



Alternative Credit Lets Investors Expand, Diversify Their Fixed-Income Tactics

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Chuck Jaffe, in The NAVigator podcast, interviewed Gregg Bell, co-founder of A3 Financial Investments – which runs the A3 Alternative Credit Fund. Read the Q & A below as Chuck and Gregg discuss why investing in alternative credits like reverse mortgages, private credit, credit-



Gregg Bell

linked notes and more can create income streams that wouldn't be available to most individual investors without the closed-end, interval fund structure. Bell – who's fund is positive this year and up nearly nine percent since opening in October 2019 – says that few retail investors have exposure to the alternative credit market, and explains how and why they could benefit from thinking beyond treasuries and corporate bonds.

The podcast can be found on AICA's website by clicking here: <https://aicalliance.org/alliance-content/pod-cast/>

CHUCK JAFFE: Gregg Bell, co-founder of A3 Financial Investments, the guys behind the A3 Alternative Credit Fund is here, and we're talking interval investments in alternative fixed-income now on The NAVigator. This is The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, a unique industry organization that represents all facets of the closed-end fund industry, from users and investors to fund sponsors and creators. If you're looking for excellence beyond

indexing, we're going to point you in the right direction on The NAVigator. Joining me today is one of those fund sponsors and creators, Gregg Bell is the co-founder of A3 Financial Investments. If you want to learn more about the firm go to A3.financial. Yes, that's the website, A3.financial. We're going to be talking specifically about the A3 Alternative Credit Fund, AAACX, the ticker symbol. A closed-end interval fund that was opened in October of last year. If you want to learn more about closed-end funds, and interval funds, and business-development companies in general, make sure you check out the website of the Active Investment Company Alliance, that's AICAlliance.org. Gregg Bell, thank you for joining me on The NAVigator.

GREGG BELL: My pleasure.

CHUCK JAFFE: A3 Alternative Credit, a really interesting fund, particularly at this time when so many people are worried about fixed-income and the credit space, and everything else. So let's start with, this is a fund that really couldn't exist I don't think if it weren't for the closed-end interval fund package, so explain what the fund does and why this particular structure makes it possible.

GREGG BELL: You're absolutely right. We have a unique income fund, and what we've tried to do is solve the problem related to where you find quality yield in a near-zero environment. And we felt that the interval fund structure was a great method to package a mix of private liquid and illiquid securities in a wrapper that really was accessible to all. Many institutional investors have solutions, mostly in hedge fund or PE structures, and the interval fund through its ticker listed structure provides great transparency and ease of use for both institutional and retail investors.

CHUCK JAFFE: But we also have to understand why it works, and to do that we have to know what alternative credit is. We hear a lot these days about alternative investments, but alternative credit, it's a different thing still.

GREGG BELL: It is. For me, alternative credit is focusing more on the niche side of markets, where we're able to find investments that have alternative drivers of value. These typically are asset classes that are broadly in the credit markets, the structured product markets, where we have high confidence in future cashflows. In today's market there's so many stresses and there's uncertainty of cashflows. Whether it's uncertainty related to continuation of retail sales or job loss for individuals, these are the plumbing of the

underlying credit markets, and we try to be very defensive in our positioning. And when you think about broadly defensive positioning, it's safe haven assets; treasuries, gold, cash. Those all lack income, so the A3 Alternative Credit Fund was to solve this income related problem. And what we found is we can get that income through investments that have high levels of cashflow, collateral, and relatively short duration. We've done this through maintaining a portfolio that is predominantly triple A rated, so comparable to U.S. treasuries on a credit risk perspective.

CHUCK JAFFE: I have to say, that actually was one of the things when I was looking at the fund, that I expected just from the A3 Alternative Credit Fund. I expected to look at credit quality, "Oh, let's see what kind of alternatives," as if alternative was going to be junk. And instead it's 100% either triple A rated or not rated, which isn't often a bad thing, not rated has other reasons for it. So you're talking high-quality credits. I think it's important for people to understand part of this structure allows one other thing, which is it's not just that I can invest in those types of credits. It's that if I didn't have this kind of structure, I'd have to be an accredited investor to do it. In other words, I'd have to basically have a portfolio of at least a million dollars or what have you in order to be able to invest in these things in some sort of a private pool, right?

GREGG BELL: That's correct. There are a variety of different credit instruments out there, and the vast majority of investors, both institutional and retail have exposure to just a small slice. You're talking treasuries, you're talking mortgages, talking the \$17 trillion treasury market, the \$10 trillion mortgage market, and the \$9 trillion dollar corporate market. We're focused on the less than 1%, that's an investment exposure that very few people have currently in their portfolios. And through our fund product, we've been able to gain access to that, and do so with very, very low correlation to broader markets. Which from just a diversification perspective, is value in itself away from the high-yield that's being generated by the portfolio.

CHUCK JAFFE: Where does this then fit in to a portfolio? Because alternative credit is an alternative, but it's not, "Hey, it should replace traditional credits." Is this basically meant to be an adjunct in somebody's portfolio where I've got my traditional fixed-income and now I'm looking at something that's going to give me broader diversification, maybe a little bit better yield without necessarily going way down the credit scale?

GREGG BELL: Yes. We've really found that it fits within the income bucket for most investors. We're not buying distressed asset with a deep discount with a pull to par. We're buying an asset that has a high coupon, so it's coupon generated return with a low double digit target. And that provides the ability to have a high income with a high rating that is unusual in defensive positioning portfolios that are composed of treasuries, which are of course very low yielding in today's market.

CHUCK JAFFE: And performance, I think anybody can look at something and go, "Hey, we're doing really well this year." That by itself was a surprise. But I don't think you're surprised by the fact that this fund is up about 9% since inception last October, right?

GREGG BELL: You know, it's really been in line with our expectation in it being driven by that coupon, the high coupon, rather than by fluctuations in the market value of securities or the supply-demand dynamics. And that's part of the benefit of focusing on these niche, unique investments, and unique strategies that are able to have high cashflow, and where we have a high confidence in the future of those cashflows maintaining.

CHUCK JAFFE: How challenging is this environment going to be? Again, you haven't gone down the credit quality scale, so it's not like you're necessarily expecting a lot of defaults. But in the alternative space that you're talking about, where you're looking at reverse mortgages, and credit linked notes, and private credit and what have you, how much has that been challenged or will that be challenged as we go forward and get through the rest of the pandemic?

GREGG BELL: Well, it's unique challenges that we face. For us, our process is daily research, a high-level of research on each of the individual investments because there's a broad variety of alternative credit that are out there. And we're really trying to pick up the rocks that other managers are not, and turning over those stones and finding the value, so that's the unique challenge for us. And we look for those assets that have things like a triple A rated and a government guarantee, which can help protect the future of those cashflows. Which really is in such uncertainty in today's market, where you have high job loss and uncertainty related to corporate earnings.

CHUCK JAFFE: Gregg, fascinating stuff. Thanks so much for talking about it with us.

GREGG BELL: Thank you.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I'm Chuck Jaffe, please check out my show on your favorite podcast app or at MoneyLifeShow.com. To learn more about closed-end funds, interval funds, and business-development companies go to AICAlliance.org, the website for the Active Investment Company Alliance. On Facebook and LinkedIn @AICAlliance. Thanks to my guest, Gregg Bell, co-founded of A3 Financial Investments, which runs the A3 Alternative Credit Fund. Learn more about the firm and the fund at A3.financial. The NAVigator podcast is available every Friday, please subscribe on your favorite podcast app and join us again next week to learn more about investing with closed-end funds. Until then, stay safe everybody.

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TheNAVigator@AICAlliance.org

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