the Flat Rock Opportunity Fund which invests in CLO equity tranches and has the ticker FROPX. We've been doing this for, in the case of our first fund five years, and for the CLO equity fund for four years. We really believe in the interval fund structure so much so that our first fund we actually converted it from a private BDC to an interval fund because we thought that was the best structure for shareholders.

Kim Flynn: Great, thanks Shiloh. Just a quick note on structure. Today's discussion is really going to focus in on the interval fund structure. You may also hear in the industry discussion of tender offer funds, which is a sister fund structure to the interval fund. But there are some distinct advantages we believe for the interval fund structure, and I think just in terms of keeping things focused we'll talk today primarily about interval funds. So with that, I know Michael you mentioned a few of the advantages, but I was hoping you and Shiloh could outline from both the asset manager's perspective the advantages of this structure in terms of your strategy. But also for the end investor, what are the advantages of the interval fund structure? Starting with you, Michael.

Michael Bell: Sure, thanks Kim. It's important to note, because we've been in this space talking to advisors for the last three years or so, and many advisors traditionally collapse both structures and they talk about interval funds because there's a redemption period at a particular interval, typically on a quarterly basis. However they're collapsing both tender funds and interval funds in the space, and there are some subtle yet significant differences between the two structures. For example, one of the biggest most prominent differences is in an interval fund the quarterly

redemption is mandatory. There are extremely limited circumstances when that can change, but for the most part it is mandatory unless you have basically a vote of shareholders.

On the tender fund side, it's discretionary, it's at the board's discretion. And what that means is they can put a gate up, if the market dynamics are such that they feel like they have to gate that fund and stop all outflows, they can put that gate up for several years. And that's really not in line with what a lot of advisors expect. They're expecting a quarterly redemption window, that they can get out on a quarterly basis, or have some redemption liquidity on a quarterly basis. On a tender fund, that may surprise you and that may not happen. So that is somewhat significant. In a tender fund you also see the opportunity to include performance fees for example. And in an interval fund you don't see performance fund in an interval fund because most interval funds are available for nonaccredited investors, or they can be structured for nonaccredited investors.

Again, in our interval structure we have structured it for nonaccredited investors so there are no subscription documents. In tender funds, especially if they have performance fees, you're going to have subscription documents. And so that enables an interval structure for example, our interval structure runs off of a ticker symbol. And one of the big significant differences between tenders and intervals, it goes just to that, the ticker symbol. Our interval fund runs off the Fund/SERV system at your custodial firms, TD, Fidelity, Schwab. Most tender funds are considered on the alternative investment platform at TD, Fidelity, and Schwab. And you all know that that system is a bit different to deal with.

You do 95+% of your business on the Fund/SERV system, and when you have a Fund/SERV accepted product that has a ticker symbol, you can just incorporate that particular product into your allocation models. And so you can give your clients the full benefit, you can give all of your clients the full benefit of that interval product just by rebalancing utilizing that ticker symbol. On a tender fund, because it's on the AIP platform, usually doesn't have a ticker symbol, it's very difficult to incorporate it in the way that you would a traditional mutual fund with a ticker symbol.

So Kim, those are some of the significant differences that you see. Shiloh, not sure some of the differences that you've encountered that would be helpful for the audience as well.

Shiloh Bates: From the manager's perspective, there's a couple things we like about the interval fund structure. For both of our funds we think that both middle market credit and CLO equity may potentially offer attractive risk-adjusted returns, but both asset classes are illiquid. And so we're not in a position where we could meet daily tenders like a mutual fund, it's just not possible. But because we are investing in these illiquid assets, there's a return premium associated with them. And in the interval fund structure that premium is basically just passed along to our shareholders in terms of seeking higher returns and higher dividends over time. So that's kind of how we think about it.

And then there's lots of specific reasons that I think interval funds may continue to take market share. One of them is that when we meet with a client and they decide they want to invest, they can invest right away. Our funds, like Michael's, it's point and click, you don't need a subscription agreement or anything like that, and then once you're in the fund you start earning

that dividend right away. In a GP/LP structure, if you meet with a manager and like the strategy, it could be months before they're ready to call your capital. And then once they call the capital it's kind of unknown, you're going to be stuck setting aside cash because you don't know when the capital calls are going to come.

