Interval Fund Track Panel #4: Democratized Alternative Investments for Uniquely Diversified Portfolios

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SPEAKERS:
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ROSEY VALENCIA: Hi, my name is Rosey Valencia, we'll get started here to keep us all on track on the time. I run head of national accounts at Destra Capital, we were founded in 2008 as a firm to partner with very unique, experienced asset managers that have very specialized investment strategies, and make them available to the retail client. Some of the products that we offer are some closed-end funds, interval funds, traditional mutual funds, and then separate accounts. Some of the managers you've heard from today that we partner with are Ares, we will hear from RBC BlueBay later, Flaherty & Crumrine, and then ArrowMark Financial just to name a few. For more than 15 years we've been able to help thousands of advisors try to challenge the unconventional and conventional market and explore new ways to provide solutions and financial freedom for their clients. I'm joined today with a panel, we are the interval fund track, and so we've talked a lot about traditional closed-end funds, we're going to focus a little bit more on a newer structure, well, not so new, since it was late nineties, but one that has definitely expanded and grown over the last several years. Year to date there's almost 117 current interval funds, and there's about 54 that are in registration, a lot of those are dominated by credit and multi-asset strategies, and so today I'm going to introduce our speakers. Cory Johnson is co-founder and CEO of Pender Capital, he brings over 20 years of experience in real estate acquisition, development finance, and asset management. He co-founded Pender Capital in 2015, and is responsible for the firm's strategic vision and financial success. The firm is a registered investment advisor specialized in the US-based real estate credit opportunities. And then we are also joined by Aaron Rosen who is from AOG, he's chief investment officer and portfolio manager for the AOG Institutional Fund, he also has over 20 years of financial industry experience and an extensive range of investment management services. He specializes in private investments and also other illiquid securities. And last but not least, Michael McGrath with Bluerock, he's an executive vice president at Bluerock Capital Markets and head of product for the organization, where he's also responsible for developing and structuring new investment products and strategies and launching strategic initiatives for the financial intermediary network. His process drives product innovation, brand awareness, and product education across all the distribution networks. So to get started, why don't I go ahead and give you guys all an opportunity to talk about your unique investment products. We're talking about obviously alternative investment assets being more accessible and available to retail, and in a very unique structure, so I will hand it over to Cory first to kick us off.

CORY JOHNSON: Great, thank you. Yeah, at Pender Capital, we are a credit manager specializing in short-term senior secured commercial real estate debt position, primarily focused on the lower middle market which we find to be a rather inefficient and fragmented segment of the real estate debt market. Geographically focus on top 75 MSAs, although we somewhat preclude the top four or five because we find those markets to be a bit more efficient, leading to competition, higher leverage points, looser covenants, et cetera, et cetera. We ran a Reg D offering from 2015 up until about a year and a half ago when we looked at the opportunity set that we could obtain within the interval fund space, deliver a product to our clients which are primarily registered investment advisors, to be a little bit more operationally efficient, removing accreditation standards, 1099s, still getting qualified REIT taxation, making it more palatable for those operation teams to facilitate investment into this type of vehicle. Really looking at what we do in the debt markets, we almost exclusively, everything 100% senior secured. We like to be the first to get paid, we like to be the last to take a loss, we run our interval fund as a single strategy, which is a bit different than I think some of our competitors. We focus exclusively on the origination, underwriting, and asset management of these loans that we are providing ourselves, do not have any subadvisors, and really at our core our strategy is one of those that we think for ourselves as principal preservation first, yield generation second. Over a 10-year history have never had a negative month, and it's really more of bunt singles around the bases, that's what we're trying to provide. Lower volatility across the board, making it a little simpler and not really having those big ups and downs.

