

Unlocking the Potential of Alternative & Private Credit in Modern Portfolios

Published October 9, 2024

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Key Takeaways

- The alternative credit asset class, which includes private credit, can offer higher yields compared to traditional fixed-income investments like investment-grade credit.
- The [WisdomTree Alternative Income Fund \(HYIN\)](#) delivers diversified exposure through a broad range of alternative credit opportunities across different borrower types and structures.
- Alternative credit can reduce interest rate sensitivity and provide a strategic complement to traditional fixed income and equity allocations.

In today's evolving fixed-income arena, one of the emerging topics of conversation is alternative credit, including private credit. This discussion has been gaining traction, with investors looking for ways to tap into its potential.

Over three years ago, we launched the [WisdomTree Alternative Income Fund \(HYIN\)](#) in collaboration with Chris Acito and his team at Gapstow Capital Partners. As the CEO of a firm specializing in alternative credit, Chris brings valuable insights into this space, which has only grown in importance. We were ahead of the game in recognizing the opportunity, and now, more than ever, alternative and private credit strategies are gaining significant attention.

What Is Alternative Credit?

When we talk about alternative credit, it's important to differentiate it from traditional fixed-income credit, such as investment-grade (IG) bonds or high-yield bonds. Alternative credit encompasses debt-based securities that offer higher yields than IG bonds but also come with additional risks. In Gapstow's lexicon, alternative credit includes three key categories:

- 1. High-Yield Bonds and Loans:** These offer 300 to 500 basis points of extra yield relative to IG bonds.
- 2. Structured Credit:** This involves pooling loans or bonds and creating different risk tranches, with a focus on the higher-risk tranches.
- 3. Direct Lending (Private Credit):** Non-bank entities provide loans, often for sponsor finance or real estate projects, with complexity, illiquidity, and credit risk contributing to the premium.

These categories of alternative credit have become an increasingly significant portion of the U.S. credit market, which now includes over \$4 trillion in underlying investable securities.

The Diversified Approach of HYIN

When developing [HYIN](#), our goal was to create a solution that offers broad exposure to alternative credit opportunities in a diversified ETF package. Rather than focusing on one specific area, such as corporate loans or real estate loans, we aimed to build a turnkey solution that captures the diversity of this asset class.

[HYIN](#) provides exposure to high-yield bonds, structured credit, and private credit and is diversified by borrower type. The ETF includes exposure to corporate borrowers, household borrowers, and commercial real estate borrowers, each operating on different credit cycles.

The underlying index that [HYIN](#) seeks to track—before fees and expenses—is the Gapstow Liquid Alternative Credit Index (GLACI), which is designed with diversification in mind. It selects 35 underlying constituents, all of which are listed funds specializing in specific areas of alternative credit. Additionally, all holdings in the index are equally weighted, ensuring that investors are not overexposed to any single type of loan.

The Role of Alternative Credit in a Portfolio

Many investors, particularly those unfamiliar with alternative credit, may wonder how this asset class fits within a broader portfolio. While traditional fixed income is typically centered around investment-grade bonds, alternative credit brings unique features that can enhance diversification.

For one, the yield on [HYIN](#) is significantly higher than that of traditional IG bonds. As of the end of September, the current yield for GLACI was approximately 11.6%. We believe this higher yield makes alternative credit an appealing option for income-focused investors.

But the benefits go beyond yield. Alternative credit offers diversification through its exposure to different types of borrowers and credit risks. This diversification means some investors can carve out a dedicated allocation to alternative credit in their portfolios, separate from traditional fixed income or equities. This trend, which began in institutional portfolios like pensions and endowments, is now reaching individual investor portfolios.

Another key differentiator is the lower interest rate sensitivity of alternative credit. Unlike traditional fixed income, where duration (interest rate sensitivity) is a major risk factor, many alternative credit investments are structured as floating-rate securities. This feature makes them less sensitive to changes in interest rates, which is particularly relevant in today's market environment.

Bringing Alternative Credit to All Investors

While alternative credit has long been favored by institutional investors, it is increasingly being recognized by individual investors and their advisors. The potential for higher yields, portfolio diversification, and lower sensitivity to interest rates make it an appealing component in a modern investment portfolio.

HYIN allows investors to access this complex and specialized asset class through a more democratized vehicle: the ETF. By combining the expertise of WisdomTree and Gapstow, we are providing a powerful tool for those looking to broaden their approach to seeking out yield.

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.

High yield securities may be regarded as predominantly speculative with respect to the issuer’s continuing ability to meet principal and interest payments.