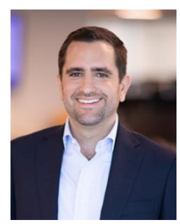
2021 AICA Interval Fund Winter Manager Spotlight Day 2 Panel #1; “Unique Credit Investing in an Interval Fund”

Thursday, December 9, 2021

Vadim Avdeychik, of counsel in the Investment Management practice of Paul Hastings, moderates the first panel of day 2 of the 2021 AICA Interval Fund Winter Manager Spotlight; “Unique Credit Investing in an Interval Fund”. Read the transcript below to hear the discussion among Mr. Avdeychik and panelists Duncan Farley from BlueBay and Clayton Triick from Angel Oak.


Vadim Avdeychik


Duncan Farley


Clayton Triick

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https://aicalliance.org/aica-event/intervalwintermanagerspotlight2021/

Vadim Avdeychik: Thanks John, it’s great to be back with AICA again and doing another panel. I think AICA’s doing terrific work in the interval fund space and closed-end funds generally. My name is Vadim Avdeychik, I’m an attorney at Paul Hastings in the investment management group. My practice focuses primarily on registered funds which encompass obviously interval funds, tender offer funds, business development companies, and listed closed-end funds.

Just a couple of words to add on to what John had mentioned, interval funds is an interesting wrapper that has been around since 1992-93. But really in the last five to six years we have seen this wrapper take off quite a bit, especially in the credit space. So I think this panel is very timely in terms of addressing what’s happening in the interval fund and in the credit space generally. So with that said, we have Clayton Triick and Duncan Farley, and perhaps we can start with some brief introductions. Duncan, I can turn it over to you to introduce yourself.

Duncan Farley: Yeah. Hi everyone, I'm calling in, 6:30 here in London actually, so a bit of a deserted office, they've all gone off to the Christmas party. Believe it or not, despite what you might have read in the press, there are still Christmas parties allowed in London as long as you're not the prime minister. So anyway, hi everyone. I'm Duncan Farley, I work at BlueBay Asset Management. I've been here now eight years.

So BlueBay for those that are not familiar, we did put some slides, I think someone mentioned that. That gives sort of a brief overview of the fund and ourselves. So $80 billion AUM, fixed-income focused. I work in the leverage finance group, focused on the distressed and stressed part of the leverage finance market. And we operate an interval fund which I've come on to talk about in a minute within that group. So yeah, pleasure to be here chatting today, looking forward to answering a few questions and hopefully educating those who are listening, and maybe even educating myself as I just was on the previous presentation.

Vadim Avdeychik: Thank you, Duncan. That's very helpful and I'm glad to hear there's still Christmas in London. Clayton, could you introduce yourself as well? Thanks.

Clayton Triick: Thanks Vadim. Thanks everyone for joining the call this afternoon and having us back on. My name's Clayton Triick, I'm a senior portfolio manager with Angel Oak Capital. The firm started in 2008 and I joined the firm in 2011 to launch the first mutual fund. I run the asset-backed securities group here. So we have a structured products team that manages assets across the board, across our public funds and private funds and SMAs, and I'm on the asset-backed securities group specifically. We're looking forward to the discussion today. Really had a really good time last year as well, so we're looking forward to the discussion and excited to hear what Duncan's seeing in the distressed space specifically.

Vadim Avdeychik: Terrific. Great to have you both, and I think we can dive right into some of the details about both of your shops. And Duncan, perhaps talk a little bit more about BlueBay and the role that BlueBay plays with the interval fund, and how you are seeing that interval fund operate in terms of sub-advisory relationships.

Duncan Farley: Yeah. As I've said, BlueBay, big global organization obviously across the world, main office here in London. We are actually part of, owned by RBC, so we've recently renamed ourselves as part of the Global Asset Management RBC Group. The name is so long, I'm not going to attempt to talk to it. But BlueBay's heritage has always been in alternative assets within the fixed income space since it founded in the early 2000s. As I say, I've been here eight years. I'm one of the portfolio managers on a couple of event-driven credit funds that we operate. That's one of about 40 odd different strategies that BlueBay has.