AARON ROSEN: Hi, all. Aaron Rosen, run the AOG Institutional Fund. We in essence have designed a core alternative solution, so we don't have a specific focus in any one particular sub-arena of alternatives, we span the entire gamut. The fund was originally created really as a solution by an RIA, a solution for their clients who had alternative exposure and wanted to have a better way to do it, the fund has grown and become something larger from there. The goal is generally to bring institutional investment access and opportunity to non-institutional investors in a sense, and that's one of the biggest advantages of that interval fund structure. We're a combination of other funds, co-investments, and direct investments, span across real estate, debt and credit, PE, VC, really if you can throw a rock at it and it's uncorrelated to stocks and bonds, we can potentially pay attention to it. So we have a well-diversified portfolio within that, a total return mandate, but we tend to generate mid-single digits income generation just from the yield-oriented part of the portfolio. In essence, it's really trying to bridge that gap. I think there's a huge gap in the marketplace and there always has been between the type of investment opportunity and access that exists for large high-end institutions and ultra, ultra-high-net worth family offices, and a more retail accredited RIA-type environment, and the whole goal of this fund is to really bring those things together. We find that that access can be, I don't know if I would say democratized, but brought to pass so that you don't need to be able to write an eight or nine figure check and have 20 years' experience of a network to bring that together.

MICHAEL MCGRATH: I'm Mike McGrath, I'm the head of product at Bluerock. Bluerock Asset Management is a 20-year-old firm, their DNA is in real estate. We do four things now, so we have a 1031 exchange business, and if anybody ever saw the Eaton Vance Exchange Fund, it turns out you can do that real estate, we've been doing that for a long time and we're pretty successful in that market. We have a few listed REITs, one that trades on an exchange, we have a private REIT as well, and then 12 years ago we started a Bluerock Total Income Plus Fund, which was one of the first funds in the interval space that accessed true institutional placed primary funds, as well as REITs, so we were fairly early in the space. My DNA, I go back, I was a closed-end fund analyst for, I guess now it's Stifel, back then it was [inaudible 0:07:45]. So we used to look at closed-end funds back in the day, and it was always the same story about gaining access to the right structure that helps you best, and an asset class that individual investors rarely had access to. I was global head of alternatives at Morgan Stanley, 15 years later, same story, how do we get institutional assets in the hands of individual investors so that they could create risk-return profiles for their clients similar to what CalPERS or any other large institution could do, and we're having the same conversations today. So the story remains the same, what's been different in my opinion has been the structures, and we'll talk a little bit more about that.

ROSEY VALENCIA: That's great, that's a good segue.

MICHAEL MCGRATH: Thirty-four years in the business versus these rookies with 20 years each.

ROSEY VALENCIA: So along those lines, as we talk about the interval fund structure, which all three of you have, what do you think is the differentiating liner of the assets that you have access to in investments versus, to your point, retail clients, that makes your strategy compelling?

AARON ROSEN: Yeah, so there is a significant difference, and so if you look at and walk through the makeup of our fund and what's inside it, there's very little access to what we could generically consider retail or accredited type product fund and opportunity. It's a very small part of the portfolio, it's generally only in there due to a particular need, whether that's interim exposure while waiting for capital calls from an institutional iteration or a unique relationship where we've directly negotiated unique terms or a relationship with that group, whether that be no-fee co-investment rights alongside, that type of thing. So on the names that you do recognize, there's usually a very specific reason, and there's generally some advantage through [fee breaks 0:09:44], terms, co-invest, et cetera, to add significant value from our end. We're very hard-pressed to put any of those type of funds in unless there's a very significant value-add that we can bring to the table. For the most part, the fund is made up of generally true institutional product and opportunity, and whether that is co-investments alongside other managers, direct opportunities that have come to us, debt or equity side, or high-end institutional funds. A lot of the funds that we invest in have $5 million, $10 plus million minimum commitment sizes, a lot of them don't actively market at well. What happens is they tend to, this is kind of one of the realities of this world, some of these groups that are the most consistent and best at what they do, they don't need to go out and actively raise capital for years on end, they'll run vintages every couple of years and there's a line of the pensions and endowments and family offices that just want into the next one. They'll open for three, four or five months, whatever the case may be, raise the capital because it comes into them relatively proactively, and then shut it down. So a lot of times there's a huge minimum and/or a need to have that relationship with them to be able to access it and get a hold of that opportunity. There's a number of things in the portfolio like that, there's even investment where we're the smallest LP, at a $10 million commitment, we're the smallest by a factor of four, so you can imagine obviously the typical size of the other LP investors alongside.

