

Q4 2019 Commentary

By Gregg Bell, Portfolio Manager of the A3 Alternative Credit Fund (AAACX)



Gregg Bell

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A3 Alternative Credit Fund
(AAACX)

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I thought you might like to see the below performance update of our fund, AAACX. I have also attached a fund fact sheet; please let me know if you would like any further details.

2019	QTD	Since Inception 10/1/2019
AAACX	3.52	3.52
Barclays Global Agg	0.49	-

The A3 Alternative Credit Fund (AAACX) returned 3.52% net for the quarter¹, outperforming the Bloomberg Barclays US Aggregate Bond Index² 0.49% for the quarter. It exhibited a very low monthly correlation³ to the S&P 500 Index, of 0.034. The Fund had a 30-Day SEC yield of 14.36% subsidized⁴ and 4.68% unsubsidized⁵, while the Advisor continues to subsidize the fund for reimbursement of startup expenses. After the first quarter of operations, the fund deployed 84.19% of its capital. We continue to see opportunities across our strategy favoring diversified portfolios of short duration, secured debt with strong income characteristics and structural credit enhancement.

Returns were led by the high income characteristics of the portfolio, accompanied by outperformance in FHA insured reverse mortgages and the December risk on rally in loans. As of December 31st, 2019 the portfolio consisted of 40.7% AAA rated government guaranteed securities⁶ and an additional 15.81% of cash equivalent government money markets⁷. Non-rated securities, excluding cash and money markets, constituted 43.49% of the portfolio. Unrated securities do not necessarily indicate low credit quality. The fund distributed its first quarterly dividend of \$0.1712 per share on December 19th, representing a current distribution rate of 6.73%⁸.

¹ Inception date is September 30, 2019. Returns are net total returns. Results are unaudited.

² The Bloomberg Barclays Global Aggregate Index, is a broad-based flagship benchmark that measures the investment grade, global multi-currency, fixed-rate taxable bond market.

³ Correlation is the performance relationship between the Fund and the reference index on a monthly basis over the period. The weakest linear relationship is indicated by a correlation coefficient equal to 0 and the strongest correlation of 1 or -

⁴ "30-Day SEC Yield (subsidized)" is an annualization of the Fund's total net investment income per share for the 30 day period ended on the last day of the month and reflects any net fees waivers and reimbursements in effect during the yield calculations period.

⁵ "30-Day SEC Yield (unsubsidized)" reflects the 30-day yield if the investment adviser were not reimbursing the fund for part of its expenses or waiving all or part of its fee.

⁶ Rating Exposure reflects the underlying securities nationally recognized statistical ratings organization's credit rating.

⁷ Portfolio characteristics represents exposures determined by A3 Financial Investments as of December 31, 2019.

⁸ The Current Distribution Rate is expressed as a percentage equal to the projected annualized distribution amount (which is calculated by annualizing the current cash distribution per share without compounding), divided by the current net asset value and may be inclusive of return of capital.

Please note: The referenced indices are shown for general market comparisons. Investors cannot directly invest in an index and unmanaged index returns do not reflect any fees, expenses or transaction costs. Reference indices are provided for illustrative purposes only. There are no known published benchmarks or indices comparable to the investment strategies of the Fund. Figures shown may be rounded.

The returns quoted present past performance. The performance shown is net of all fees (including a monthly advisory fee of 1.50% per annum) and expenses and reflects the reinvestment of dividends and investment income. Depending on an investor's investment date, holding period and other factors, an investor may have an overall performance that underperforms or outperforms the data shown.

Inception date for AAACX is 09/30/2019. Returns greater than one year are annualized. Current performance may be lower or higher than the performance data quoted. Investment return and principal value will fluctuate so that shared, when redeemed, may be worth more or less than their original cost.

Management fee: 1.50%

*Net Expense Ratio/ **Gross Expense Ratio: 3.30%/3.40%

***Expense limitation: 1.95%

*The Net expense ratio reflects the reduction of expenses from fee waivers and reimbursements. Elimination of these reductions will result in higher expenses and lower performance. These reductions are contractual and will continue until at least 9/12/2020.

**The Gross Expense Ratio reflects additional expenses embedded in the Fund's performance, such as the indirect costs of investing in other investment companies.

***The Adviser has entered into an expenses limitation agreement to pay the ordinary operating expenses of the Fund that exceed 1.95% per annum.

The AAACX prospectus is available [here](#).

The A3 Alternative Credit Fund is a continuously-offered, non-diversified, registered closed-end fund with limited liquidity.

Distributor – Foreside Fund Partners LLC