Within the Lev Fin ["Leveraged Finance"] group, particularly within the event-driven credit funds that we operate, there is a high propensity of slightly more liquid stuff. And matching investor requirements with I guess the maturity profile and the liquidity of the assets is always a bit of a conundrum for most credit funds. Hence you often see that there is either a choice of pure open-ended funds, quarterly liquidity, or something more locked up to match that.

What actually attracted us to the interval fund concept when it was presented was it seemed to us that this was almost the best way to match the liquidity of the underlying investments in the fund with the investor requirements that interval funds were presenting. It hasn't caught on here in Europe, hence we're a European fund that's offered into the US. But I do, as I thought three years ago when it was first—well, over three years ago when it was first mentioned, felt that there was a nice liquidity match there going on. And I'm hoping that the others will feel the same.

So we're BlueBay, we manage the fund, but I guess we're the sub-advisor to Destra who are the main managers and responsible for communicating and selling the fund into the US. So they're the advisor to us, Destra Capital. So we work closely with them on a day-to-day basis.

Vadim Avdeychik: Yeah, that's very helpful. I've recently read that over in UK there's this concept of long-term asset funds, which to me seems to mimic the interval tender offer fund structure in the US. So hopefully it will catch on over in the UK at some point. And Clayton, perhaps just a little bit more background on Angel Oak and your platform.

Clayton Triick: Sure, thanks Vadim. So Angel Oak started in 2008, really in the distressed mortgage credit trade here in the US, and really has morphed into more of a business. So we run approximately $15 billion in assets, so nowhere near the size of BlueBay, hopefully at some point we'll get to that point. About $10 billion of those assets are in daily liquid public mutual funds, about a little over $3 billion in private funds primarily focused on originating new issue mortgage credit. So those are mostly drawdown funds, there's a series of about 10 of those. And we just this summer actually IPOed a mortgage REIT, and so picking up permanent capital in the new issue mortgage space.

We launched an interval fund about four years ago, so you can kind of see it on the timeline that John pointed out, we were one of those funds that launched just about three and a half, four years ago. With effectively there's a significant opportunity set in our areas of structured credit and mortgage credit that we were taking advantage in some of our private funds and a lot within our public funds. But from liquidity perspective as Duncan was alluding to as well, we felt we could take much bigger advantage of those opportunities and much more concentrated in the interval fund structure as they really match the liquidity spectrum of the assets with the shareholder liquidity as well.

So that's definitely been very successful from performance standpoint over the first four years. And now we're seeing a lot more momentum from a growth capital perspective, of actually investors investing in that. So really feel that as I mentioned coming on to Angel Oak 10 years ago launching the first mutual fund, have seen opportunities across mortgage credit that have really evolved. That have made a lot of sense in our flagship fund and a lot of sense in our ultra-short strategies, and we have a UCITS fund globally as well. But really seeing significant opportunities for much higher income, total return strategies. In an interval fund structure, we can really concentrate those positions. So we're looking forward to the discussion centered around how that makes sense in today's opportunity really heading into the new year.

Vadim Avdeychik: Thanks Clayton, and that's super interesting because especially talking about a shop that started out with a mutual fund, obviously a highly liquid wrapper. And now also has an interval fund and other products as well. And those products able to coexist and sit on the same platform within the same asset management firm. Can you unpack a little bit more in terms of the opportunities that you see in the fixed income market currently?

Clayton Triick: Yes, absolutely. So the world's really changed post-Covid. Coming out of 2008, the real winners in that market globally and really in the US was corporate credit. The consumer was really hurt, home prices were down 40% peak-to-trough in the US, and the overall US consumer balance sheet was hurt. Coming out of Covid you've really seen the winners be the consumer. Home prices are up almost 20% year or over year in 2021. The consumer's balance sheet that has been de-levering since the Financial Crisis is now starting to take advantage of that. You saw record savings rates in 2021 and late 2020 for the US consumer. So now you're seeing a lot of money and capital flowing into the US residential housing market, into consumer markets.