CORY JOHNSON: And I think one thing we found was over the years of really working around the RIA markets, we were finding that the RIAs, unless they had a very robust research and operation team, they were doing all this work for maybe a handful of their clients if they didn't have exclusively the ultra-high-net worth clients that were more suitable for the private markets. So we were really looking at it and coming up with, is there a better mousetrap for them to get into, doing the same business, same term and liquidity, and I think that's one issue that fit our particular vehicle very well because most of the credits that we make are one to three year in term. A lot of roll-off that happens on a quarterly basis, and we did run an evergreen before that had a quarterly liquidity, so getting into the interval fund structure was a little easier for us. But I think what it ultimately did to our end clients, it now allowed that group, "Hey, if we're going to do all this background and research, we can actually open this up to a larger swath of our clients coming through," so kind of created some value-add for them there. And then obviously from the operational side of the table, for those groups that didn't have the robust metrics of how do you track down sub-docs, are you tracking down K-1s, no one likes that, really made it operationally more efficient. So it was really on our end, I think more of a structural change that allowed more clients to get in and experience the type of return profile that was maybe precluded to them from in the private market setting.

MICHAEL MCGRATH: Yeah, I'll say ticket size, liquidity, and due diligence, right? From a ticket size standpoint, we just walked through it, wanting as many people to have access to the product. The concept of an evergreen fund versus vintages has always been a challenge for the bigger platforms. Because when you think about, again I call out Morgan Stanley a lot on this, but we would take 1,500 meetings and we would do about 100 new things a year, so even if every product was an, A, number one, we wanted to do, our selection, it was still super, super small. So we would really be looking for evergreen products, and I think the interval fund has been able to solve for that. Now it doesn't solve for it perfectly, because I think there's some challenges, and it seems to me again being an older guy, the structure gets challenged every 10 or 15 years, right? Originally it was challenged with the senior loan primary funds, where they had stable NAVs, they're giving you a couple hundred basis points of yield premium, they're liquid depending on their structure, and then the hedge funds came in and they were like, "How come you're marking this thing at par when I can buy it at 85?" Huge disruption to the market, right? Then fast-forward to when the endowment funds started using the interval fund structure, the tender-offer structure, where it was like, "All right, we're going to balance a 70/30 or 60/40 liquid and illiquid," and then there was a run on all of the funds. The next thing you know, your 70/40 liquid versus illiquid was 70/30 illiquid versus liquid, and the losses came on. I see a little bit of that now, I see people talking about the stability of NAV in private credit. "History doesn't repeat, but it rhymes," Mark Twain. That's the argument they used to make about senior loans in the nineties, and you could Google the lawsuits on that. There were two different parts of that conversation; one was people were paying management fees on inflated assets because they weren't marking the portfolio to market, and then the other was new people were piling in every month because they thought the NAV was stable, but they were paying up for something that other people were paying 85 for. I think the market has to settle a little over that. There's one fund right now that's growing really, really quickly, and I think that's typically when you start to realize that there's going to be a lot of eyes on the structure. Like I said, the 40 Act has been incredibly valuable the last 30 years, and you're allowed to do a lot more in it, but the main thing, the way I see it is these evergreen products, you want to do due diligence, you only want to do it once and you want the product to be around for a long time so that people can see it, do their own due diligence, let it season, see how it performs in a full cycle.

ROSEY VALENCIA: So you touched on one of the next questions as well, but I'll make the comment too that we know that the 10 largest interval funds probably have about half the assets currently in that structure, but along those lines as risk, where we give access to the retail client to these unique institutional-like strategies, what do you think the average investor, having this access, what are the risks for them?

