2021 AICA Interval Fund Winter Manager Spotlight Day 2 Panel #2; “Real Estate Access Opportunities in Interval Funds”

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John Cole Scott, CIO of Closed-End Fund Advisors moderates the second and final panel of day 2 of the 2021 AICA Interval Fund Winter Manager Spotlight; “Real Estate Access Opportunities in Interval Funds”. Read the transcript below to hear the discussion among Mr. Scott and panelists Daniel Wildermuth from Wildermuth, Benjamin Rotenberg from Principal Global Asset Allocation, and Collin Bell from Goldman Sachs..

John Cole Scott

Daniel Wildermuth

Benjamin Rotenberg

Collin Bell

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

John Cole Scott: So thank you for joining us for this session. This session is covering real estate, and we have one or two managers that do real estate only strategies. Hopefully we’ll get Collin up here shortly. And one that uses real estate as part of a broader allocation of more equity, not all equity but more equity focused investments. So we have planned some questions for you in a discussion that I’m going to be leading. But we also, for anyone in the audience, would like to ask questions please do so. I’ll remind people we are recording this. It’ll get compliance approved hopefully very quickly, Daniel and Ben, and Maybe Collin if he shows up, and we'll get it out for the replay audience as well.

So to start things off the first question is basically if you could introduce yourself, your firm, and your fund. If you can imagine the first person’s introduction to your organization, what would

you like them to know? You can flavor in the history behind the interval fund, the history of the broader firm, and the reason why you're here today. And we're going to start first with Ben.

Benjamin Rotenberg: Awesome. Well, thank you all for taking the time, my name is Ben Rotenberg. I'm one of the portfolio managers for the Principal Diversified Select Real Asset Fund. Principal has been in the real assets business and in the real estate business for many, many decades. We launched this fund a few years ago having been in the more diversified real asset space in the more liquid fashion, because we felt that the better opportunity set or an interesting appendage to the liquid real asset space is getting involved in less liquid assets. And that's really where you can find some interesting opportunities both from a return perspective, but I think perhaps as important from a diversification perspective in terms of reducing the volatility of what you own and adding to the diversification benefits that can come from owning a portfolio of real assets. So that was our journey and how we found our way into the space.

John Cole Scott: Great. How about yourself, Daniel?

Daniel Wildermuth: My name is Daniel Wildermuth, I'm the portfolio manager and the founder of the firm, the Wildermuth fund. We started ourselves as an endowment model fund and with a broad range of exposure across different asset classes, private equity, real estate, hedge funds, oil and gas, etcetera. And we effectively just changed our mandate effective about probably early next week to a private equity focused fund. We do have a fair amount of real estate in our portfolio though, that's our second largest asset class. It's been a focus of ours. We're going to be decreasing that over the next few years, but certainly we have experience in the space having invested a lot of dollars into it over the years.

And we started this fund because we wanted to make a more diverse class of an institutional style type of allocation available to individual investors. It took us two years to get registered because of the SECs increase in doubts about the wisdom of doing that. We eventually we started as qualified purchasers and then we got it to accredited investors, were able to eventually get them to agree to make it available to all investors. So we've been operating for six years at this point, almost seven. A good track record, and we should have some very, very good things happen with the fund over the next 12 to 18 months, particularly possibly the next month or so. We should have a very, very strong next year and a half coming out of Covid.

John Cole Scott: Good, I see Collin joined the event. So Collin, turn on your camera and mic and you will join us on stage. We'll start to question two. I thought this was perfectly timed but it was not, it's life. So to question two. This fund for investors, we heard the history of the firm and the focus, but hammer the point, why the interval fund? Why not the private fund? Why not a non-traded REIT? Why not a listed closed-end fund? Talk us through your perspective as a firm and PM for how you're using the structure, and why is this structure the rights structure? And we'll start with Ben again because Collin's not here. Yet. He's here but he's not on stage.

Benjamin Rotenberg: Right. Until Collin joins on stage. So for us [inaudible] the perfect marriage of all the benefits, most of the benefits of a truly private fund. So the ability to invest in the less liquid asset classes and the less liquid opportunity set that we think is most interesting. And yet married with the element [inaudible] and oversight to give clients comfort. So being in

the 40 Act space, having an annual report, having the SEC oversight of being a listed fund is important to some investors. And especially we think in that high net worth, ultra-high net worth space, certainly the RIAs of the world we think have gravitated to this model because it really worked for their clients. And so that to us was really the perfect marriage.

John Cole Scott: Great, and Daniel, you want to add some more color to that?