And then in terms of the liquidity, the 5% that we're required tender for each quarter, really you should think of that as the minimum. We've been managing interval funds for four years at my firm, and basically the experience has been that we've had two interval fund tenders that were oversubscribed. But other than that, everybody got out 100% of what they wanted. Investors, they come in at NAV, they go out at NAV if they want, and I think that's great liquidity from an illiquid asset class. Our shareholders like to see the daily NAV, as well.

And if you contrast our fund to closed-end funds for example, really the only volatility that our investors experience is the volatility driven by the underlying assets that we own, so just like a mutual fund in that respect. But if you own a closed-end fund or a BDC, you really have two forms of volatility. You have the volatility of the NAV, and then you have a market discount or premium which changes frequently. When you combine those two forms of volatility for the closed-end funds, our experience is that RIA's just don't want that second source of volatility if you will.

In this structure we get a report card each quarter and we're working hard to make sure investors are happy. It's very different from raising a bunch of money in a closed-end fund, and then it's the manager's forever and they do what they want and they always have that AUM. No, this is very different and we like the idea that we can be graded by our investors and work hard to both keep the capital that they have given us, and then also to hopefully get further allocations and grow with them over time.

Kim Flynn: That's great, Shiloh. So one of the considerations for investors considering a purchase of an interval fund might be not just the size and scale of a single fund, but taking that to the market level, I think that the interval fund marketplace is still early in its development but we've seen tremendous growth in the last 18 months. Right now there are approximately 75 interval funds with north of $60 billion in assets. When you add in the tender offer funds you're talking about a marketplace that's $125 billion in size with over 160 funds. So we've seen a lot of new entrants I think driven by the natural demand for some of these private investments that we see.

Maybe Michael, you could address the broadening of the market. And what it is that you track when you think about the education efforts that you're doing when you speak with advisors, when you speak with investors, is that really paying off in terms of your research?

Michael Bell: Sure. So we've seen a couple of dynamics coming into the market. One of the issues is really kind of a top down dynamic, where there are more manufacturers and sponsors that are developing new initiatives and innovative new products and bringing them to the market. But the other thing that's interesting that we've seen is really kind of a bottom-up, and a bottom-up from the actual end investor. Asking their advisors about, "Hey, I've heard about getting into private credit or private real estate or private equity. How do I do that?" And before there were

ways to do it but we knew the minimums were really high, we knew that you had to go through the sub doc process. There were some hurdles. You could do it, but it was a little difficult and time consuming and cumbersome to do. But I think with additional innovations and new manufacturers coming into the space, we're able to meet that demand of the end client that's looking for something like this.

And it think part of the dynamic of what is driving that has been over the last decade, decade and a half, there's been a movement really driven by end clients that were somewhat price sensitive. And so advisors responding to that had a fairly significant movement into fairly low cost ETFs or index funds that are just basically low-cost beta. And now you have some allocations to a lot of end clients that really look the same from advisor to advisor to advisor. So advisors are now being pushed by clients, and advisors are going out there looking for differentiation, looking for alpha potential, looking for non-correlated assets, looking for something that they can drive as differentiated in their portfolios. And you are seeing the rise, we are seeing the rise of private assets in these interval funds. So it's been an interesting time to be in the space.

And I think one of the other dynamics that has really helped advisors and end clients get over this perceived hurdle of illiquidity was as recent as May of 2020 when the market had a fairly significant jolt because of Covid, and there's a natural inclination to go to safety and go to cash where you need that daily liquidity, right? Well, from every advisor that we talked to, their clients didn't do that, they stayed where they were. They saw that impact from the Great Financial Crisis in '08 and '09, stay where you are, and most of our advisors were able to keep their clients invested fully in the market and it paid off. So as a result, I think most clients are starting to let go of that, "I need all my investments in daily liquid securities." Because as Shiloh mentioned, you're giving up a significant illiquidity premium to go to that.