This is something that we've been invested in our public daily liquid funds and taking advantage of the dislocation and now opportunistically investing and looking forward. But really more targeted positions and opportunities down the capital structure, really in areas of mortgage credit like prime jumbo. I think that's a very good example of an opportunity set where pre-Covid the investors primarily within prime jumbo mezzanine securities was really mortgage REITs that had permanent capital that were utilizing significant financial leverage. They really had significant underperformance due to meeting margin calls and selling these assets near the bottom in 2020. If any of you are invested in mortgage REITs you would have definitely seen that drawdown of 50-70% in many of those cases. And they really have not come back to the prime jumbo mezz space, so that's an opportunity set that we think is really interesting.

Something that we are invested in our daily liquid funds but it's only about a 10+% position. Whereas in the interval fund when you're matching with the liquidity of the assets with shareholder liquidity, you can really take advantage of that opportunity more so. When you think about performance, in our daily liquid fund that has similar type strategies, this year it is up a little over 4%. Whereas the interval fund is up almost 12%. And so really getting those targeted positions in areas that are dislocated, really make much more sense in an interval fund structure, you can really take full advantage.. Especially in these new sectors of mortgage credit that didn't exist five plus years ago.

Vadim Avdeychik: Very interesting. Duncan, from your standpoint could you speak a little bit about the international opportunity that is presented and that's attractive for interval fund investors?

Duncan Farley: Yeah, yeah. Look, I think the BlueBay Destra International Event-Driven Credit Fund, a bit of a mouthful, essentially mirrors our existing BlueBay Event-Driven Credit Fund. That's pretty much with the odd exception, they are investing in exactly the same things. And that fund, which has been going now for 13 year, has multiple strategies within it. So varying from core income at the I would say more boring end, but still on a 7-10% target, all the way through to restructuring profiles where we're more targeting a 25% return and tend to be a more illiquid investment. I'll come back to that in terms of matching up with the requirements of the fund. In between that we got opportunistic event driven and sort of stressed names.

As I said at the beginning, although we're globally based, the team is predominantly, the core of the team, or now virtually the entire team is based here in London with a European focus. We do have a team in Stamford, so there is an opportunity to invest in the US if we need it. But our knowledgebase, our contact base, and our opportunity set is here. And for those that have some familiarity with the European backdrop in terms of insolvency will know that each area has different jurisdictions, and so therefore different countries, different jurisdictions offer different opportunities and require a different level of expertise. And we built a team up to actually be able to source products from each of those areas.

Now this could be simply on the run high-yield bonds that trade on the screens but at a big discount, or it could be that it's actually a situation that requires a workout or a turnaround with or without new money, which is going to take a lot of time to do. But we've recently employed Italian analysts, we've recently employed a Spanish analyst. We're looking to source those products from other parts. And I think in one of the slides that we include in the presentation, just from bonds alone, this is just bonds, the size of the European bond market and the opportunity set. Obviously a lot of those bonds are trading at par, but certainly as the number increases, the number of discounted bonds increases with it.

It shows that when I started looking at the European high-yield market back in the late 90s, I was literally looking at the first high yield bond that was issued. And then the second and the third. Today there are hundreds, and as you can see from the charts there, it's starting to match the size of the US market as well. And if you think about the loan market and then the private debt markets, they're similarly matched. So we think there's plenty to do, plenty to look at over this side of the pond. But now and again we might, from our team in Stamford, we might actually see an opportunity in the US, but pretty rare these days.

Vadim Avdeychik: Yeah, that's interesting. When I think about the opportunity set over in Europe, I also tend to focus on the regulation in terms of ESG and how that's applicable to the credit markets. Of the European regulations ahead of what's happening in the US, it'll be interesting to see what opportunity sets that presents for just generally in Europe and in the US.

It has been an interesting year in terms of interest rate and the like. Clayton, can you talk about the current environment, and how if the rates end up going up as everybody has been saying that they will, what will that present in terms of opportunities or not for the fund?

Clayton Triick: Yeah, so we're currently working on our 2022 Outlook and presenting our views on what the yield curve we think could do next year. Going into 2021, and highlighted in this year's outlook, we were in the camp of inflation being more persistent versus transitory, or you otherwise could say, transitory for longer. And it seems like that's really borne out, where inflation has been much more persistent than transitory here in the US and the Fed is now starting to catch up to that. It's been a very kind of different reset of interest rates versus going back to the Taper Tantrum of 2013, you've seen the frontend move quite sharply. And so you've already in a way kind of had that front end taper tantrum take place. Within the next year you could see a steepening or overall lift of intermediate and longer term interest rates.