Daniel Wildermuth: Yes, similar. When we were looking at fund structures to adopt, we looked at various fund structures, we could have gone with a closed-end fund, we could have gone with other funds. And we went with the interval fund because it basically enabled us to offer liquidity and sophistication at the same time. We did not want to go with a closed-end fund where we effectively posted a number which stuck there for five years or some period of time. We liked the fact that our price updated daily, and even though not all of our assets update every day, we update them regularly, it gave us real pricing. All the governance that Ben mentioned, that was a big issue for us as well. The transparency we have, the requirements in the 40 Act space makes it tougher to operate in but it does give us some benefit because we're using a very standard structure. Those are the primary reasons.

The other thing is we really didn't have to give anything up to be an interval fund. So it dovetailed very nicely with an interval fund structure. And we've also found over the last six years of operating it, and this is the reason we're moving to a private equity focus, we can do the same thig within the private equity space as well. So that's something we're quite confident now of making that change to be more private equity focused. We can offer liquidity in a private equity space through the interval fund structure without having to sacrifice a lot.

And the other thing with that, we can offer diverse vintages as well. So we're not a single vintage or a couple year vintage. As an evergreen fund we'll have exposure or give exposure to various vintages over a time period which I think will help a lot. And will also I think smooth our return longer term. We'll have I think a very, very good return for the next few years. Part of that's because some of our early investments are now reaching the stage that they're growing a lot. But that, we've now got the investments in here so we should see strong performance going forward. And again, that's something that's kind of a natural outflow of having a liquid space with regular updates with liquidity offered as well.

John Cole Scott: Perfect, thank you for that. So we'll move onto question three. So what are the advantages of your strategy? This is the hard part. Why do you think your fund is better than the closest versions of it, whether there's some things like open-end funds, ETFs, traditional closed-end funds, non-traded vehicles. Give us a chance to tell us if you were in an elevator for a minute and a half with a financial advisor that's on the platform that can work with you, what would you pitch them? And we'll start with Daniel for that.

Daniel Wildermuth: For us we're effectively the only early stage private equity fund available. So there are some other private equity funds available. There's a very, very small number but there are a handful of funds available. We're the only offering that's really got exposure to early stage. And we saw that that hurt us last year with Covid. We didn't really go backwards last year, we didn't have a positive year as well. Because our investments are early stage, they have

to get out to marketing, they tend to be market disruptive and so we were hurt during the Covid time period. Now coming out of Covid, we're seeing some of those investments snap back so we should have a very good next few years. We're kind of the only way you can get access to this part of the market, so that's we feel a real strong differentiator. If you're interested in it, you're interested. If you're not, we're not your fund. So we're pretty clear on our exposure to early stage private equity.

John Cole Scott: Nice. Ben, how about yourself? There are a few more real estate interval funds. It was actually the early big player in the game. So tell us your version of the real estate focused interval funds, what's the advantage?

Benjamin Rotenberg: Our fund is a little bit differentiated from most real estate funds because we are tackling broadly real assets. So we would include in that mix private infrastructure, private farmland, private timberland, in addition to real estate. And we tend to look at real estate a little bit outside of the core, so with the thought process that for the clients for whom we're probably likely to be a good fit and they already have real estate exposure, sort of core real estate exposure. And so we're hoping to fill in around the edges and provide some less core real estate exposure in addition to private infrastructure, private farmland, natural resources, private timberland, etcetera.

John Cole Scott: I'm emailing Collin, he's having trouble getting on stage. So he's here. Well, we'll do our best to catch up.

Benjamin Rotenberg: It's a long step up to the stage.

John Cole Scott: It is. It's interesting, you can't miss a flight to get to the stage, but you still sometimes miss the stage. Our team is working with him. That's really helpful because like I said, so many different approaches to it. Moving on. So real estate, for Daniel, equities move constantly, you're choosing sectors inside of the area. So in your fund things are always changing. So how are you making decisions in growing to a sector, finding a new investment? I would say how do you deal with investments that turn out not the way you hoped? That's always the questions I ask an active manager. No investment thesis always pans out. So dig a little deeper into that, and for that we're going to start with Daniel.

Daniel Wildermuth: We obviously have different opportunities and different sets of opportunities that we can invest in. For us in real estate, we are a broad-based allocation as opposed to a targeted allocation. So we have debt, we have equity, we have development, we have some core, and that again was part of our investment thesis of offering a diversified portfolio across not just real estate but of course across the entire range of asset classes. So in that we tend to focus on areas we see significant opportunity. Over the last few years it's been more development. We've seen very good returns in our real estate portion of our portfolio. And some of those come through again the development type oriented types of investments we have in the portfolio.