CORY JOHNSON: I think first and foremost, it's understanding the client and that this is a more liquid option but it is not a liquid option, and I think the advisors have to do a very good job of educating the clients and understanding the risk associated with putting a client into something that only has quarterly liquidity that you may not have full liquidity depending on where market cycles go. I think you brought up an interesting point with where the massive amount of inflows have gone though. I mean, you look at it, they've gone to 10 very large players, a lot of which on the corporate side of the table, which I think is rather interesting. We've looked at our space more generally speaking, and because we play in a nichier segment of the market, but it's a large niche, that we just have not seen, there's been so much flow into credit, but in the real estate debt space, more specifically on the interval side of the table, you really haven't seen those amount of inflows. Real estate by and large has been through the wringer bit over the last couple of years, we haven't seen the corporate side of the table have that same dislocation just yet. What Mike was kind of alluding to, everything sounds great until it doesn't. But you know, one thing, I think it's interesting, what we're looking at too, because again we don't have any subadvisors that have different leverage or liquidity requirements down beneath us, we've just got a portfolio that just kicks along, and I think it's a little bit easier from the transparency segment to really understand what's in these loans, what they are, and for us on the real estate side of the table it's been kind of a heyday with the regional bank dislocation that's happened alongside of us. Giving us a lot of origination opportunities and really resetting our first dollar of at-risk basis, that risk level down so significantly, now we have new valuations that have come in, the market's just a different place. Lower leverage attachment points, higher yields, higher covenants, which when you drift upstream into the more institutional space which is much more efficient, you see more competition there, you see those covenants get a little looser as people are trying to get out these large swaths of capital that they have within 'em. So there's a little bit differentiating segments of the market, but I think that's one of the risk factors that every advisor has to look at when putting a client in any one of these vehicles.

AARON ROSEN: Yeah, those are good points, and I agree, I wanted to take it a little further on something you said. Interval funds, first they're a structure, so a lot of times there's a confusion, someone will say, "Oh, I'm not a fan of interval funds," or "I'm a fan of interval funds," it's a lot like saying, "I'm a fan or not a fan of mutual funds," it's just a structural wrapper. What really matters is the fund, the product, the investments that are in whatever it is that you're potentially considering investing in, you have to know that. So just going in and saying, "Oh, okay, I want an interval fund," I think in a lot of sense is an injustice, compared to finding and identifying the interval funds that are providing a value-add, an alpha generation over what you could do in a liquid investment. Because in the end, interval funds are not liquid investments, right? You can call them semi-liquid, you can call them illiquid, but the reality is the one thing they're not is purely liquid, in that sense, right? So the reality is to have some level of illiquidity, you should really be inherently getting rewarded with something that you can't duplicate or do otherwise in a public form or a public environment or a public investment. So I always think it's really important to understand the funds that you're looking at, what it is they do, how they do it, and how it is more efficiently done in something like an interval fund structure than in something else. That's the big thing I would say. One other thing you talked about or that you brought up was the largest groups. When we're looking at other managers to invest alongside and potentially even invest in, early on you worry about [inaudible 0:20:13], but later on you start to worry about alpha becoming beta, and so in the sense that a certain size and extent, a portfolio inherently starts to lose some of the sharpness of its teeth in being able to generate significant alpha, and it does dilute a bit of that return stream down into more of a beta exposure to a particular area. And so I always think, and especially when there's a lot of flows coming in very quickly at significant levels and they have to put that to work quickly to avoid a cash drag, it's one of those things to be aware of. So as some of these funds become extremely large, I think it's really important to look at how they're allocating their capital, does it match up with the way they were before? Does the return stream of that align? Or are they slowly becoming some generic exposure where you may be better left looking at someone who can be more adept or quick?

MICHAEL MCGRATH: Yeah, from my view I think about it again, it all comes back to education and due diligence. This is a structure that's being introduced to a lot of individual investors that haven't seen these types of assets before, and in the old days when it was an access play, if CalPERS was allocating to the next big thing, and the market turned, well, they would hedge their exposure, they would put in their redemption requests, and they would just move on, right? There wasn't really a huge postmortem. But when you introduce the same exactly products into the wealth world, it's going to like, what did you know and when did you know it about how did this fund go south, and did our understand all of the risks, did the due diligence file, trying to identify the risks that were going to be key to the investor experience, right? And I believe that that whole process is really where a lot of the risk is. I mean, listen, investments are going to go up and they're go down, some of them are going to go up more than others, but if you're in equities there is going to be volatility, there's going to be volatility in anything that's going to give you some type of a premium return. So clients I think at the end of the day should know that, it's just a matter of is the product or the investment performing as expected? We all hope it does that, but is it performing as expected? And if it does, there's not going to be any problems, but if it doesn't, then the postmortem is going to be where people are really going to be spending their time, and that always leads to more regulation, and it makes it harder for all of us to deliver these products to clients.