The way we position the portfolio really throughout this year and heading into next year is inflation's actually running higher than many higher predictions were expecting, as in just an overall low duration stance. First off, the duration of our interval fund is about three years, so just mathematically it's pretty short relative to broader traditional fixed income which would be somewhere between five and nine years. But also if you look at the areas we're investing in, housing backed credit, auto backed credit, areas that are actually positively correlated with inflation.

And so as these underlying assets improve in value, like this year housing price is up 20%, if you looked at used vehicle valuations in the US they look like a meme stock. It's been a pretty incredible run in US assets and hard assets. And so as those improve in value over time, that actually decreases the risk on these underlying securities as well. So we positioned the portfolio from two ways on a rising rate thesis, is really just limiting your interest rate risk exposure by just mathematically having a shorter duration. But then also having the assets actually backed by US homes, US cars, real assets in the US that are positively correlated with inflation. So as those go up, your bond actually increases in value.

We were on a discussion over the summer and we heard a really good point made by another manager, we really agree with that. Is that overall we prefer shorter duration high income amortizing cash flows where you're getting cash flow back to be able to reinvest, as opposed to a very long duration bowl of securities. So I think that makes a lot of sense heading into 2022 and something that we're really taking advantage of in this fun.

Vadim Avdeychik: That's terrific. Duncan, anything to add from an international perspective? Obviously different fiscal policies, but what are you seeing on your side of the market?

Duncan Farley: Well look, as Clayton mentioned, Covid has sort of thrown up a whole bunch of different opportunities for us. We saw the market get very beaten up very quickly back in the spring of 2020. And if you were able to act quickly and with conviction, you were able to find some good performing and quickly recovering names. But I think what it also did was it put some sectors under a lot of pressure for a much more sustained period. So if we think about energy for instance, and obviously what happen to oil through most of 2020, and then the energy names that were already certainly if look at the offshore space, under a bit of pressure, just about recovering. Suddenly a lot of them sent into restructuring process, both in Europe and globally, the US or Bahamas, Bermuda, wherever your head office was based or whatever their applicable jurisdiction. But yeah, a lot of distress caused across the energy space, across the shipping space.

Obviously what we've seen happen in the last 12 months in particular is obviously the recovery albeit the selloff of last week, although a lot of that is retraced. In the shipping space suddenly everyone realizing that we're all sitting at home pressing our buttons and ordering products that we probably didn't need anyway but we're still doing it. Which led to all kinds of issues around congestion, supply chain and the rest of it. And suddenly these beaten up sectors, whether it be shipping, particularly in the container space where they were barely making any money at all and now they’re making more money than they’ve ever made in their history. And asset values have gone up quite dramatically on the back of that and we’ve as a fund tried to participate in certain subsectors as that.

And in energy, with no one building anything for the last three or four years, having built too much for the previous 10-15 years, suddenly getting back into rebalance and profitability margins, admittedly coming off a low base, are suddenly starting to improve. Volatility is what a fund like ours, I’m sure Clayton will be the same, is what you need. Clearly the day that the market plummets, it doesn’t matter what your Sharpe ratios are, you’re certainly going to experience some of that. But if you know that there’s an opportunity set and you’ve been actively reviewing, and have the names on your list, and you know what to look at or what you think you need to look at, that helps if you’ve got an experience.

Even between us, sadly we’ve got over 100 years of experience, so we’ve been through quite a few cycles, you are able to act quickly. And certainly over here, this particular fund or the funds we operate is not huge, we’re definitely middle market. And it means actually it’s not too crowded a space. It’s the same with the distressed in the US, it’s been a crowded space for a long time, particularly when there's been not a lot of opportunity set. It’s pretty busy over in Europe, but it’s busy at the top end with the big sized guys who still need to trade. In the SME market it’s definitely less so.

So it’s been a good hunting ground for us over the last 12 months to pick up new stuff. And even today, this recent round of volatility and disruption is even throwing out a few new opportunities for us. Maybe those things that thought they were surviving and are suddenly now pushed back a couple of months where they need maybe think about restructuring it’s an opportunity for us. So plenty going on, very busy.