We've also seen that across some of our funds as well. We saw a fund earlier this year that had a significant gain because of the investments they made during Covid. So that was a nice boost to

us as well. That was our equity focused fund. They had made some investments to preferred stocks into different developmental real estate. And some of our more developmental real estate, we've seen those go very well. We just liquidated one that was an IRR of over 20%. They tend to be shorter term investments, we like those. They tend to go full cycle within about a two-year time period, sometimes as long as three years. And we cycle that money out an we tend to put it back in as long as there's good opportunity in the space.

We tend to make a lot of decisions based on the very idiosyncratic characteristics of whatever the investment is. And we do tend to favor certain industries as well. We haven't had anything in retail ever. It's not that we really don't like retail, it's just we see other opportunities in other spaces and what we like more. So I think some people could choose to avoid certain things. We've tended to be a lot of development projects and, I can't think of the word now, but we like the development space. So we've done well in that space and we'll continue to focus there.

John Cole Scott: Just to make sure in my head. Development, define that so I make sure I'm understanding that correctly.

Daniel Wildermuth: Sure. We've done development in self-storage.

John Cole Scott: Building? Like funding the capital to build the self-storage?

Daniel Wildermuth: Right, we put money up. And because we have to value every day we put money up on a loan basis. So we make a loan out and we'd pay say 10-12%. And then we do a JV with the development partners. And so the loan has a value, because we always have to have a valuation assigned to us, and so the valuation comes in on the loan value and that accrues daily and then we can assign a cash flow to a developmental company. So that's something that we've got a value on that. So it starts out at zero and then accrues over time. If we have a problem, obviously that goes to nothing and we get our loan paid back in some time period. If it goes well, that's a positive for us. So that's something we like development on. It allows us to have regularly updated values, which is obviously very important in an interval fund structure. So that's just worked very, very well for us.

John Cole Scott: Good, and thank you. Collin, welcome to the stage. I know it's been--

Collin Bell: It's never been more of a pleasure.

John Cole Scott: Your flight landed late. You're running through the airport. You just barely made the connection, that type of--

John Cole Scott: Obviously I know you pretty well. You opened up our August 2020 full-day event. But please, for those that don't know you and for the future replay people, tell us about yourself. Maybe they've heard of Goldman Sachs, tell us about the real estate fund. And kind of talk about real estate inside the real estate fund and we'll get you caught up in the agenda.

Collin Bell: Well, first of all, sorry. Thank you for having me, deepest apologies for joining late here. Technical difficulties. But all good for towers and digital forms of real estate because we're

doing more of those, right? Anyway, little context on me, little background. I joined Goldman in '97, I've been at Goldman ever since. Moved into the investment side about three, four years into my career and have been there ever since. Focusing initially on publicly traded forms of real estate and ultimately infrastructure to now include private with the launch of our interval fund.

We entered the space, we being Goldman Sachs, entered the interval fund space early last year really for three key reasons. We've always had the view that the best way that blending real estate exposure is not 100% private, it's not 100% public, it's actually a combination of the two. And if you manage things in an integrated way, you can create value above and beyond the sum of the parts. You can create better and ultimately complimentary exposure by blending the two together, recognizing public has a tremendous amount of representation of secular growth. Property types on the right side of disruption, they're very difficult to access in private. So by combining the two you can exploit that difference.

And then we also recognize that while public real estate trades like private over the long term, it trades like a stock short term. And if you're doing both of the pieces of the puzzle together, you can exploit that pricing dislocation. We saw that when Covid hit real estate in 2Q of last year. We saw public trade down 20%, and you saw private real estate miraculously put up a +1% return. That's an extraordinary opportunity to lean out of private into public, which clearly had repriced to exploit that short-term pricing dislocation. But again, you only can do that if you're doing both of the pieces of the puzzle together and managing it in an integrated way like we are. So it was really a view that we had based upon that. A view that we really had a competitive advantage by having all the necessary investment pillars in-house. And a view candidly that the interval structure was the best structure to do it, including versus NTR, was really what led us to this space. And just very excited to be part of this space.

John Cole Scott: Which is a non-traded REIT for those who don't know.

Collin Bell: Thank you. Versus the non-traded REIT structure. And happy to talk about in more detail but hopefully that's just helpful context upfront.

John Cole Scott: It is definitely helpful. And so basically the question that you would be answering now had you been here earlier would be, and you kind of did, the competitive advantage of the fund. Give me a sense of, every fund's different, but when you look at the landscape whether to listed closed-end funds doing real estate real assets, it's a non-traded REIT, it's another interval fund, what's the layering of differences in your fund that people should be aware?