So all those dynamics together, Kim, we've seen as really driving and broadening the market. And a lot of it's driven by education, like this session, helping advisors and end clients get more comfortable with the product types that are out there. And we are specifically seeing that in the numbers. And what I mean by that is we subscribe to some databases out there that you can actually get visibility into which advisors are holding which interval products out there. And we subscribe to that database and we get updates every month of new advisors that are continuing to allocate to interval funds. And that list is growing by the month, and growing by hundreds and thousands of advisors that are now taking advantage of these products. So we've seen in that data, we've seen a significant upswing over the last 12 months or so with advisor interest, and I think really driven by client demand for some of these products. That's what we've seen anyway.

Kim Flynn: And Shiloh, are you seeing the same thing in the credit space as well? I know that in some ways the credit sector of the interval fund market is better established. What efforts in terms of education have paid off?

Shiloh Bates: Yeah, so I mean one of the big benefits for us is that both of our funds are floating rate. As the Fed hikes here, people are going to be more and more interested I think in our asset classes. But when we're out marketing our funds, our interval fund's structure's biggest competitor is GP/LP funds and I think the interval fund is slowly going to take market share. When we talk to the bigger asset managers about interval funds, they say something like, "Well,

that sounds interesting but we just do GP/LP structures," and they're just dug in on that and it becomes an education process.

Another thing that they'll say to us is, "Well, I'm a big investor, I want to be a fund of one." I'm like, "Okay, well, we could do that but why wouldn't you want to just fund into a large diversified portfolio? What really is the advantage of having your own fund?" And then people will say, "Well, only 20% require mandatory liquidity per year. I could get locked up for five years." And our response is, "Well no, not really. If everybody tendered each time, that's the math, but that's not how it would work out. And even if it was, isn't 20% annual liquidity better than none? Additionally, I think for a lot of people it's becoming harder and harder to commit capital to a seven or eight-year fund. I don't know, things change, people's priorities and cash flow needs change quite frequently.

And then the third part of it is just people think, well, if I do a GP/LP fund I can negotiate for better fees than a retail product. But, we believe we already offer institutional level fees. That's the marketing and education back and forth that we see when we're out there talking about our funds.

Kim Flynn: Okay. Well, let's pivot now and talk a little bit about the outlook and how you're positioning your funds in light of volatile markets in 2022. So Shiloh, back to you in terms of the case for private credit as you all see it today.

Shiloh Bates: Sure. The loans in our private credit fund, they're senior secured, the rate resets based on LIBOR or SOFR every couple months. Last year the base rate LIBOR was at 15 BPS and a lot of our loans are 600 basis points over that. Well, now the forward base rate curve, LIBOR is expected, with a few Fed hikes, to be around 3%. So you're going to see almost 300 BPS of incremental income from that. And then if you compare that to what's happened to the Barclays Aggregative Bond Index, to high yield, and the S&P 500, the wind has really been at the back of those competing asset classes for years. Not the hiking rate environments favors our strategies.

Another part of the story is that the private credit loans start their lives with a loan to value of about 50%. A private equity sponsor buys a company, they put up half the money in terms of equity, they borrow the rest from people like us, and that 50% equity cushion is really valuable to us. It means that something fundamental at the business has to change to erode that much equity, and the business to default. And the reality is, even in a default - there's 30 years of history on this - senior secured first lien recoveries are roughly two thirds of your money you get back even if you end up in the unlikely event of a default.

That's the case here. And if you look at the headlines, a lot of things that people are particularly concerned about like for example, inflation or higher commodity prices, that has the ability to move around stocks and the like. But again, if you start your life with a 50% loan to value, it's the equity that absorbs some higher costs. So I think the wind's really at the back of private credit, and I think people will continue to allocate accordingly.

Kim Flynn: Understood. And Michael, how are you thinking about and talking about private equity? Do you believe that opportunities are still as interesting now as you did maybe six or nine months ago? We hear so much about the fact that companies are staying private longer, it seems like recent volatility would only exacerbate that trend. So how are you talking with advisors about the opportunity in private equity?

