

---

# EXPLORING THE ALTERNATIVE CREDIT LANDSCAPE

Jeremy Schwartz — Global Chief Investment Officer

06/29/2021

*On Behind the Markets, a podcast brought to you by Jeremy Schwartz, WisdomTree Global Head of Research, we talk to market strategists, business executives and financial advisors about important trends underpinning the financial markets.*

*In this episode, Jeremy talks to Chris Acito, Founder, CEO and Chief Investment Officer at Gapstow Capital Partners.*

Listeners will hear about:

- The challenges of traditional fixed income [yields](#), and how pensions and institutions view alternative credit as a solution in portfolios. Many pensions are starting to add close to 10% exposure to [alternative credit](#) as an asset class.
- What Acito's team views as alternative credit vehicles—how they look through underlying publicly traded vehicles to determine the types of loans they are trying to get exposure to.
- Key attributes of the components in the [Gapstow Liquid Alternative Credit Index \(GLACI\)](#), the index that the [WisdomTree Alternative Income Fund \(HYIN\)](#) was designed to track.
- What vehicles provide exposure to loans to public corporations, private corporations and commercial and residential real estate, and the diversified package of loans the Index is trying to represent through its constituents.
- The unique features of business development companies (BDCs)—from the underlying cost in these vehicles to how many traditional index strategies remove these companies due to the requirements around acquired fund fee reporting.
- The difference between market price and [net asset value \(NAV\)](#) of many of these alternative credit vehicles, and how market prices can dislocate and create extra [volatility](#) compared to NAV.
- The hybrid nature of these securities brings little [correlation](#) to the traditional bond market and particularly rising [interest rates](#), since many of the underlying loans have a floating rate nature.
- The challenges of 60/40: These vehicles are almost hybrid in nature, seeking to provide risk similar to equities with higher yields that are similar to fixed income. By including them in a portfolio, they can help generate income while also dialing up risk exposure.

You can listen to our full conversation with Chris Acito below.



#### Important Risks Related to this Article

There are risks associated with investing, including the possible loss of principal. The Fund invests in alternative credit sectors through investments in underlying closed-end investment companies ("CEFs"), including those that have elected to be regulated as business development companies ("BDCs"), and real estate investment trusts ("REITs"). The value of a CEF can decrease due to movements in the overall financial markets. BDCs generally invest in less-mature private companies, which involve greater risk than well-established, publicly traded companies and are subject to high failure rates among the companies in which they invest. By investing in REITs, the Fund is exposed to the risks of owning real estate, such as decreases in real estate values, overbuilding, increased competition and other risks related to local or general economic conditions. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit, and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

The credit ratings mentioned in the audio are published rankings based on detailed financial analyses by a credit bureau specifically as it relates the bond issue's ability to meet debt obligations. The highest rating is AAA, and the lowest is D. Securities with credit ratings of BBB and above are considered investment grade.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

#### Related Blogs

+ [A Potential High-Income Solution for a Yield-Challenged Environment](#)

#### Related Funds

+ [WisdomTree Alternative Income Fund](#)

View the online version of this article [here](#).

## **IMPORTANT INFORMATION**

**U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.**

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages ([www.msci.com](http://www.msci.com))

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Kara Marciscano, Jianing Wu and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

## **DEFINITIONS**

**Yield** : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

**Alternative Investment** : An investment that is not one of the three traditional asset types (stocks, bonds and cash). Alternative investments typically include hedge funds, managed futures, real estate, commodities and derivatives contracts.

**Gapstow Liquid Alternative Credit Index (GLACI)** : An equal-weighted index that tracks the performance of 35 "Publicly Traded Alternative Credit Vehicles" (PACs) using an objective, rules-based methodology

**Net Asset Value (NAV)** : The calculated assets minus liabilities divided by shares outstanding. NAV is the straightforward account of the actual assets in the fund.

**Volatility** : A measure of the dispersion of actual returns around a particular average level.&nbsp;nbsp;.

**Correlation** : Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly the opposite direction.

**Interest rates** : The rate at which interest is paid by a borrower for the use of money.