Vadim Avdeychik: Yeah, interesting. And the word that I keep hearing from both of you is opportunity. I think we touched a little bit on this already, but I would like to hear a little bit more in terms of what makes the interval fund wrapper a good fit for your opportunity set? Maybe Clayton, we can start with you.

Clayton Triick: Yeah, definitely the interval fund structure we think is kind of the way of the future for less liquid structured credit. Coming out of the Financial Crisis there were a lot of structured hedge funds created, two & 20 funds really taking advantage on opportunistic structured credit. You’ve seen a pretty big fee squeeze and those funds are limited to only certain types of investors here in the US, IE, only for QP/AI investors. Whereas within the interval fund structure, where we’re looking at just individual CUSIPs that really trade by appointments. So not something that needs to take many months to work out, both for us specifically at Angel Oak, but something where if we want to sell a pool of assets or make a single trade it may take a few days or a week. We’re much more comfortable doing that in an interval fund, particularly for a large allocation.

2020 is just a great example of the ability of us as a portfolio management team to look at underlying credits. Just like Duncan was talking about with this increased level of volatility last year and looking like it could take a place a lot next year. Not having the shareholder risk of investors leaving at the bottom, but actually being able to be convicted, put on the credit trades that you want to put on and let those play out. And this year is a great example of how those trades have worked out with that confidence, and I think that's also been pretty important. As we talk to our shareholders, one of the things our shareholders always ask for in our daily liquid funds is, "What's the makeup of the other shareholders within the fund? Are those institutional shareholders or are those mostly retail?" And they're really pleased that we actually have a pretty significant mix of mostly institutional RIA type investors within our public daily fund. But in the interval fund you don't have to worry about shareholder risk as much.

So taking advantage of the opportunities within the interval fund structure which matches that liquidity spectrum of the assets just makes a lot more sense and allows us to really be confident in our credit decisions because you don't have to worry about the liquidity risk or shareholder risk that's taken place.

Vadim Avdeychik: Yeah, that's a great point. Just to expand on something that you touched upon is that five or six years ago I really started to see more and more non-traditional asset managers come to us and ask for the interval fund wrapper because it really allows them to take their private fund or non-traditional structure and get broader distribution. And I think Duncan, you mentioned something that kind of ties into that, is that you do already have a fund that's been around for 13 years that seems to run parallel if you will to the interval fund structure that you have. Can you just speak on your experience and why you've felt it was the right time for you to access or provide access to an interval fund structure to investors?

Duncan Farley: Yeah, yeah. As I say those two funds mirror each other pretty reasonably. There's a couple of older trades that were set up before the interval fund was launched but they're few and far between. Typically we've got let's say between 30 and 40 holdings within the fund. The profile of the existing fund is, and it can depend on your definition of illiquid or private, but tends to be 20% illiquid private, 80% liquid. Now liquid is quite a big category, stuff that trades on the screen, whether it's over the counter or actually on exchanges would fall into that. And we realize that the structure of the interval fund could actually allow us to actually hold a much higher percentage of illiquid names given the quarterly distribution mechanisms (not sure)

But actually we've stopped with the more like the 20-80 model that we've had because actually that's where the opportunity set has presented itself for the reasons I was explaining before. A lot of on the market stuff that was actually easier to invest in and relatively easy to sell. We're very disciplined in our price targets, so there things that we might hold for a few week, but there are other things that we might hold for five years. So it's quite a big spectrum of things. And if I go and talk to some investors outside of the interval fund arena, we'll have those that want that daily liquidity and they don't want to take any liquidity risk whatsoever. So when you start telling them, "Well, we've got a five year investment in there," they all start to get a little bit nervous. "Well, how's that going to work?" For all the obvious reasons.

And by the way they still want a pretty high return, but that's hard to achieve. Because typically the longer term things that we hold, the restructuring stories where we're targeting a 25% plus return, well, IRR over that period, you need to do a few of those. I mean definitely certainly in our world. So having something that's got quarterly distributions, that's total return focused, but at the same time is giving daily NAVs, daily purchase, it works extremely well. We've, as I say, replicated it over the existing investing model, we're not looking for different investments so we don't have to double up on anything. And at this point it's happily going along with the same 20-80 profile.