Michael Bell: That's right, Kim. Yeah, when markets are volatile there is more opportunity at those extremes, especially in the private markets. One of the dynamics in the private markets that many advisors and obviously end clients really don't have a great lens into is the degradation of the overall public markets. And what I mean by that is if you look at the number of public securities, publicly traded securities on all the exchanges 25 years ago, we had just over 8,000 securities that were publicly traded in the US. Today that number is just over about 4,000, we've lost about half of the publicly traded securities in the public markets over the last 25 years.

It's been a slow decline but it's been a steady decline. And those companies, most of the companies are not filling the funnel anymore. And what I mean by that is 25 years ago a company had $20 million in earnings, they would start to look how they go public. And you had a lot of small cap and mid cap companies filling that funnel and they became the Microsofts and the Googles and the Apples of the world over three decades of time. But they're not filling that funnel anymore, but they're not going away. They're still there, they're still growing and they're still thriving, but what's happened is four trillion dollars of private money, private funds are now funding those companies and they have a way to stay private longer.

So they don't have to subject themselves to Sarbanes-Oxley, they don't have to subject themselves to quarter-by-quarter review by analysts, and they don't have to subject themselves to a short-term mindset to meet that quarter-by-quarter review. And so previously you didn't have the amount of private capital available for those companies, but it's pouring into the space and all of those companies are supported by private equity. And what we are doing is we're tapping into that. Those companies, again they haven't gone away, they're just staying private. And we think that opening up that opportunity, opening up that gate to end investors is incredibly important as a source of risk-adjusted return.

What you typically see with private assets, because they are private, they're not subject to the day-to-day whims of the market. And for example, on any given day a huge public company as large as Apple can lose 2% of its value. Did Apple really do anything in its fundamental business to lose 2% of its value? Of course not, it did not. But there were just market behaviors that suggested it was 2% less today than it was yesterday. Which is not the case with private assets because there's a less volatile, much smoother ride because they're not subjected to the day-to-day fluctuations in the market.

So we see the current market environment, Kim, as incredibly robust. Especially with the dislocation that you see in the market, it drives companies that outperform to the private markets, and those are the types of companies that we invest in.

Kim Flynn: And Michael, given what you're saying about private market assets, how are advisors using interval funds in the portfolio context? Are they replacing traditional exposures? What are you all seeing there?

Michael Bell: So it's a bit all over the map because I think we're in the early stages of opening up private markets, and so advisors are trying to learn and determine how they allocate to private assets. But I think the overwhelming majority of advisors that we work with, how they allocate to private equity assets, because in our fund we focus in the small and midcap space. It's that whole space that I just mentioned was really shrinking.

And so a number of advisors weren't aware of how much that has been degraded over the last couple of decades, and so they are taking their allocations to public, small and mid-cap space and just reallocating, or cutting their allocation on the public side in half and reallocating to some of the same types of assets on the private side. So they're just looking at the same allocation that they have, 10 or 12% allocation to small and mid-cap, they're taking some of that exposure in public assets, and now they're taking some of that exposure in private assets because they can.

Kim Flynn: And Shiloh, are you seeing the same thing in the credit space in terms of how investors are using interval funds?

Shiloh Bates: Our interval fund, Flat Rock Core Income Fund (CORFX) that's focused on private credit first lien loans, that pays a 6.62% distribution rate[1] , and RIAs and investors are thinking of that as a replacement for high yield exposure. And then for our CLO equity-focused fund, Flat Rock Opportunity Fund (FROPX), that pays a 12.01% distribution rate[1], and a lot of investors see that as an alternative to the S&P 500, except without correlation to that market.

Kim Flynn: We have a number of questions that have come in just in the Q&A bar. I would describe the questions that people have as trying to understand the features of the interval fund and how that impacts them. So Shiloh, I'm going to start with one question just about quarterly repurchases for interval funds, so that's the form of liquidity that investors have. But how does Flat Rock manage the fund's investments to meet that quarterly liquidity requirement? Could you describe that for us?

Shiloh Bates: Yes, that's a great question. In both of our funds there's a number of ways, but for example starting with the private credit fund, one thing about private credit is that the loans that we invest in frequently prepay at par. And so in a typical year a third of the loans prepay and that's a source of cash. And then in the CLO equity-focused fund, the cash-on-cash distributions from our CLOs is over 20% today[2], and we have a natural high amount of cash that comes into the fund each quarter through those distributions. And then going back to the private credit fund, there's also the interest payments that come in from those borrowers as well.