ROSEY VALENCIA: So we talked about the uniqueness obviously of the more niche strategies that you guys manage, why don't we address or talk about anything that you guys are doing within the portfolios currently from a sector allocation or specialty. With the current market environment for the next six to 12 months, how are you guys positioning the portfolios for clients?

AARON ROSEN: Yeah, I can jump in first on that. So we're a little different than these guys in that we are multi-asset class across alternatives, so one of the first things there is that we can diverge and over and underweight significantly to a particular arena. And so if you look at over the last, let's say 18 months, 18 months ago our fund was almost 50% real estate equity, we made a very conscious decision to dramatically cut that out, and within 12 months we dropped that to 6% of the total fund. First off, that's extraordinarily hard to do, end of sentence, but let alone if you have an array of clients and paperwork and approvals and all that sort of thing. So part of having the fund structure allows us to be able to move quickly and consciously, but also to have confidence in the move, right? If we decide to do something like that, we're going to do it. So there's been, historically speaking, some significant moves, we tended to build up private credit and debt and some secondary PE exposure over that period of time with those dollars that were coming in as we put them to work anew. What we're looking at today, and you said the next six months, if I think about it that way, what we've really started to do is rebuilding that real estate side. We had no intention of staying at 6% real estate, we're actually already back up to 15%, we'll continue to grow it out, but we did it in a very different way. So we removed out existing or late vintage real estate equity portfolios where we just weren't comfortable with those scenarios for each one, and again this was underwritten to each individual portfolio, so I'm making a generic comment but it was specific to each, and instead the way we're rebuilding it now, first is on the debt side. So real estate debt, and I'm sure is music to Cory's ears too, and he'll vouch for this, real estate debt recently and still today has been very attractive, and if you look at the LTVs that you can target at and the yield generation and returns that you can get with a lot more security, we're hard-pressed to look at the equity side and say there's a better risk-return or risk-reward potential there, right? It's very asymmetric compared to the equity side, at least today. So when we think about rebuilding that, one of the ways we have been doing it is debt, and the other way is very unique niche arenas on the equity side, so instead of getting broad-based exposure, we'll target a particular area. So for instance, cell tower development, and then we'll talk one of the [inaudible 0:25:33], it's one of the premiere cell tower developers in the world. We invest in them, they have a very, very unique proposition and what they do, and access and network, and that makes sense to us. There's a particular thesis there that makes sense to us long term from a supply-demand imbalance story. The need to have that last mile, if you will, for data, bringing data to end users, having a place to do that, the way to do that is a perpetual need, and we are just getting more and more digital, I'm sure everyone is aware of that. But having that and having it in an area, technology can't quickly replace, right? If you think about versus say, a datacenter, where datacenters are attractive on a standalone, but they tend to have very low, their lifecycle is shorter, and technological moves can dramatically shorten that in particular scenarios. Versus a cell tower, a cell tower exists and you can really just continue to be more efficient and sell off more of the real estate of the cell tower itself. So there's those type of things that we really think about as we build that back up.

MICHAEL MCGRATH: I mean, it's an interval fund, right? And ours is a $5 billion fund interval fund, so it's kind of like a container ship, there's not a lot you could do unless you're fortunate, you're getting a lot of money in on a quarterly basis, to really significantly turn your investments. We do have a liquidity bucket where we could go in and then used REITs, ours is 12 years old, it's a full cycle fund, right? What does that mean? [inaudible 0:27:07], right? You're not talking about full cycle unless you've had some losses in the portfolio, and that's what's happening right now, there was a readjustment to real estate. So there have been some opportunities to change, but we think that the portfolio that we have on the table was the one that's going to take us through this next cycle, so there have been changes around the margin, but not really. If anything, as a firm we got very lucky, we had a listed multi-family REIT that got taken on by Blackstone two and a half years ago at 40% premium over its market price, so we could talk about our ability to do well in all markets, but on the interval fund side, it's not necessarily a message that you're trying to send that there's a lot of agility because if it is, well then maybe it's not the right structure. If you could turn over the portfolio in a year, then maybe it's not the right structure. I'm just kidding. Because we're investing in primary funds, they're locked up, so unless the money is pouring in, there's not really too much you can do, so you have to know that the portfolio you've built is the one you want to be in, and suffer through the tough times.