It could be in time, as we expect, and we're launching other funds in the closed-end space, but the opportunity set moves more to more longer term total return plays. And in which case we'll start to increase the percentage exposure within the fund to that. But well within the mechanisms of the liquidity requirements of those investors in the fund. So it just gives us perfect flexibility to move across that investment spectrum that we look at.

Vadim Avdeychik: Absolutely. And I think an education process, and I think it's taken a little bit of time for investors, distributors to get comfortable with the interval fund wrapper, and I think we're definitely seeing that. And I think as John pointed out, the asset growth reflects that. As investors get a little bit more comfortable and as the funds have an opportunity to perform through stressful times if you will, during Covid, and they see that the funds do, I think that makes them a little bit more comfortable. And Duncan, can you speak a little bit about the performance the track record of the fund so far?

Duncan Farley: Yeah. Yeah. well, I think also added to that, I think not only have you got to market and explain the interval fund, in our case you've got a fairly complex underlying fund we invest in. We're in Europe, that's not everyone's knowledge base, so there's a bit of education there. We're investing in anything from stressed high yields to pure distressed in jurisdictions that again the investor base wouldn't necessarily know about. So it's a tough ask for the Destra sales guys to not just market interval funds, but also market this pretty complex underlying strategy that we have. Which I said is across five strategies in lots of strange territories with, as we'll see, lots of different colored flags on the investment portfolio as well.

I'm not saying for one moment that Clayton's fund is straight forward, I'm sure it's got its complexities. But it's not a five-second pitch to people, there's a lot to be done. Whilst I do give the sales guys a bit of stick to get out there and raise some more money, I understand that it's not a simple story. But look, the fund has performed, we've launched just over three and a half years ago. I'm told that we're the top performing credit interval fund on a three-year basis and since inception according to Morningstar. We're around risk-adjusted return of almost 10% across that time. I've got to be careful about numbers I put out.

We're having an exceptionally good year. If I think about the mirror fund, is up well over 20% this year. So it gives you some idea of what the BlueBay Destra Event-Driven credit Fund has done. But yeah, we're at 10% over that three and a half years. And if you think what's happened, some of those moments in the three and a half years, we're pretty proud of the performance.

Vadim Avdeychik: That's terrific, congratulations. And Clayton, from your standpoint, can you talk a little bit about just the experience, maybe some surprises, and as well as the performance of the interval fund?

Clayton Triick: Yeah, so very similar kind of timeframe to Duncan as well from a performance perspective. It launched on December 26th in 2017, so coming up on four years now. And performance not as strong as the distressed debt investor over in London, but up about 6% per year. Comparing that to investible high yield here in the US, that's up around 5%. So that's kind of the way we compare risk-adjusted performance. It's not the official benchmark of the Fund, but thinking about the opportunity set that we're taking advantage of in mostly structured credit here, high yield is kind of a good barometer for similar opportunities in that semi-liquid structured credit space.

One of the biggest surprises is that similar timeframe that we've had. We really thought that if an event like March of 2020 happened you would have a lot of investors that really thought they understood the liquidity provisions of the fund come out and say, "We really thought that it may be different." But really it's been a complete 180 turn in view, and actually our investors as the potential growth in the fund's AUM is really taking off now. Investors are really seeing the benefits of interval fund structures, the ability to have less shareholder risk, the ability to put on trades and be convicted.

And time does move quickly, so our daily liquid funds that we think shareholders may not be in for that long, the average hold periods are about three and a half tofour years. And so if you're going to be in a fund for that long, you don't have to pay for that daily liquidity and you don't have to worry about other shareholders leaving in a March of 2020. And so we don't see a March of 2020 happening over the next few years, but we do see bouts of volatility like you've seen in this fourth quarter like we saw the correction in the fourth quarter of 2018 when stocks were down 15%, the Taper Tantrum of 2013. Really about every 18-24 months we get a pretty solid opportunity set that really jumps out to us. Being able to take advantage of that in an interval fund has really been able to benefit shareholders over the long term, even in a really tough 2020.

