



## Endowment Strategy In Interval Fund Creates Patient Long-Term View

Friday, September 18, 2020

Chuck Jaffe, in The NAVigator podcast, interviewed Daniel Wildermuth, chief executive officer at Wildermuth Wealth and portfolio manager of the Wildermuth Endowment Fund. Read the Q & A below as Daniel says that investing like the big college endowment funds creates a long-term outlook that's heavy in private equity and other alternative asset classes, but that having that approach in an interval fund's structure forces investors to be patient and to ride out short-term



market noise, which is necessary when loading up on private investments. He also provides his assessment of how private equities have responded in the topsy-turvy pandemic times of 2020.

Daniel Wildermuth

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

**CHUCK JAFFE:** Daniel Wildermuth, chief executive at Wildermuth Wealth is here and we're discussing the endowment investment approach and interval funds now on 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's brought to you by the Active Investment Company Alliance, a unique industry organization that represents all facets of the closed-end fund industry, from users and investors to fund sponsors and creators. And if you're looking for excellence beyond indexing, The NAVigator's going to

point you in the right direction. And speaking of fund creators and fund sponsors, today I am talking with Daniel Wildermuth, who's portfolio manager at the Wildermuth Endowment Fund. If you're interested in getting more information, it's ticker symbol WESFX for the A-shares, but you can go to WildermuthEndowmentFund.com. To learn more about closed-end funds, interval funds and more go to AICAlliance.org, the website for the Active Investment Company Alliance. Daniel Wildermuth, welcome to The NAVigator.

**DANIEL WILDERMUTH:** Thank you so much, very pleased to be here.

**CHUCK JAFFE:** We need to start on the endowment side of things, because an endowment strategy, well it's very broad, it frequently goes in places that standard stock and bond domestic kinds of strategies don't go, and it's a time horizon element. So let's start there and talk about the endowment investment approach and how it works.

**DANIEL WILDERMUTH:** The endowment investment approach not surprisingly comes from the fact that the people who use it the most are endowments, they were the ones who pioneered, starting with Yale University all the way back to 1985 with David Swensen. And the big thing that the endowment model really follows or effectively employs very, very generously, is investment into private markets as opposed to simply stocks and bonds. That is the big difference. In fact, endowments that are generally north of a billion dollars in size have at least 60% of their assets in what most would consider non-standard stocks and bonds. There's obviously differences in terms of exactly how they implement that, but that is the big difference, is that they've really, as you said, ventured into different sectors outside of the traditional asset classes that a lot of retail investors tend to follow.

**CHUCK JAFFE:** Let's talk about how the interval fund structure and the endowment approach work together. What are the benefits of saying "I'm going to use the endowment approach" in an interval fund structure?

**DANIEL WILDERMUTH:** The biggest reason that people like an endowment fund structure is that there is large exposure to private equity, and similarly that's something that we've certainly employ generously within our fund. What the interval fund allows is the illiquidity that goes with those types of investments. So if you have a standard open-ended mutual fund, which most people are very familiar with, you have a 15% limit on illiquid assets or assets that don't trade on a daily basis. Within an interval fund structure, you can go above that because you're only providing liquidity on a quarterly basis, and that allows you to offer

liquidity with some of those types of assets because you have other types of assets within the portfolio that you can provide investors opportunity to exit if they choose to, but it also allows you to have something that is not completely liquid. So that's the big reason that you tend to marry those two together. It allows you to have exposure to a very desirable asset class and private equity while still providing flexibility for investors as opposed to a traditional fund structure which might require a 10 year plus investment, which most people don't really get too excited about.

**CHUCK JAFFE:** Unlike a traditional closed-end fund you're not looking at assets that are trading at massive discount, so they're still looking at you the way they would size up a traditional fund. For them it's mostly, let's think about A, the approach, and B, that liquidity aspect. That whatever I'm putting in here, it's limited quarterly liquidity.

**DANIEL WILDERMUTH:** And that's the standard structure of an interval fund. So unlike a regular mutual fund where you can buy and sell daily, with an interval fund you can buy daily but you can sell on a quarterly basis. So it gives you liquidity because you can take money out on a quarterly basis, but it means you can't decide today that you want to take money out tomorrow or today, you have to wait for those predictable quarterly liquidation events. And for that, that basically gives the portfolio manager the freedom to invest in things that are somewhat less liquid. So it allows that opportunity for individuals to access private markets but with something that's a lot more flexible.