CORY JOHNSON: I think on our end, obviously we're a little bit more boring down the middle because we do one thing. I mean, we're really adjusting what type of assets that we're lending against. You look what happened during Covid, you had the barbell recovery on industrial multi-family, you did very well, retail, office, hospitality, healthcare kind of went in the toilet. So we're always adjusting where we feel we can get the best risk-adjusted return, multi-family is an area that we continue to be a bit overweight in, roughly about 60% of the portfolio. A lot of that's due to the takeout financing available, that's one thing that we're always looking at is who's going to take our short term bridge loan with more permanent financing, Fannie, Freddie, and HUD have been active there. We're seeing some signs of life, we've seen the bid-ask come in on some of the non-favored REIT asset classes that we've been a bit more active in, we feel like at our basis there's some really interesting opportunities that are presenting themselves there. As much as I kind of like some of the regional bank dislocation on the origination side of the table because it takes some of our competitors out of the play, we would like to see a bit more liquidity come back into those folds because they are a large provider of that takeout financing from some of those non-favored asset classes as well. So a little bit of we're always kind of finger on the pulse of where we think we're going to get the best risk-adjusted return, but we do not have the same other drivers as Mike and Aaron do up here.

ROSEY VALENCIA: Great. I do want to ask if there's any questions out there as well as we're getting to the end of our time. Maybe one or two more here, but I'm opening it up to the audience. Any questions? Go ahead.

AUDIENCE QUESTION: Do you see more [inaudible 0:30:01] opportunity when Blackstone started blocking the exists? Can you touch on any good war stories around that time?

CORY JOHNSON: Well, I'll tell you, we were going through our conversion when BREIT was gating and FTX was blowing up, that was a very interesting time. And this a true story, we're at our final, final SEC review meeting and they've got 16 people, they're all on the Zoom call, and the gentleman leading for the audit team, he had a Captain America Marvel shield mounted to his wall. And I remember looking at that, I'm texting our lead attorney and I'm like, "This is going nowhere today, we're up against Captain frickin' America." Definitely I think real estate had a bad taste in the mouth with the SEC during that period of time. I think people slowly started to understand, this goes back to what Mike was saying earlier, understand what the clients are going into, and again, this is not a liquid option. It sounds great on its surface, but you really have to understand what you're putting the clients into, so that's my early story.

AARON ROSEN: I don't think I have any as good as the Marvel shield, but I'll say this. When the portfolio was first started in the first 12 months or its infancy, the portfolio had added in some kind of, what we'll call more of those generic credit, other interval funds and REITs and that sort of thing were in there that have subsequently been replaced, but as we moved out of that, it wasn't just about the structure, like I said, it was the underlying assets. But BREIT was actually one of the holdings in the portfolio, I think it was one of the larger ones when I joined in, and when we looked at it, what I'd say is there was an inkling that something like that might occur. Just having a real conscious understanding of what was going on, how things were going to get marked, being aware of the headlines that were coming out and what the effects would be, and so we were ahead of that. I will say that with that and several others, as they've locked up, if we had been stuck in those and we had to deal with that and substantial [inaudible 0:32:09], it would have completely changed not only just our fund makeup, but our ability to put capital to work in a better way, might have killed the fund before it could really even get running. So it was something we were very conscious of, so it's more an internal type thing that we look at and say, "Yeah, avoid that type of scenario, try to be aware, try to be ahead of it." I think the other thing is it brought to light, at least for some conversations we've had, it's brought up this now I'd say what is a much more consistent question which is, well, what if there's a run on you? What's going to happen? How do you have liquidity, et cetera, et cetera. [inaudible 0:32:46] that we tier out all of our liquidity, it allowed us to make a point. And this is specific to us, but one of the things that tends to happen that can cause is this is when you have a particular sector or arena that you're in and you see wide spread decline in value there, and you see at least some period of adjustment downwards in price. That tends to push redemptions, and then it becomes a self-fulfilling prophecy. Redemptions get to a [inaudible 0:33:14], then people see that and then they want to run for the hills, then those managers have to sell more assets to meet those every quarter, and which declines the value further, and it creates this storm. At least for us being multi-asset class really helps us avoid some of the extremity of that risk, because if something has a particular effect on just real estate or in the private credit market, or let alone a subset of it, on the PE side, if multiples are down and the IPO market's not as hot, we have other investments that will counteract some of that effect, and it will only be part of the portfolio anyway. So you won't see the same type of extremity in interim movement, and that diversification within the portfolio itself helps us mitigate some of the risk of having that type of scenario occur, and so I think it's brought a little bit of light to one of the maybe less spoken advantages that at least we have.