Vadim Avdeychik: Thanks for that. Just to elaborate on one other point that I was thinking about. I have managers come to us and ask about what type of wrapper is appropriate for a strategy that they're running, whether it's an interval fund, or a tender offer, or just a straight open-end fund wrapper. What are some of the things that you would note to a manager that's thinking about getting into this space? Just based on your experience and whether it's the good, the bad, how would you advise someone thinking about entering the interval fund space?

Clayton Triick: So I really think it's time horizon. If an investor is looking for a very short holding period, less than a year, there are plenty of options in the daily liquid space that they can make sense from just getting a little bit higher yield to just an ultra-short, short duration strategy. But individuals that are looking to have a much longer time horizon, it's less advantageous to be invested in a traditional daily liquid fund if you're looking for either five to 10 years out, to be invested in a fund that you're really paying away that daily liquidity and not really earning the yield you want to earn.

There are significant opportunities in fixed income, and a lot of fixed income investors really just think about just on-the-run IG and high yield credit, not thinking about distressed opportunities that Duncan is putting on. Thinking about traditional fixed income like the AGG and the agency mortgages, and there are significant higher yielding opportunities that are almost at levels that you can get in equities. But those opportunities are really very difficult to find in individual bond portfolios and very difficult to find in daily liquid funds, but they're definitely there. And so it's really about the time horizon of the client and what they're trying to use it for.

What we're seeing in interval funds is really not looking to balance the daily volatility of an equity allocation, it's really to enhance the opportunity set and get exposures to areas of the market that you just cannot get in a daily liquid mutual fund, in a traditional vehicle or an ETF. All the assets that we own here are really not found in ETFs at all. So passive index-based strategies are not going to hold the assets that we can get exposure to in our funds. In our interval fund it really produces an ability for an investor to get exposure to areas that they're not going to get in a traditional 60-40 allocations.

Vadim Avdeychik: Yeah, I think that's a great point that you make about ETFs, and just not being able to find those type of same assets in that kind of wrapper. And that the interval fund really does offer something unique, especially in the US from a retail investor standpoint. Duncan, how about yourself? Anything to add to that?

Duncan Farley: Well yeah, look, I would say it would be almost impossible for a US investor to be able to access the European distressed market through any kind of fund, I'm certainly not familiar with it. So that makes what we're offering pretty unique, interval or not interval, if you know what I mean. But it's the right format to do it and there's not too many other ways that you could do it, especially in the sort of investment size that people are afforded and allowed to do.

Obviously we'd prefer to have the bigger checks, but clearly no. No, that's all right. And to be honest, it's not even that easy for European investors to access the distressed market if you wanted to say, even the stressed market. There are high yield funds, but there's not really much offering certainly in the mutual spaces you would say, if anything at all. So the US is being offered an opportunity that their counterparts over here don't really have, which hopefully they'll seize upon.

Vadim Avdeychik: Yeah, that's terrific. And I think the partnership from your standpoint makes it easier for you from a regulatory challenge as well. Because you get to partner with a US entity that is kind of well versed in the landscape.

Duncan Farley: Yeah, well versed in the landscape and well versed in the dialogue as well. The good news is you didn't ask me any questions specifically that were US focused. Remember, I'm busy managing the assets in the fund as opposed to all the complicated stuff that the good team at Destra are doing day to day. Yeah, I've had to do a few exams in order to be able to be on the presentations like this, but happy to do so. But yeah, they do all the stuff that is beyond my capability and that's great.

Vadim Avdeychik: Well, based on today's presentation, if I was a Destra's sales guy I would take you along with me. I think you'd make my job a lot easier.

Duncan Farley: Yeah, I think they would like me to do that. There's a lot of places to go and visit though, and there's only so many days in the year. If the number of firms I've had to fill into a trip I'm doing at the weekend or anything that go by, I'm not sure I've got the will or the mental capacity to do it at this stage. But let's hope in '22 things start to become a bit more normalized and we can make some of those trips. And maybe this time next year I'm not sitting at my desk in a lonely office, I'm actually there in person.

Vadim Avdeychik: Absolutely, I think we can all echo that. And Clayton, any additional comments from you in terms of, distribution is something that obviously it's more focused from the sales perspective, but anything to add from the perspective of the type of investors that you're seeing in the interval fund versus your other product? And how the distribution has gone generally?