Collin Bell: Look, we think the competitive advantage we think we have is pretty simple. Which is this is a complicated product that casts a very wide net, it includes private and public, it includes equity and credit, and there's a huge competitive advantage if you have all of those investment pillars in house. And the way the industry is generally structured, is you either have one or the other. Blackstone, Starwood, all private equity guys only do private equity. And the public guys like Cohen & Steers, Center Square, you name it, only do public. There are very few that actually do both. And by having all the investment pillars in-house, we don't have to pay a sub-advise fee, so our approach is more cost-efficient.

But even more important, we think through that outsourcing model that everyone else employs, at least in the real estate interval fund space, you lose that power of integration that really excited us in the first place to enter the space. The ability to create complimentary exposure rather than overlapping and better beta [inaudible] pricing dislocations. We think you can only do that if you've got all the in house resources like we have at Goldman. So that's in a nutshell what we really think is our strongest competitive advantage.

And the key differentiator in the market place beyond the resource advantage we have and the integrated approach that it allows is I guess beyond that just the breadth of the net that we cast. And I would say that while private is the focus of our portfolio, it's roughly 70% of it strategically, we do include public. And we do include public not just for liquidity reasons, which is an added bonus in the interval structure versus the non-traded REIT, but we do it for again other reasons that I mentioned before. So we do have a bit more public exposure than some. We have a bit more credit exposure. That allows us to deliver the highest yield in the category. And we've been in an environment where we felt like we could get equity like returns but still be higher up in the cap structure, and that's a trade we make all day long, so I think in a nutshell that's probably what it is.

John Cole Scott: Thank you for that, and that gets us pretty much caught up in the agenda. You've all talked about the private investments, the level three assets, that's such the benefit of the interval fund wrapper for those that are new to it. And that each of your funds has a daily net asset value. So for those that are curious, how can you be 70% private or other mixes and have a daily NAV? Talk about how the firm, and the fund, and their components do that. And we'll start that with Daniel first.

Daniel Wildermuth: Obviously valuations tend to be very important in any level three type of valuation, so we've got some of our assets update daily, our debt-oriented structures, they update daily because it's just an accrued interest rate. We have other things that trade daily so those update daily. But a lot of our private holdings we do valuations on, so we do valuations monthly of our funds. We'll receive updates on those even monthly or quarterly, and as soon as we get those in we update our NAV. The individual investments we have, when we're doing valuations on them we look at those monthly, do we need to update them, did they change, did they go up or down, or quarterly. So we've always got something updating, but we've got certain things that update maybe the 10th of the month, something else updates the 20th of the month, something else the 5th. We've got a lot of different things happening routinely. But it does allow us to obviously be posting an NAV daily which is very important from a purchasing standpoint, and it keeps us up to date as well.

The other thing is I've had some people say, "Well, do you basically influence your valuations?" We don't. We've got a third-party who does all our valuations for us. We have to check their accuracy and we check their assumptions but we don't actually check their actual numbers on that. So it's something that we don't really get to vote soon. So we've got an outside firm that does our valuations, and of course that has to go through our audit committee, has to go through our audit at the end of the year. So we've got a lot of eyes looking at us to make sure we're

accurate, to make sure we're not putting our hand on the scale in any way. And that it ensures that we've got, I think, a very accurate valuation.

The one thing I would say to that though is valuations, particularly auditors, tend to be very conservative. And so we tend to get significant pops up whenever we have an outside round because they tend to view things very conservatively. So we know for instance we've got an offer coming to buy out a company, it'll be a value that'll be double of what we've got it in our books. So those types of things happen routinely, that's more true of private equity particularly early stage, but it kind of goes with the territory. So you know it's happening but at least it's predictable and you know the numbers are there.

John Cole Scott: And again for me thinking about the 40 Act and again more the why the interval fund, I know that not everyone loves compliance. But those rules, and the audit committee, and the fair market value, and the outside valuations is not as required in the private fund structure, this is one of the layers of benefits for investors for interval fund. Ben, can you talk about how you guys deal with the marks to your portfolio as well?

Benjamin Rotenberg: It's a fairly similar story to what Daniel laid out. I think maybe the one difference is that we've also gone out and hired a third party valuation consultant. Even before we put an investment in a portfolio, we make sure that they are able to put eyes on it and understand the valuation policy of the underlying investment fund, assuming it's a fund, which a lot of our privates are. And go through the valuation process of all of the underlying investments and give us an opinion on that as well. But very similar to what Daniel mentioned, a lot of the portfolio is updated on a daily basis, and some things are monthly and some things are a monthly estimate and then a monthly final, others are quarterly. And that's just as the minute we receive [inaudible]. And again, most of them all are sort of outside valuation sources that flows through to the NAV of the fund.

John Cole Scott: Collin, do you have any perspective to s hare about how your firm deals with the 70% private? Or is it about the same old same old for a 40 Act firm?

