



## Private Equity Adds Spice, Return Potential and Diverse Returns

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Chuck Jaffe, in this episode of The NAVigator podcast interviewed Daniel Wildermuth, chief investment officer for the Wildermuth Endowment Fund, an interval fund that uses an endowment-like investment strategy built around alternative investments. Read the Q & A below



as Daniel discusses how private equity investments have not only weathered the storm of the pandemic, but have largely outperformed the broad stock market over the longer term, and how they can spark and diversify a portfolio.

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 officer at Wildermuth Wealth is here and we're talking about interval funds and alternative investments, and 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'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, if you're looking for excellence beyond indexing, The NAVigator's going to point you in the right direction. And today it's pointing us in the direction of Daniel Wildermuth,

chief executive officer at Wildermuth Wealth and the chief investment officer at the Wildermuth Endowment Fund. If you want to learn more, WildermuthEndowmentFund.com is the website, WESFX, the ticker symbol. It's a fund that invests, A, like an endowment, and B, it buys private equity and alternative investments, and C, it does all of that in an interval fund wrapper. To learn more closed-end funds, interval funds, and business-development companies, AICAlliance.org is the website for the Active Investment Company Alliance. Daniel Wildermuth, thanks so much for joining me again on The NAVigator.

**DANIEL WILDERMUTH:** My pleasure, my pleasure. Very glad to be here.

**CHUCK JAFFE:** Quickly let's talk a little bit about the interval fund structure. Interval funds are something that part of the idea is we're going to try to lock some things in to give the money manager the ability to buy things that are illiquid, things that don't trade much, things that might be affected if there was a flood of money out of the fund, etcetera. But we've seen market conditions where, hey, the market has had a little bit of volatility but it's kind of been a steady upward grind. For somebody who's running an interval fund, is that good? Or do you prove ourselves in more volatile times like what a lot of people think is coming?

**DANIEL WILDERMUTH:** I think it depends on the fund. We've seen some funds do well during the steady upward climb of the stock market, a lot of strategies though aren't really exposed to the market. In fact, most funds are really invested into other alternatives, so what's happening in the public markets doesn't impact them so much. So I think often for a lot of them you've got potential demand when the market goes down because people may want liquidity in their portfolios, but for more of the actual fund managers it doesn't really matter too much. So I think for them it's fairly independent whether the market's going up or down, whether it's volatile or not, it doesn't really impact funds. Or if it does, it impacts them differently. So there's isn't an easy way to say it, it's good or bad.

**CHUCK JAFFE:** It's more, the structure is about the benefits it gives you when it comes to what you're buying and the way you're able to hold it, as opposed to what it does in market conditions.

**DANIEL WILDERMUTH:** I think that's accurate, yeah. It gives the managers the flexibility to invest in unique investments and unique private markets generally that you can't invest via public markets.

**CHUCK JAFFE:** Well, let's talk a little bit about some of those private markets because it's really hard for most people to know about private equity. So talk a little bit about private equity in general, and then talk about why somebody wants to add private equity to their portfolio at a time when the market seems to be going so gangbusters.

**DANIEL WILDERMUTH:** Private equity believe it or not has actually done better than public markets. Public markets are way up over the last couple years, really over the last 10 to 12 since the 2008 market crash. But going back to 2005, public markets have come close to doubling the total return of the stock market over that time period, private equity's up, venture capital is up, a subsector of private equity. But those markets have done incredibly well, they've even done better over the last year than public stocks have done. Now I would say that there's one place that they may not have done as well, they may not have as much recovery off the lows. That was because they didn't go down like the stock market, so they didn't go down as dramatically but they've certainly gone up. So they've had a phenomenal run and that's just par for the course with private equity. It does really well, and that's why the people love investing in it.

**CHUCK JAFFE:** Yet most folks kind of ignore the private market. Because it's not easy to buy in a mutual fund wrapper, in a closed-end fund wrapper, even in an interval fund wrapper. There are not many 40 Act mutual funds – and Wildermuth Endowment Fund is a 40 Act mutual fund so it operates under traditional fund rules – that invest in private securities that you can get into without being an institution and putting in a ton of money to be able to get in. So for somebody who has all their bases covered, who has all of the standard asset classes, what are they getting and how should they think about private equity functioning differently as an alternative in their portfolio?