1) As of March 31, 2022; we intend to pay a distribution each month to our shareholders of the net investment income of the Fund after payment of Fund operating expenses. The distribution rate may be modified from time to time. Distribution yield calculated by most recent distribution/most recent NAV* 12. This figure does not include the return of principal or other non-income items.
2) Cash-on-cash yield also refers to the total amount of distributions paid annually by an income trust as a percentage of its current price. The cash-on-cash yield is a measurement technique that can be used to compare different unit trusts. This term is also referred to as "cash-on-cash return.

So that's what's coming in from the assets, but we've set up both funds so that we have revolving lines of credit in each fund. So if somebody tenders for the full 5%, we can draw on a credit line. Our funds basically see inflows every day, and so right as you come up to a tender period, you can delay deploying into new assets for a week or two and that's an additional source

of cash. And then you're also just going to have some cash on the balance sheet that's waiting to be deployed.

The gameplan for us is to be fully invested at all times, because like I said before, when an investor buys our fund they start earning that dividend right away, and cash pays zero. So through some of the levers that I mentioned, combined with a pretty detailed spreadsheet of debits and credits for each day around the tender periods and beyond, it's been actually quite easy to meet the tenders. But to Michael's point, it's a fundamental policy of our funds, it's not optional.

Kim Flynn: There's a related question in the Q&A regarding tender funds. I think I can take this question. But the question is, have any tender funds actually closed their gates? And I think there can be confusion around gating, what do we mean by that, versus a repurchase that is prorated. And tender funds by design, they reserve the board's discretion to be able to change or potentially stop a tender. And so I think that because the interval fund and tender offer fund space is evolving, it's relatively young in its history, I think the risk that I think Michael touched on that's important to highlight is that in a future market environment. Perhaps one more like 2008-2009 where we saw persistent problems in the markets following a correction. Unlike 2020 where we had a V-shaped recovery and an infusion of liquidity, to navigate a period like 2008-2009, a board of a tender offer fund could choose to close the gate if they needed to given the illiquidity of the investments. And so that's always a possibility.

I think it would be highly unpopular, it would be fairly challenging for that fund if they chose to do that. But in certain situations to protect shareholders, to protect the assets, you could see a scenario like that. But no, not in recent history, we've not seen any tender offer funds close gates if you will. But that's why there's so much I think thought put into liquidity, the process that Shiloh describes. Michael, do you have anything else in terms of private equity? Maybe your view on how you manage those liquidity requests and how you guys go about that would be helpful.

Michael Bell: Yeah, sure. So I think on the credit side and even on the real estate side of private funds, management of the liquidity is a little bit easier because they're in yield vehicles for the most part and those vehicles are throwing off yield. In the private equity context we'll invest in some warrants or preferred equity shares that do have yield, so overall in the portfolio we'll generate a 4 or 6% yield, and that helps with quarterly liquidity because we're getting cash infused back into the portfolio from our investments. The other thing that Shiloh mentioned is we're an evergreen fund. Very different than a closed-end fund where you raise money once and it's locked up and you go forward, we're raising money all the time and it comes in every single day, and so you use that to balance it out.

But I think the interesting thing that you mentioned, Kim, when you compare an interval fund to a tender fund, there are structural liquidity features in an interval fund that are requirements. So number one, it's mandatory, you actually have to do it. And so how do the regulators ensure that you have enough liquidity to actually make your 5% liquidity windows every quarter? Well, the regulators require us to keep 20% of our assets in some type of liquid vehicle. And again, that's charged by new inflows, by leverage that you have on the fund, by a line of credit that you have on the fund, by yield that's driven off the fund, and then cash.

And what we try to do with that, we call it our liquidity bucket, that 20% that the regulators require you to set aside, it's a year's worth of potential liquidation requests if the market does have a challenging period of time. But what we do with that liquidity bucket is we invest it in securities that are liquid that try as best as they can to mirror the private equity market. And there are securities, there's about 400 securities that are listed private equity. They're private equity vehicles or companies that invest in underlying private companies, but they're publicly traded.