Collin Bell: It's similar to what's said. I would just say the added nuance that comes with real estate that's a benefit on this topic is just the [inaudible] the assets tend to be more homogeneous than in broader private equity and the marked to markets tend to be more frequent. So this issue of fair market pricing is less [inaudible] inherently given that dynamic [inaudible], and in other parts of the private markets. But that's not to say that it's something that exercises a lot of rigor around because it is a daily NAV and things are being priced less frequently.

I think the other benefit with real estate is we have a public market that informs a lot of where our private market valuations are heading. And so we do a combination. Again, leveraging third-party input in a similar way to derive what we think is fair value on a daily basis. And we always have a learning lesson at quarter end as to how accurate they've been, and really have seen very, very minimal divergence between estimate and realized.

John Cole Scott: And again earlier Daniel was talking about his asset allocation, that they kind of avoided retail. You missed that part of the panel. Any perspective or opinions you have on the

subsectors of real estate, the areas that you liked, the areas you've avoided? Either pre-Covid or post, any perspective you want to share with that, Collin?

Collin Bell: It's easy to bash retail and office because retail's on the wrong side of ecommerce and we're over retailed in America. And we share that view. We think there are pockets of opportunities but you'd have to be exceedingly selective and it's only like 1.5% of our aggregate exposure because of that. So we definitely share the same view [inaudible] but you have to be selective. Office, we think is a bit misunderstood. Like yes, we are negatively skewed towards office as a whole because it suffered from the work from home. We think that's structural, we think it's real, but there are very attractive pockets of office opportunity, you just need to hunt for them.

And we like innovation driven growth, specialized forms of office such as-- and you get a lot of this by the way, this is the benefit including some public. This is a great example where you can life science office with the best assets in the biotech most important biotech clusters here in the US and increasingly outside the US through an Alexandria Real Estate at a cheaper value than what you can buy it in the private market today. You can buy a Hudson Pacific property that's like a pure play. It's office, but it specializes in leasing studio office to the content providers in California.

Some people are referring to it as the content gold rush. It went from the traditional studios to Netflix to now everyone else, Hulu, Apple, Amazon, you name it. And also Covid kind of put the pause button on content creations, so there's these secular and cyclical drivers that are just leading to an extraordinary amount of demand in that form of office. So not all offices are created equal. We like those kind of select plays that we're emphasizing in our portfolio. And then [inaudible] in the world of office is new asset versus old asset, and low tax state versus high tax state. And clearly it's better to be in low tax and in a newer asset better located than otherwise.

So I would say we're very selective there but we have a structural leaning for the property types that are clearly on the right side of disruption, they're clearly exposed to secular growth, innovation driven secular growth on the right side of ecommerce. But towers and digital storage benefiting from the proliferation of data. And in the case of towers, the increased need to transport it. In the case of data storage, to store it. Talk about life science office, cold storage is another flavor benefiting from ecommerce, specifically e-grocery spending. To just like some other alternative housing plays that have a lot of tailwinds to them, like single family rental that's benefiting [inaudible] from urban to suburban that's really accelerated post-Covid. To manufactured housing which is like the antithesis of a trophy asset, professional RV parks that never really have gotten love from the institutional community until recently.

But because it was an unloved sector, these companies were forced to list in the public market probably sooner rather than later. They got access to all this capital, they gobbled up all of the prized assets that are in warm climates and near a body of water. And now they just have a stronghold on everything at a time when there's no new supply because no one wants an RV park in their backyard. And when demand is just going through the roof because you have aging demographics and empty nesters wanting to trade down. But then you've got this post-Covid

phenomenon playing out with this preference of experience over things and to do it in a safe way [inaudible]. So a lot of interesting things happening underneath the hood, but I would say our structural leaning is all about secular growth and getting it at a good price.

John Cole Scott: I was thinking of the last panel everyone was in their office, this panel I'm guessing Ben that's your home, not your office, that feels more like a home. We're half as is the way the world is getting back to life. And just keeping mentally tally of when will I get back in there. I've done one night of business year on the road, and was thinking when will I be changing that behavior for AICA, for my other firm? Ben, there's a lot of real estate perspective there from Collin. Did you hear anything that you want to disagree with in a friendly way?

Benjamin Rotenberg: There's a lot that I would agree with, and there's I think a few areas where we might differ a little bit. But listen, a lot of those opportunities we own in the portfolio too, those manufactured plays and the single family rentals. We love those REITs in our liquid portfolio, those make a ton of sense to us and definitely follow those secular growth themes. Alexandria Real Estate is another one, Collin you mentioned. I live in Chapel Hill, which is right down the road from their newest hub they're building. And so that's super exciting to be able to get that sector-specific exposure that is frankly much harder to find outside. So I would echo a lot of those same themes that make a lot of sense to us.