MICHAEL MCGRATH: Yeah, these guys have pretty much covered that. I would just say that the drama wasn't isn't necessarily the gate, because again going back to the education, if you were surprised that you were gated, then somebody did not educate on what you were buying or you didn't educate yourself before you were buying it. I think the longer term story is going to be in the marks, and I think that's where the good war story is going to happen, and I'm not sure that chapter's been written yet.

AARON ROSEN: Wink, wink.

ROSEY VALENCIA: Other questions?

AUDIENCE QUESTION: One quick question, [inaudible 0:34:37] for Mike. So you talked about, and I take it you were referring [inaudible 0:34:44]

MICHAEL MCGRATH: [inaudible 0:34:47]

AUDIENCE QUESTION: [inaudible 0:34:52]

MICHAEL MCGRATH: Yeah, no, you're spot on. I struggled with this my whole career. When you look at the way these portfolios are sold, one of the things that they use as a selling point is the stability of NAV, right? That's a myth. That is an absolute myth. Unless somebody buys it on day one and they hold it until every [inaudible 0:36:00] in the portfolio matures, everybody's experience is going to be different from an NAV volatility standpoint. And when the markets are reasonably stable and assets are pouring in, then yeah, the NAV's are stable and they might even climb incrementally over time. I think that that's the biggest risk to it, right? So again, it goes back to due diligence, understanding what you're buying, but it goes more back to education and truly making sure that the individual investors, the home offices, [inaudible 0:36:32] seven years, right? We focus, and they focus, still today on making sure that the education is one of the premium parts of the client experience, and we do that at Bluerock, we have a whole department that talks about educating the financial advisors. Because if you really think about it, you have a direct investor, and then the direct investor is going to go to their IR marketing people, whoever that is, and then that IR marketing person is going to a home office of Morgan Stanley or [inaudible 0:37:04] or whoever, and they're going to tell that story again. And then that person is going to bring it to the due diligence team, and then that due diligence team is going to bring it to the financial advisors, and then the financial advisor has to bring it to the client. That's a long way from an institutional investor doing what they do best to the end investor hearing the story, and there's a little bit of sales in there, so I think it goes back to education, education, education.

AARON ROSEN: Yeah, I might add to that too, one thing I think you've heard all of us mention to some degree, and it really can't be mentioned enough, is how well you have to understand who and what you're investing in. And so when we look at it, when you have generic exposure, groups that are not really originators, that are buying off generic debt, we will avoid those like the plague, because the reality is they don't have a lot of control over it from the private credit side. They don't have a lot of control over it, they're just picking up that same beta exposure, and so the tide's going to move you up, and the tide's going to move you down, and you're really just going to have to go with it. Versus identifying managers that have a true expertise in their arena and being perfectly content with having niches and subcategories, and then just diversifying amongst those type of managers. And then when you can identify something that someone does well or better than most, that's where you align your dollars, so we really try to target finding true competitive advantages, true niches. Everyone will tell you they have 'em, very few actually do, it's just the simple reality of things. But when you identify, there's usually some asymmetry there in that return potential, and you identify that and you just try to have a good understanding of what it is and have confidence that manager can weather the storm. Or if it's a direct investment or co-investment, the same thing, that you know how to deal with this in a worst case scenario so you can come out ahead in the end.

CORY JOHNSON: I think you guys pretty well answered that.

ROSEY VALENCIA: Yeah, and we're due on time here, so I'll wrap it up. I do know I think asset allocation is , as we know, and making sure that they're positioned. You can't time the market, and I think to your point, education is the key to educating your clients on these interval funds and how they play in the portfolio allocation. All right, thank you.

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