KKR and Carlisle and Blackstone are some big, well-known examples. We usually don't use those types of vehicles, but also some closed-end funds and BDCs that traditionally only invest in middle market private equity private companies. We invest in those types of features. So there are structural features built into the product, because we do have mandatory liquidity, that enable us to meet those demands and still not sacrifice returns on the other side as a result. So that's how we do it. As Shiloh mentioned, it's not overly burdensome. It's something that you have to be thoughtful about but it doesn't otherwise impact what we're trying to do and the product that we're trying to deliver to advisors.

Kim Flynn: We've got a question coming in regarding performance fees, and I think performance fees can be an area for clarification. And so I know we talked a little bit about some of the tender offer funds in the marketplace do charge performance fees, total return based performance fees, so more like a classic private fund fee structure. Other types of performance fees, or what I would call incentive fees, are permitted. And so you might see an interval fund for example in the credit space use something called an income incentive fee that charges, it's a performance-type fee based on the income earned by the fund. And there are a handful of both interval and tender offer funds charging that type of fee.

So I think it does warrant, when you're investing in private assets it does warrant investigating the fees at multiple levels. The other thing that we see is acquired fund expenses to the extent that interval funds will invest in a fund, there may be a layer of fees or there may be a performance fee that shows up as an acquired fund fee.

So maybe Shiloh or Michael, if you'd like to comment on the importance of transparency regarding fees and maybe the benefit of having something that's simpler. I think some of the complexity here, either people don't understand these fees or they aren't sure they're disclosed in a way that they understand. So how do you view these types of fees, Michael?

Michael Bell: Yeah, so great points, Kim, and for every advisor you should fully understand obviously the fees. Everybody tries to be transparent but some people are encumbered by the curse of knowledge. They know the product so well and they may not go as deep on certain

features that you would be concerned with or should be thoughtful about. And fees in two instances, I'll call it the performance fees, if you're dealing with nonaccredited investors it's really a challenge to put a performance fee in there.

You've heard and you've seen some fulcrum fees that have started to come back into the marketplace. A fulcrum fee is really if we over perform we will take a little bit more fee because we've outperformed a particular benchmark. But the fulcrum nature is if you underperform then you give back some of your fee. So it's a balance. Most of the fee features, performance features that Kim mentioned are your traditional GP/LP structure where it's only one way. It's 2 and 20 on the performance side, you really don't give back a fee.

So in most interval funds you won't see performance fees. We don't have them in ours. But I think one of the significant differences that we didn't mention in the tenders that Kim just brought up is the AFF&E, the acquired fund fees and expenses. And if you are looking at a particular tender fund, and that tender fund has sub docs and it may be appropriate for nonaccredited investors, so your high-net worth investors you're doing subscription documents for. Those high-net worth investors, those accredited investors, they can actually go out and invest in GP/LP structures, really high minimums and things like that. But they can invest in 3C1, 3C7 funds. As a result, the tender fund can also invest in those funds. And almost always, those funds come with a 2 and 20 fee attached to them.

And as a result, if the tender fund that you're investing in just hypothetically has a 150 basis point fee, now you've just layered on a whole slew, a whole allocation of 2 and 20 fees that you have to carry as well. And you'll see a lot of tender offer funds, we've seen them run 400-550 basis point total all-in fees because of the fee that Kim just mentioned, the AFF&E fee. In our fund we have a limitation that the regulators put on us that we can only hold 15% of our assets in 3C1 or 3C7 private equity funds that may carry some additional fee on that. So it helps to temper any acquired fund fees. Our acquired fund fees are 23 basis points as a result because we have limitations. Some funds have no limitations and those fees can get fairly healthy pretty quickly.

Kim Flynn: Thanks Michael. Shiloh, I'm going to go to you with closing thoughts in terms of your thoughts on the potential growth of this interval fund marketplace. There was a question regarding best databases. I think John Cole Scott or I'd be happy to volunteer in terms of information on usage of interval funds that Michael mentioned. So feel free to contact me or John Cole Scott afterwards, happy to share more information. But Shiloh, to you for closing thoughts, and the Michael, we can wrap up with you.