Maybe the one area where I would say real estate is a more efficient asset class in terms of the ability to see that pricing across public and private. And you see a lot less of that in the natural resource space. So thinking about farmland, thinking about timberland, thinking about some of those other assets where there either isn't a well-developed public market, or not an asset class that is broadly owned, and so those tend to be super inefficient. And while you might not have the same benefit of having this price discovery, it's fairly easy and fairly timely. You do have the benefit of defined assets that are just not appreciated in the way that maybe they should be, or not efficiently priced, and therefore provide an opportunity for us or other active managers to really get a better entry point and then therefore provide better returns for our clients.

John Cole Scott: Nice. So Daniel, pivoting back to you. You heard a lot of real estate talk. We'll back up a notch to broad equity. As you're looking at private and public pieces as your analysis, how are you thinking about their conversation? How you're building your fund and reacting to the market and under other sectors of interest?

Daniel Wildermuth: Well for us, the two primaries we're focused on the most in real estate are self-storage and single family rentals. That's been the two areas we've been focusing on in developmental, and those have both worked out very well for us, we're excited about the projects we have there. Outside of that we focus mostly in technology and healthcare, so that's certainly working well for us. We're continuing to see opportunity there, continuing to see it realized as well. So that's part of why we're so excited about the next year, year and half, two years of development.

It also, as I mentioned, was part of our challenge over the last year because we couldn't have our companies out there marketing to people because offices were closed. We've been open since May of 2020 in our office, so we've been in our office but we have a lot of our businesses are

based out of California which is still shut down. We've got other offices based in other parts of the country and they just haven't seen the same openness as we have in Florida. so it's been a tough market for those areas.

But one of the silver lining of that is a lot of them are raising capital in that time period, and we have the money and we're often able to basically go in in very, very attractive terms. And again we'll see the benefits of that over the coming couple of year time period. So that was a very advantageous time for us because a lot of people don't really like to go out and raise capital, we were available for them. It was tough anyway, we had it that much tougher by Covid. So it gave us a nice opportunity to step in and provide capital on very advantageous terms.

John Cole Scott: Definitely good to hear that. And so when we're thinking about things that are topical, this is not the newest topic, but the conversations have been heavy around inflation and interest rates. And while there's very little debt exposure on this panel, in a cooperative world, you guys choose investments, investors choose managers. How would you think about inflation and interest rates at the current levels? And if you were to opine on your probable outlook for 2022 if you haven't developed it yet, what wud be the useful tidbits of perspective for our audience? And we're going to start with Collin on that.

Collin Bell: I think on the topic of inflation, as we're learning, you really need to peel back the onion and figure out how you define transitory and what that actually means, and the time horizon around that specific word. But it's fair to say we think it's going to be higher and stickier than expectation and what the Fed believes. You've obviously seen the Fed turn a quarter to better recognize this challenge. But on one hand we think technology, which we think will continue, will continue to be a deflating force in our world. And we also think a lot of these supply chain issues will be addressed long term. And so that's why we don't think it's going to be through the roof for a consistently long period of time.

But the counter to that is there's a whole host of things that are happening right now that are structurally inflating forces that we think aren't going to go away. We are paying our labor force a lot more money and it's the force of the market doing that, and that tends to be quite sticky. Cost of labor has gone up, and that will likely be the case going forward. You've got the increased desire to domesticate supply chain dynamic playing out, that's an inflating force. And everyone, and this is just a huge tailwind for the industrial REITs, it's not just an ecommerce trend but it's desire to investigate supply chain trend, but this is being done for national security reasons. And it's on every front including the semiconductor front. You have that happening, you have this trend around ESG, all these things are inflating forces in the market.

So anyway, the punchline here is we actually think it's something we ought to be extremely mindful of. This problem in bonds isn't going to go away, it's yield an inflation problem. The beauty of real assets is it gets you on the right side of both of those problems. And unlike bonds you get growth. In the case of real estate, you get growth that's strengthening and widening from the obvious Covid winners to select cyclical recovery beneficiaries. So things like leisure hotels, obvious example, got crushed [inaudible] the more desirable drive to locations you're seeing RevPAR growth far exceed record levels. And not only pre-Covid levels but record levels. We can all relate to the why behind that.