Clayton Triick: Yeah, we're seeing a much larger focus on private funds and interval funds in general. That has been a huge focus for us going into 2022. I think the opportunity set is really going to be there. The Fed may make a mistake here in the US with inflation running much higher than projected and the US is almost back to full employment. We're back to basically only a few tenths of a percent back to what the Fed thought we would be at the end of 2022. So there could be a pretty significant opportunity if the Fed pulls back easily.

And then from a distribution perspective, interval funds really work well for really all investors. You don't have the same kind of limits that you do for your classic two and 20 QP and c AI investors, and so it really gives access to all. So we think that is going to be one of the growth engines for interval funds looking forward and really think it's going to be a huge shift into interval funds and a decrease within actively managed daily liquid funds just because the opportunity set and the yields are so much more attractive on the interval side.

Vadim Avdeychik: That's great. Just mindful of the time, we only have a couple more minutes left here. Want to make sure that we leave some time for questions as they come in, and also any just allow you both to make some closing comments on the structure, on the markets, Christmas, what have you. Duncan, any parting thoughts?

Duncan Farley: Not really. I mean, look, we're pleased with performance, we're pretty excited about the opportunity set going forward. We'd rather not be seeing quite as much as we are if I'm perfectly honest with you in the middle of December. The number of new potential trades is perhaps slightly alarming, particularly as I'm supposed to be on vacation for a week next week. I can see I'm going to be making quite a few calls, which is not going to go down well with my family.

But look, that's a good thing. If we moved back six months ago, a lot of the restructuring advisors were slightly nervous, they'd staffed up for an Armageddon scenario. We never thought that was going to happen. We didn't particularly want that to happen, you've got to be careful for what you wish for. But I think we're now starting to see the stream of different types of investors, both investment opportunities in the public and in the private market. So a busy time, hopefully we'll get a few days rest in before it all kicks off again. But yeah, enough to keep us busy.

Vadim Avdeychik: Absolutely. I feel the same way as you do. I feel like my family's going to hate me come next couple of weeks. Clayton, we do have a question for you. And the question is, how is the NAV different for the interval funds versus FINS and DYFN.

Clayton Triick: Yeah, thanks for the question. Looks like they're quoting FINS and DYFN, that's two of our closed-end funds that are publicly traded, so those are publicly traded closed-end funds. This is one key difference between an interval fund, and it is really important, is the interval fund trades at NAV by creating and destroying shares at NAV, versus the actual price that a participant has to buy and sell that fund. On a listed exchange for FINS and DYFN, they have to transact at a price which is typically always different from the actual NAV; IE, they're at a premium or a discount to NAV.

So I think this important as investors as they make rotations, not necessarily trying to sell when there is volatility, but when they do want to make a rotation into or out of the fund. In the interval fund they're actually executing at NAV, which is really important. So you're not at the whims of the market or the whims of where other market participants are buying and selling that fund. I actually started my career on a closed-end fund desk, and we really took advantage of buying closed-end funds at a discount. So there is definitely a benefit to buying a closed-end funds at a discount like FINS or DYFN for example, but as far as when you actually want to exit, you have less uncertainty with respect to what your exit price in an interval fund, which is executed at NAV.

Vadim Avdeychik: Yeah, I think that's the beauty of the interval fund, it really blends the two together. Whereas the closed-end fund, you're always kind of subject to the discount issues that are persistent in a lot of the closed-end funds. And here you're not subject to an open end fund liquidity structure, but you do have the ability to get out from an investor standpoint, quarterly or whatever the time frame is.

We did not have any more questions at this point and we are probably right on time. So with that said, I really appreciate the time from you both. This has been super insightful, and thank you for sharing the strategies and your thoughts on the markets. With that said, thank you, have a great holiday season and hopefully you'll get some time off.

Duncan Farley: Thanks Vadim. Good to meet you both.

Vadim Avdeychik: Likewise.

Clayton Triick: Thank everyone. Happy holidays.

Vadim Avdeychik: Happy holidays. Take care.

Duncan Farley: Cheers. Thanks.

Recorded on December 9, 2021.

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