Shiloh Bates: Yes, I'll just add one of the things, and this is related to incentive fees a little bit, and by the way both of our funds charge incentive fees. We take 15% of the return above a hurdle. In a 40 Act structure basically you're getting a daily NAV, but you're also getting the requirement for a lot of reporting that should be real useful to investors. So for example, we file a schedule of investments, all of our holdings with the SEC on EDGAR, that's done monthly. And then twice a year we have a certified semi-annual or annual report, and it's 30 pages that includes all of our holdings and basically everything that you'd want to know or need to know about our funds.

And if you contrast that with a 10Q or a 10K that's filed for publicly traded companies, those can run 200 pages or something and have a lot of information that's either repetitive or that might not be helpful to investors. Whereas actually our semi-annual reports, annual reports are very helpful and are quick reads. With regard to fees, fees are obviously quite important to investors, and I think investors would find in those reports everything's really laid out very clearly; how the fees work, what they work out to be as a percentage of assets or a percentage of equity. I think there's just a ton of disclosure there. And then you also have some things with a 40 Act, max leverage at the fund and stuff like that, minimum diversity requirements, all that good regulatory stuff. So that's another perk if you will, or benefit to doing things through the interval fund structure.

So yeah, we just managed two interval funds, so we definitely believe in the structure and we've been growing quite a bit since our inception. Part of that's fund performance and part of it is people accepting more of this structure for the asset class.

John Cole Scott: Please feel free to do some remarks, Michael, but want to make sure we give people their break too.

Michael Bell: Yeah, just 30 seconds. We're incredibly excited about the space. We think it's a very early transition into the space, but I think you'll see over the next decade more and more private assets coming into the market. So what I would encourage everybody on the event to go do is educate yourself. Like this event, get educated on these new products, because they're going to continue to grow and be a part of your practice and education is the key to understanding them for you and your clients. Thank you all for having us here and having us participate in a forum like this, I think it's super helpful to advisors.

John Cole Scott: Really appreciate it, it's been the goal of AICA since I did it three years ago. Thank you, Kim, as well for doing an excellent job as moderator. We could not do these events without excellent moderates. Thank you Shiloh and Michael. Please, everyone else, we're going to go out of presentation mode, feel free to chat at your tables. If you've never done it before, you can change tables by double-clicking to a new table. And feel free to catch up with an old friend or make a new one, and we'll start the next session promptly at 2:30 for you as well. Thank you guys.

Shiloh Bates: Thank you.

Michael Bell: Thanks a lot.

Glossary:

A collateralized loan obligation (CLO) is single security backed by a pool of debt.

A business development company (BDC) is a type of closed-end fund that makes investments in developing and financially distressed firms.

Tender offer funds are continuously offered closed-end funds that are not listed on a stock exchange and seek to provide investors with liquidity by offering to repurchase a percentage of their outstanding shares.

Alternative Investment Product (AIP) Services is a platform that links global market participants.

A private equity firm is called a general partner (GP) and its investors that commit capital are called limited partners (LPs).

Beta is a way of measuring a stock's volatility compared with the overall market's volatility.

Alpha is the excess return on an investment after adjusting for market-related volatility and random fluctuations.

A non-correlated asset is an asset whose value isn't tied to larger fluctuations in the traditional markets.

A floating interest rate, also known as a variable or adjustable rate, refers to any type of debt instrument, such as a loan, bond, mortgage, or credit, that does not have a fixed rate of interest over the life of the instrument.

The London Inter-Bank Offered Rate (LIBOR) is the benchmark interest rate at which major global banks lend to one another.

The Secured Overnight Financing Rate (SOFR) is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities.

A basis point is one-hundredth of 1 percentage point. A related term permyriad means one-hundredth of 1 percent.

3C1 funds are privately traded funds that are exempt from SEC registration through the Investment Company Act of 1940.

The 3(c)(7) exemption refers to the Investment Company Act of 1940's section permitting qualifying private funds an exemption from certain SEC regulations. Private funds must not plan to issue an IPO and their investors must be qualified purchases to qualify for the 3C7 exemption.

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