You had the younger kids move in with their parents because of, why would I pay a lease, an expensive lease, and not reap the benefits of the city, and move in with mom and dad. Then you had the elderly say, “Why would I move into assisted care facility and increase my probability of dying, move in with my kids.” And now you’re seeing a decoupling of that, so you have this force of multifamily that’s quite powerful, force in healthcare. So anyway, the point is it’s strengthening, it’s widening. And unlike bonds, getting to your question of inflation, that growth is really important because that’s what helps you overcome that challenge.

But it is an asset class that directly benefits from rising inflation for three reasons. One is a lot of the leases [inaudible] leases, and most of the infrastructure world are explicitly linked to inflation. So when inflation goes up, your cash flows automatically go up. If that feature is not in place, typically can be reset in accordance with inflation. But the third reason we think it’s less appreciated in the market is what inflation does to new supply, i.e. new construction. So in a world that’s inflating, your land costs are going up, your building material costs are going up, your labor costs are going up. That means it’s more difficult as a developer for you to justify making that development, making those numbers tie out. And so you typically see new construction levels come down, that’s good for existing cash flows [inaudible] values. So long winded way of saying we actually think it’s going to be stickier and higher than expectation, and that real estate is a very obviously beneficiary of that trend.

John Cole Scott: Good. Daniel, maybe talk about how you think about inflation and interest rates as they impact the asset allocation and the selections you’re making.

Daniel Wildermuth: For real estate they’re great. You’ve got two things. You’ve got value of your real estate going for up various reasons, I think we all pretty much know what those are, and yet borrowing money is amazingly inexpensive. So you kind of got a strained situation where with inflation really picking up the cost of capital is not gone up at all. It’s really hung down and really low, so it’s almost a perfect recipe for real estate. I won’t go into the details of it but we’re looking at a golden age of real estate. We’ve seen that with some of the funds, we’ve seen that in some of our individual investments. Record increase in their ability to raise rents. Multifamily was mentioned earlier, that’s been a big winner for us in our portfolio. But we’ve seen a lot of real estate really benefit from it and we expect that to continue.

And we see it also in private equity as well. Just things are more expensive so future cash flow, you could say it might hurt future cash flow but we can adjust our future revenues, so it’s something that isn’t really a negative. So it’s something that I think from our overall portfolio performance standpoint, inflation is actually a positive, which sounds a little strange. It may hurt public equities, but even long term public equities benefit from inflation. They hurt in the short term but they benefit long term, so I think for us it’s kind of a positive all the way around.

John Cole Scott: Ben, how do you think about the parity between interest rates and inflation in the portfolio?

Benjamin Rotenberg: So the whole transitory discussion is interesting, but we think that probably the bigger point to focus on, whether this higher inflation moment lasts another six

months or another two years is probably not the point. Probably the point is that the resting place after this spike up and drift back down is likely to be much higher than where we sat three years ago. So for real the last decade plus we're running one and a half percent inflation give or take for really the entire post-GFC timeframe. And the fact that we are now in a different era we think is really beneficial for a lot of real assets, certainly real estate, certainly natural resources, timberland, farmland, absolutely infrastructure or anything that's building the next phase of our economy, all of that will benefit, and is benefiting now and will benefit from just a higher natural inflation rate.

And in terms of interest rates, there are a lot of forces which have kept interest rates much lower for much longer than I think many of us would have expected. And some of those will persist, but they can't stay this low forever, and so at some point it certainly is a problem. And I think primarily as Collin said for bond investors, it's really challenging to think about a big chunk of your portfolio that's devoted to an asset class that's going to kill you every time interest rates go up. One more reason to invest in alternatives.

Collin Bell: And just to add to that, John. It's a bond problem where the problem is most pronounced, but it's also in the other end of the spectrum in equities. Everyone's plowed into growth equities and that's just been a great place to be, that's where you get the disruptors not the disrupted. We saw [inaudible] problem there. The challenge with that part of the space is two things. One is you're trafficking in the higher valuation end of the spectrum. But two, you're dealing with implicit duration risk. That's the part of the equity market where you have the most amount of duration risk because of their long-dated cash flows. And to the extent your cost of capital is changing, the value of those future cash flows is going down the extent rates go up.

So that's why every time you just have this concern about rates, that part of the market really sells off. So I really think investors are over exposed bonds and growth equities. And I think again just getting the real asset exposure in your portfolio, particularly today, against both of those areas of exposure makes a lot of sense.

John Cole Scott: Again, we try to make those as part of our overall mix for our clients. We say if you follow the FAANG stocks, it's not really what drives the NAV of our portfolio, it can always drive the discount of our listed funds. Good, really broad based, good perspective. I hope everyone got a good sense of the firms and the funds and maybe some tidbits of why real estate is an attractive part of all of your funds, especially for the two focused portfolios.