**DANIEL WILDERMUTH:** Well, several things are different about private equity versus public equity. One is simply the companies are private, so you're buying them at valuations that are different than public equities. Public equity valuations today are sky high. I'm not saying public markets can't go higher, but they're not going to have a phenomenal next five and 10 years because just valuations are so high and they can't just go up forever, we're at valuations that we last saw in 1999. Public markets are expensive, so that's one advantage to the private markets. Another advantage of private markets is that the people who are investing in those spaces have decades of experience of searching for the best returning sectors, the best

returning companies, investing in private companies which are usually growing faster, usually have a better path in front of them, but they're also in technology and other areas. You see a lot of medical equipment in that space, you see different areas in that space that are simply growing faster and have more potential to provide good returns. So restaurants are sometimes part of that, but the restaurant chains that are growing rapidly, the stock market has a lot of old growth companies, it has new companies as well. Private equity is just your new companies that have a much better future in front of them, a much better momentum behind them as well. So they tend to be companies with a much better potential for success.

**CHUCK JAFFE:** One of the areas that the pandemic has been challenging for stock analysts has been year-over-year comparisons when you're looking at numbers of businesses that came to a complete stop. And we know that this is going to continue because, well, now you've got great numbers this year compared to last, next year as things normalize the numbers may not look so well. But that's using all the reporting that you have to have for the SEC. Private equity firms have different reporting requirements. Have the numbers been more challenging in these times?

**DANIEL WILDERMUTH:** They have been challenging. For instance, we saw that last year in some of our investments in certain areas that the companies weren't able to make the same progress because they couldn't hold meetings, and that's been true with some of the private equity companies. Because the companies haven't made the same progress, and you book to revenue and you adjust your valuations based on revenue, so if you weren't able to achieve the revenue that you were targeting, you didn't have your numbers go up. So that was an impact for some of them, but private equity values itself according to very strict standards, they're all GAAP standards in one form or another. Where public markets are basing their expectations based on a projection of the future, so you're guessing what the future may look like. Where private equity has to look at what's actually happening, and what's really occurred within the company, and what their projections are as well. The projections are based on again, valuing things based to a specific code, specific standard, specific ways of doing things that don't bounce around during a pandemic. Where public markets tend to get caught up in expectations, future hopes, etcetera, so you tend to have a lot more enthusiasm in public markets then you do in private.

**CHUCK JAFFE:** Yeah, there are no meme stocks in private equity.

**DANIEL WILDERMUTH:** No, there aren't. No, there aren't.

**CHUCK JAFFE:** Folks should also understand we're talking about your fund, the Wildermuth Endowment Fund, and the endowment side here is about acting like an endowment, investing like an endowment. And that is a different way of managing money than most fund managers do. How has that held up in the pandemic, and how is that different as you plan for the future?

**DANIEL WILDERMUTH:** It's held up well during the pandemic and the slowdown, the challenges we've seen, it's definitely held up well. I think we're extremely well positioned looking forward as well. Part of it's you got the balance of having certain allocations, a typical endowment has investments in private equity, it's got investments in venture capital, it's got investments in hedge funds, it's got investments from real estate, oil and gas, infrastructure, etcetera. So you've got a lot of diversification that's definitely served us well over the last year and a half, and I think it's something that's served pretty much all endowments over the last time period.

**CHUCK JAFFE:** Last question. What worries you about private markets? I mean, right now if I'm talking with somebody who's all about the public markets, they're talking about inflation, or they're talking about interest rates, or they're talking about potential tax changes, or they're talking about the pandemic. What's the biggest threat to the kinds of private equity situations that you're investing in?

**DANIEL WILDERMUTH:** Not so much what we're investing in, because we tend to invest in earlier stage companies. I think my biggest concern with the private equity portions, kind of about the markets, is particularly the late stage investments that have a high correlation or a higher correlation with public markets, those have a bit more impact or more influence by public market valuations. So you see that a lot of their returns, because they're getting ready to go public or they're very close to going public, their valuations have an element of the valuations of the public markets built into their valuations. And so that's a sector that if the market were to decline significantly, you could see a pullback in their valuations. It wouldn't be as severe as the public markets, and we saw that last spring, for instance, nobody drawback nearly as much as the public markets. But I think those areas, the late sectors in

the private markets has more exposure to public markets and that's a little bit concerning to me.

**CHUCK JAFFE:** Daniel, really interesting. Thanks so much for joining me to talk about it.

**DANIEL WILDERMUTH:** Thank you very much, appreciated the time.

**CHUCK JAFFE:** The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. That's me, and you can learn all about my show on your favorite podcast app or at MoneyLifeShow.com. To learn more about interval funds, closed-end funds, and business-development companies 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 officer at Wildermuth Wealth and the chief investment officer for the Wildermuth Endowment Fund, learn more at WildermuthEndowmentFund.com. The NAVigator podcast is available every Friday, you can ensure you don't miss anything by subscribing on your favorite podcast app. We'll be back next week with another episode, we hope you join us then. Until then, happy investing everybody.

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