**CHUCK JAFFE:** When we talk about private equities in any type of mutual fund there is always what would be considered a valuation concern. In other words, if their stock's not trading every day you've got some sort of a fair market estimate that says, "Here's what it's worth," and how it moves along. We've seen so many developments in private equity and it is such an important part of what you do, are the concerns that investors have historically had about, "Hey, if I own a mutual fund and it has private equity I could wake up one morning and they could have decided that company XYZ really isn't worth that and I can see a big swing." Are those concerns somehow muted, and again, less likely to end up impacting because even if that happens investors can't exit just because it's Tuesday and the value changed?

**DANIEL WILDERMUTH:** The structure goes a long ways towards effectively eliminating that possibility to all the positions within a mutual fund, and this is one of the advantages of

effectively interval fund structure, is every year you have to have an audit completed that's according to GAAP standards. And those GAAP standards are very well defined, they follow AICPA guidelines. But there's very, very clear standards in terms of how those valuations can be done and what needs to be followed in terms of establishing those values. And that has to be done throughout the years, so if there's any significant change plus or minus, they win a new contract or they lose something significant, or they get an approval or they don't, those companies and the values of those companies has to be updated because they effectively have to be valued throughout the year according to GAAP standards. There is some art to that, but there is a surprising amount of science in terms of how different valuation companies-- for instance, we have to use an external valuation company that effectively assigns a range of values and we work with them to decide exactly what that value is. But basically for any significant event those values are updated, and then if there isn't a significant event but a certain amount of time goes by, say several months, they're updated again then anyways just to make sure that those values are correct. Obviously during 2020 when COVID hit, we had values moving rapidly, we've had a lot of changes in value or a lot of revisiting what's happening within the companies. But it's really geared around that to make sure that basically buyers or sellers of the stock are getting what they're 'paying for it, and they're basically paying or getting back if they're redeeming an appropriate amount.

**CHUCK JAFFE:** Let's take that a little bit further, that discussion. Because as you pointed out, COVID-19, well, it's affected the broad market tremendously. There have been certain areas such as closed-end funds took it more on the chin when things were happening in February and March, have rebounded but are still in a territory that could be a little bit less than what people might have expected. What's happened in the private equity space since that's such an important thing for you, with not just necessarily the companies that you've got, but the private equity space in general in terms of how it's responded through this?

**DANIEL WILDERMUTH:** Private equity has really kind of fallen into three categories. Think of the first category as companies that have been around for a while, they're established, they have a track record, and they were certainly existing and thriving or moving forward pre-COVID. Those companies in general, or if you have a fund of those types of companies, those companies have generally done well, especially if there's more of a technology focus, that's kind of one category. A second category are funds or basically somebody and a manager has

a large pool of capital, because if dislocation within the market and some of the pressure on the companies, having cash right now has become more valuable and so those firms have also basically benefited or they basically have the cash. That's a benefit to you because you're able to buy things generally at a lower discount, there's a lot of halt to funding so there's new opportunities created if you have cash. The area of private equity or venture that has been a little bit, some might say adversely affected, are companies that are really early in their development, so they're either pre-development, or they're just trying to get traction, or they're a disruptive market technology. With all the other market disruptions from COVID they may have struggled a little bit to gain traction in that space, so that is an area that possibly hasn't done as well. The flip side is that as we're starting to come out of COVID, those company sectors tends to have done extraordinarily well long-term, so it's probably more of a pause in the short-term and they will probably come roaring back, it's just they were likely a lit bit more affected in the short term. So you kind of have two sectors doing pretty well, one sector which probably is slow a little bit.

**CHUCK JAFFE:** Daniel, very, very interesting. Thanks so much for joining me on The NAVigator to talk about it.

**DANIEL WILDERMUTH:** It was my pleasure to be with you today.

**CHUCK JAFFE:** The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I am Chuck Jaffe and please check out my show on your favorite podcast app or at MoneyLifeShow.com. To learn more about interval funds, business-development companies, and closed-end funds go to AICAlliance.org, the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance. Thanks to my guest, Daniel Wildermuth, the chief executive at Wildermuth Wealth, the portfolio manager for the Wildermuth Endowment Fund, where the A-shares trade under WESFX. Learn more at WildermuthEndowmentFund.com. The NAVigator podcast is available every Friday, please subscribe on your favorite podcast app and join us again next week to learn more about investing with closed-end funds. Until then, stay safe everybody.

*Recorded on September 17th, 2020*

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