Now will be a great time, did we miss something or you wish you could have added a flavor? We're coming close to time, I don't see any questions. If there is a question in the audience, now is the time to offer that question or hold your peace. But final thought or talking point and we'll start with Daniel.

Daniel Wildermuth: Now's a great time to be in real estate. I think it's really simple. It's bottom-line simple, it's a good time to be in real estate. Asset values are going up and it's cheap to raise capital, so you've got real tailwinds in the space. Much more so than public markets which are dramatically over inflated. Collin mentioned the risks that the growth sector particularly faces. I don't think that's baked in yet. Individuals have four times as much capital in

their pockets as they did pre-Covid, that's largely going into the stock market. You see that with incredibly high allocations to public equities. Public equities I think are really set up to have a very poor next five years. That could be pushed out another six months or another year or something, but I think the next five years is not going to see good returns of public markets, whereas I think real estate has a good future in front of it.

John Cole Scott: I know we looked at our longest [inaudible] our platform is November of '98, and basically we benchmarked the S&P 500 in that report. And it's like the average has been seven and high change for the S&P 500 since November of '98, and that's not been the last five or 10 year average. Which means you have to have some negative returns to balance that out eventually, or you did prior. Anyway, Ben, final thoughts, something you want to make sure everyone is aware of in your opinion?

Benjamin Rotenberg: I would just point to the diversification benefits. So obviously there's lots of really interesting risks and return opportunities in real estate, private equity, real assets broadly. But we think that particularly, obviously I'm talking my own book, but in that real asset space not only do you have interesting diversification benefits relative [inaudible]. Even within the breadth of private real assets, you've got fairly low correlations between farmland and infrastructure, between timberland and real estate. So you can really build a fairly [inaudible] that has some pop but still delivers in terms of low volatility and really interesting diversification benefits relative to that 60-40 portfolio which we think clients ought to be rethinking.

John Cole Scott: Great. Collin, hopefully your heart rate's come down, you stopped sweating now that you got settled into the panel. And now it's the end of the panel, so you shared a lot of wisdom, I appreciate that. What would be your closing or final thought for the audience?

Collin Bell: I think Dan and Ben articulated their points very well. I would echo them. The only thing I would add is beyond just being bullish on real assets and as part of that real estate, we do [inaudible] clients future returns will be more driven [inaudible] manager skill and alpha and less driven by the beta. The beta story is the last 10 years and that's been a great ride regardless of where you've allocated capital. Going forward we think the ideal way of implementing is clearly going active. But importantly with a manager who casts an exceedingly wide net, and thereby allowing them to exploit opportunities across the full spectrum of real estate opportunities. In the case of ours, private and public equity and credit. And we think that's candidly the way to win, that's why we entered the space in the first place.

And we think this backdrop that we're facing, really being defined, it's going to be less about equity versus bonds and it'll be more about that continuous story. But less about in my equity world, like value versus growth, large, small, US, non-US, sort of the traditional factors, and more about the [inaudible]. In my eyes it's about are you on the right or wrong side of inflation? Which we talked about real estate is on the right side. And then are you on the right or wrong side of disruption? And are you managing money in a fluid way that allows you to exploit opportunity against this backdrop that will undoubtedly change over time?

I think we all share that view. We're all clearly solving it in a bit of a different way, but there's no questions we think that's the best formula of implementation. And gosh, we're on the panel

talking about interval funds, but what an incredible structure to implement that exposure, guys. You get the benefits of private equity and alternatives without the headaches. We think it's a no-brainer.

John Cole Scott: We agree. As a user of interval funds we were earlier-ish adopters. As I said, we started buying them in '18, which is early for most for not doing non-traded REITs before. Perfect, thank you guys so much. Wonderful panel. If you'd like to, you can turn off your camera and mic and I'll just do a quick closing and let people mingle before they head onto their December. So just turn off your mic and camera and we'll end the session. Thank you, men. Thank you to each of you.

All right, thank you for everyone who was able to attend, live or replay, AICA's Interval Fund Winter Manager Spotlight, this was day two. Basically a very short closing. We could not do this without the membership dollars that underwrite everything at AICA, and some sponsorship dollars as well. We are that invite-to-speak model. If you got a lot of value out of this, live or replay, there is a donation option. We want to make this content open and available to financial advisors and the investors that they serve, but we want to make sure we can always diversify and grow our financial model to keep investing in content, platform, and employees over time.

With that said, feel free to use this platform to mingle a little bit. We like this platform, it's more robust than a Zoom meeting, and we hope that you see the value for that. But with that, John Cole Scott with the Active Investment Company Alliance. Thank you for being here today and look forward to a bunch more content in 2022. Please make sure you subscribe to our weekly email because it always has something new including our weekly podcast. Good day.

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